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OFFERING MEMORANDUM

US$750,000,000
Telemar Norte Leste S.A.

(Incorporated in the Federative Republic of Brazil)

9.500% Senior Notes due 2019

Telemar Norte Leste S.A., or Telemar, a company incorporated under the laws of the Federative Republic of Brazil, is offering US$750,000,000 aggregate principal amount of its 9.500% Senior Notes due 2019 (the "notes"). Interest on the notes is payable on April 23 and October 23 of each year, beginning on October 23, 2009. The notes will mature on April 23, 2019.

Telemar may, subject to certain conditions, redeem the notes, in whole or in part, at any time, by paying the principal amount of the notes plus the applicable "make-whole" amount and accrued interest and additional amounts, if any. The notes may also be redeemed, in whole but not in part, at 100% of their principal amount plus accrued interest and additional amounts, if any, at any time upon the occurrence of specified events relating to Brazilian tax law, as set forth in this offering memorandum. See "Description of the Notes — Redemption and repurchase."

If a specified change of control event as described herein occurs, unless Telemar has exercised its option to redeem the notes, Telemar will be required to offer to purchase the notes at the price described in this offering memorandum.

The notes will be senior unsecured obligations of Telemar, ranking equal in right of payment with all of its other existing and future senior unsecured debt.

Application has been made to admit the notes to listing on the Official List of the Luxembourg Stock Exchange, or the Luxembourg Stock Exchange, and to trade the notes on the Euro MTF Market of the Luxembourg Stock Exchange, or the Euro MTF Market. The Euro MTF Market is not a regulated market for the purposes of Directive 2004/39/EC of the European Parliament and of the Council of April 21, 2004 on markets in financial instruments. The notes are expected to be designated as eligible for trading on The PORTAL Market.

Investing in the notes involves risks. See "Risk Factors" beginning on page 22.

The notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended, or the Securities Act, or any state securities laws and may not be offered or sold in the United States or to U.S. persons (as defined in Regulation S), except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. Accordingly, the notes are being offered and sold only to qualified institutional buyers in accordance with Rule 144A under the Securities Act and outside the United States in accordance with Regulation S under the Securities Act. Prospective purchasers that are qualified institutional buyers are hereby notified that the seller of the notes may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For a description of certain restrictions on transfer of the notes, see "Notice to Investors."

This offering memorandum has not been approved by a competent authority within the meaning of the Directive 2003/71/EC of the European Union.

Price per note: 99.209% plus accrued interest, if any, from April 23, 2009

The initial purchasers expect to deliver the notes to purchasers in book-entry form through the facilities of The Depository Trust Company, New York, New York, or DTC, on or about April 23, 2009.

Citi Banco Itaú Santander Investment Bradesco BBI BB Securities Ltd.

April 16, 2009


Region I
Region II
Region III

You should rely only on the information contained in this offering memorandum. We have not authorized anyone to provide you with different information. Neither Telemar nor the initial purchasers is making an offer of the notes in any jurisdiction where the offer is not permitted. You should not assume that the information contained in this offering memorandum is accurate as of any date other than the date on the front cover of this offering memorandum.

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Unless otherwise indicated or the context otherwise requires:

- all references in this offering memorandum to "Telemar" are to Telemar Norte Leste S.A.;
- all references to "our company," "we," "our," "ours," "us" or similar terms are to Telemar Norte Leste S.A. and its consolidated subsidiaries;
- all references to "Oi" are to TNL PCS S.A.;
- all references to "TNL" are to Tele Norte Leste Participações S.A.;
- all references to "TmarPart" are to Telemar Participações S.A.;
- all references to "TNCP" are to Tele Norte Celular Participações S.A.;
- all references to "Amazônia Celular" are to Amazônia Celular S.A.;

- all references to "Paggo" are to Paggo Empreendimentos S.A.;
- all references to "Brasil Telecom" or "BrT" are to Brasil Telecom S.A.;
- all references to "Brasil Telecom Participações" or "BrT Part" are to Brasil Telecom Participações S.A., the immediate holding company of BrT;
- all references to "Brasil Telecom Mobile" are to 14 Brasil Telecom Mobile S.A.;
- all references to the "BrT Transaction" refer to the acquisition of control of BrT Part and BrT pursuant to the Share Purchase Agreement, dated April 25, 2008, by and among Invitel S.A., or Invitel, each of the shareholders of Invitel and Banco de Investimentos Credit Suisse (Brasil) S.A., as *Comissário*, or agent, on our behalf, as described under "Business — Our history and development — Acquisition of BrT";
- 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.

This offering memorandum has been prepared by us solely for use in connection with the proposed offering of the notes described in this offering memorandum. This offering memorandum is personal to each offeree and does not constitute an offer to any other person or to the public generally to subscribe for or otherwise acquire notes. Distribution of this offering memorandum to any person other than the prospective investor and any person retained to advise such prospective investor with respect to its purchase is unauthorized, and any disclosure of any of its contents, without our prior written consent, is prohibited. Each prospective investor, by accepting delivery of this offering memorandum, agrees to the foregoing and to make no photocopies of this offering memorandum or any documents referred to in this offering memorandum.

Notwithstanding anything in this offering memorandum to the contrary, each prospective investor (and each employee, representative or other agent of the prospective investor) may disclose to any and all persons, without limitation of any kind, the U.S. tax treatment and U.S. tax structure of any offering and all materials of any kind (including opinions or other tax analyses) that are provided to the prospective investor relating to such U.S. tax treatment and U.S. tax structure, other than any information for which nondisclosure is reasonably necessary in order to comply with applicable securities laws.

The initial purchasers make no representation or warranty, express or implied, as to the accuracy or completeness of the information contained in this offering memorandum. Nothing contained in this offering memorandum is, or shall be relied upon as, a promise or representation by the initial purchasers as to the past or future. We have furnished the information contained in this offering memorandum regarding us and the notes. Notwithstanding any investigation that the initial purchasers may have conducted with respect to the information contained herein, such initial purchasers assume no responsibility for the accuracy or completeness of any such information.

None of the U.S. Securities and Exchange Commission, or the SEC, any state securities commission or any other regulatory authority has approved or disapproved the notes nor have any of the foregoing authorities passed upon or endorsed the merits of this offering or the accuracy, adequacy or completeness of this offering memorandum. Any representation to the contrary is a criminal offense.

The notes are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under the Securities Act and the applicable state securities laws pursuant to registration thereunder or exemption therefrom. As a prospective purchaser, you should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. Please refer to the sections in this offering memorandum entitled "Plan of Distribution" and "Notice to Investors."

In making an investment decision, prospective investors must rely on their own examination of the issuer and the terms of the offering, including the merits and risks involved. Prospective investors should not construe anything in this offering memorandum as legal, business or tax advice. Each prospective investor should consult its own advisors as needed to make its investment decision and to determine whether it is legally permitted to purchase the notes under applicable legal investment or similar laws or regulations.

This offering memorandum contains summaries believed to be accurate with respect to certain documents, but reference is made to the actual documents for complete information. All such summaries are qualified in their entirety by such reference. Copies of documents referred to herein will be made available to prospective investors upon request to us or the initial purchasers.

We confirm that, after having made all reasonable inquiries, this offering memorandum contains all information with regard to us and the notes which is material to the offering and sale of the notes, that the information contained in this offering memorandum is true and accurate in all material respects and is not misleading and that there are no omissions of any facts from this offering memorandum which, by their absence herefrom, make this offering memorandum misleading. We accept responsibility for the information contained in this offering memorandum regarding us and the notes. The opinions and intentions expressed in this offering memorandum regarding us and the notes are honestly held and based on reasonable assumptions.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE THAT ANY DOCUMENT FILED UNDER RSA 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY, OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER, OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE ABOUT STABILIZATION ACTION

IN CONNECTION WITH THIS OFFERING, CERTAIN OF THE INITIAL PURCHASERS, AS STABILIZATION MANAGERS (OR PERSONS ACTING ON BEHALF OF THE STABILIZATION MANAGERS), MAY OVER-ALLOT NOTES OR EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE NOTES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE IS NO ASSURANCE THAT THE STABILIZATION MANAGERS (OR PERSONS ACTING ON BEHALF OF THE STABILIZATION MANAGERS) WILL UNDERTAKE STABILIZATION ACTION. ANY STABILIZATION ACTION

MAY BEGIN ON OR AFTER THE DATE ON WHICH ADEQUATE PUBLIC DISCLOSURE OF THE TERMS OF THE OFFER OF THE RELEVANT NOTES IS MADE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE RELEVANT NOTES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE RELEVANT NOTES. ANY STABILIZATION ACTION OR OVER-ALLOTMENT SHALL BE CONDUCTED IN ACCORDANCE WITH ALL APPLICABLE LAWS AND RULES.

NOTICE TO RESIDENTS OF BRAZIL

The notes have not been, and will not be, registered with the *Comissão de Valores Mobiliários*, or the CVM, the Brazilian securities commission. Any public offering or distribution, as defined under Brazilian laws and regulations, of the notes in Brazil is not legal without such prior registration. Documents relating to the offering of the notes, as well as information contained therein, may not be supplied to the public in Brazil, as the offering of the notes is not a public offering of securities in Brazil, nor may they be used in connection with any offer for subscription or sale of the notes to the public in Brazil. The initial purchasers have agreed not to offer or sell the notes in Brazil, except in circumstances which do not constitute a public offering or distribution of securities under applicable Brazilian laws and regulations.

NOTICE TO RESIDENTS OF THE UNITED KINGDOM

Each initial purchaser has represented and agreed that (1) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act of 2000, as amended, or the FSMA) received by it in connection with the issue or sale of the notes in circumstances in which Section 21(1) of the FSMA does not apply to Telemar; and (2) it has complied, and will comply, with all applicable provisions of the FSMA with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom.

NOTICE TO RESIDENTS OF THE EUROPEAN ECONOMIC AREA

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each initial purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of notes which are the subject of the offering contemplated by this offering memorandum to the public in that Relevant Member State other than (1) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities; (2) to any legal entity which has two or more of (a) an average of at least 250 employees during the last financial year; (b) a total balance sheet of more than €43,000,000; and (c) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts; (3) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the initial purchasers for any such offer; or (4) in any other circumstances falling within Article 3(2) of the Prospectus Directive; provided that no such offer of notes shall require the Issuer or any initial purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive. For the purposes of this provision, the expression an "offer of notes to the public" in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to

purchase or subscribe the notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means European Council Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

NOTICE TO RESIDENTS OF HONG KONG SAR

Each initial purchaser has represented and agreed that (1) it has not offered or sold, and will not offer or sell, in Hong Kong SAR, by means of any document, any notes other than to persons whose ordinary business is to buy or sell shares or debentures, whether as principal or agent, or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32) of Hong Kong SAR and (2) it has not issued, or had in its possession for the purpose of issue, and will not issue, or have in its possession for the purpose of issue, whether in Hong Kong SAR or elsewhere, any invitation, document or advertisement relating to the notes, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong SAR (except if permitted to do so under the securities laws of Hong Kong SAR) other than with respect to notes which are or are intended to be disposed of only to persons outside Hong Kong SAR or only to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong SAR and any rules made under that ordinance.

NOTICE REGARDING SINGAPORE OFFERING

This offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the notes, may not be circulated or distributed, nor may the notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor or other person specified in Section 274 of the Securities and Futures Act, Chapter 289 of Singapore, or the SFA, (ii) to a sophisticated investor, and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA

This offering memorandum has also been prepared in the context of an application for admission to trading on the Euro MTF Market. The Luxembourg Stock Exchange takes no responsibility for the contents of this offering memorandum, makes no representation as to its accuracy, adequacy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this offering memorandum.

INTERNAL REVENUE SERVICE CIRCULAR 230 DISCLOSURE

PURSUANT TO INTERNAL REVENUE SERVICE CIRCULAR 230, WE HEREBY INFORM YOU THAT THE DESCRIPTION SET OUT HEREIN WITH RESPECT TO U.S. FEDERAL TAX ISSUES WAS NOT INTENDED OR WRITTEN TO BE USED, AND SUCH DESCRIPTION CANNOT BE USED, BY ANY TAXPAYER FOR THE PURPOSE OF AVOIDING ANY PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER UNDER THE U.S. INTERNAL REVENUE CODE. SUCH DESCRIPTION WAS WRITTEN IN CONNECTION WITH THE MARKETING OF THE NOTES. TAXPAYERS SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISOR.

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 15, 2009, the exchange rate for *reais* into U.S. dollars was R$2.199 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$2.337 to US$1.00 at December 31, 2008, R$1.771 to US$1.00 at December 31, 2007 and R$2.138 to US$1.00 at December 31, 2006, in each case, as reported by the Central Bank. The *real*/U.S. dollar exchange rate fluctuates widely, and the selling rate at April 15, 2009 may not be indicative of future exchange rates. See "Exchange Rates" for information regarding exchange rates for the Brazilian currency since January 1, 2004.

Solely for the convenience of the reader, we have translated some amounts included in "Summary — Summary Financial and Other Information," "Capitalization," "Selected Financial and Other Information" and elsewhere in this offering memorandum from *reais* into U.S. dollars using the selling rate as reported by the Central Bank at December 31, 2008 of R$2.337 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.

Information in this offering memorandum is presented giving effect to the acquisition of control of BrT by Telemar in the BrT Transaction on January 8, 2009. However, financial and other data included in this offering memorandum regarding Telemar and its consolidated subsidiaries as of December 31, 2008 and earlier dates and for periods ended on December 31, 2008 and earlier dates is historical in nature and does not give pro forma effect to the BrT Transaction, other than information specifically identified as pro forma in nature under the captions "Summary — Summary Financial and Other Information — Unaudited pro forma combined financial information" and "Unaudited Pro Forma Combined Financial Information" or except as otherwise noted.

Our parent company, TNL, is subject to the reporting requirements of the U.S. Securities Exchange Act of 1934, as amended, or the Exchange Act, in accordance with which it files annual reports on Form 20-F with the SEC. TNL may include in such reports a description of our business and other information regarding us that is different from that which is contained in this offering memorandum. Moreover, TNL may receive from the SEC comments regarding the description of our business and other information contained in its SEC filings in connection with any SEC review of its annual reports on Form 20-F or any registration statement filed by TNL that may require that it modify or reformulate such information, which information may be the same as, or similar to, the information in this offering memorandum. Any required modification or reformulation could be significant.

Financial statements

Telemar financial statements

We maintain our books and records in *reais*.

We have included in this offering memorandum our consolidated financial statements:

- at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008, which include for comparative purposes our financial data at December 31, 2007 and for the year ended December 31, 2007, as adjusted and restated for the changes in accounting practices described below, and
- at December 31, 2007 and 2006 and for each of the two years ended December 31, 2007,

each of which have been audited by BDO Trevisan Auditores Independentes, independent accountants, as stated in their reports included herein.

We prepare our consolidated financial statements in accordance with accounting practices adopted in Brazil, which are based on:

- Brazilian Law No. 6,404/76, as amended, which we refer to as the Brazilian Corporation Law;
- the rules and regulations of the CVM; and
- the accounting standards issued by the Brazilian Institute of Independent Accountants (*Instituto dos Auditores Independentes do Brasil — IBRACON*), or IBRACON.

On December 28, 2007, the Brazilian government enacted Law No. 11,638/07, which became effective on January 1, 2008, amended Law No. 6,404/76, as amended, and changed the accounting practices adopted in Brazil. In December 2008, the CVM issued *Deliberação* 565/08 implementing these changes in accounting practices. For a discussion of the principal changes introduced by Law No. 11,638/07 and *Deliberação* 565/08 as they relate to our financial statements, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Telemar — Financial presentation and accounting policies — Presentation of financial statements."

Accounting practices adopted in Brazil differ in certain important respects from accounting principles generally accepted in the United States, or U.S. GAAP. See "Annex A: Summary of Significant Differences between Accounting Practices Adopted in Brazil and U.S. GAAP — Telemar."

In order to make our financial data at December 31, 2007 and for the year ended December 31, 2007 comparable to our financial data at December 31, 2008 and for the year ended December 31, 2008, we have restated our financial data at December 31, 2007 and for the year ended December 31, 2007 included in our consolidated financial statements at December 31, 2008 and for the year ended December 31, 2008 to conform to the changes in accounting practices introduced by Law No. 11,638/07 and *Deliberação* 565/08. For additional information with respect to these changes and their effects on our financial statements, see notes 2(c) and 2(d) to our audited consolidated financial statements at December 31, 2008 and for the year ended December 31, 2008 included elsewhere in this offering memorandum.

Our consolidated financial statements at December 31, 2007 and 2006 and for each of the two years ended December 31, 2007 were issued in accordance with accounting practices adopted in Brazil in force at the time that such financial statements were issued and do not reflect the changes introduced by Law No. 11,638/07 and *Deliberação* 565/08.

Brasil Telecom Participações financial statements

On January 8, 2009, we acquired all of the outstanding shares of Invitel S.A., or Invitel. As of December 31, 2008, Invitel owned 100.00% of the outstanding shares of Solpart Participações S.A., or Solpart. As of that date, Solpart owned 19.01% of the outstanding share capital, including 51.99% of the voting share capital, of BrT Part, which, in turn, owned 67.26% of the outstanding share capital, including 99.09% of the voting share capital, of Brasil Telecom. See "Business — Our history and development — Acquisition of BrT."

Following this acquisition, we own indirectly an aggregate of 40.1% of the outstanding share capital of BrT Part, including 61.2% of the outstanding common shares of BrT Part. Through this ownership interest in BrT Part, together with other shares of BrT we own indirectly, we own an aggregate of 37.7% of the outstanding share capital of Brasil Telecom, including 51.5% of the outstanding common shares of Brasil Telecom.

We have included in this offering memorandum the consolidated financial statements of BrT Part (1) at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008 and (2) at December 31,

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2007 and 2006 and for each of the two years ended December 31, 2007, each of which have been audited by Deloitte Touche Tohmatsu Auditores Independentes, independent accountants, as stated in their reports included herein.

BrT Part maintains its books and records in *reais*. BrT Part prepares its consolidated financial statements in accordance with accounting practices adopted in Brazil. Accounting practices adopted in Brazil differ in certain important respects from U.S. GAAP. See "Annex B: Summary of Significant Differences between Accounting Practices Adopted in Brazil and U.S. GAAP — Brasil Telecom Participações."

As a result of the changes introduced by Law No. 11,638/07 and *Deliberação* 565/08, in order to make BrT Part's financial data at December 31, 2007 and for the year ended December 31, 2007 comparable to its financial data at December 31, 2008 and for the year ended December 31, 2008, BrT Part has restated its financial data at December 31, 2007 and for the year ended December 31, 2007 included in its consolidated financial statements at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008 to conform to the changes in accounting policy introduced by Law No. 11,638/07 and *Deliberação* 565/08. For additional information with respect to these changes and their effects on BrT Part's financial statements, see note 2 to BrT Part's audited consolidated financial statements at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008 included elsewhere in this offering memorandum.

BrT Part's consolidated financial statements at December 31, 2007 and 2006 and for each of the two years ended December 31, 2007 were issued in accordance with accounting practices adopted in Brazil in force at the time that such financial statements were issued and do not reflect the changes introduced by Law No. 11,638/07 and *Deliberação* 565/08.

Invitel financial statements

We have also included in this offering memorandum the consolidated financial statements of Invitel at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008, which include for comparative purposes its financial data at December 31, 2007 and for the year ended December 31, 2007, as adjusted and restated for the changes in Brazilian accounting practices described above, and which financial statements have been audited by Terco Grant Thornton Auditores Independentes, independent accountants, as stated in their report included herein. We acquired all of the outstanding shares of Invitel on January 8, 2009.

Invitel maintains its books and records in *reais*.

Invitel prepares its consolidated financial statements in accordance with accounting practices adopted in Brazil.

Although the consolidated financial statements of Invitel are presented separately from the consolidated financial statements of BrT Part in this offering memorandum, readers should be aware that the financial and operating results of BrT Part and its consolidated subsidiaries are reflected in the consolidated financial statements of Invitel as of and for the relevant dates and periods.

Unaudited pro forma financial information

We have also included in this offering memorandum unaudited pro forma combined financial information at and for the year ended December 31, 2008 under "Unaudited Pro Forma Combined Financial Information." The unaudited pro forma consolidated statement of operations data has been adjusted to give effect to the BrT Transaction as if it had occurred on January 1, 2008. The unaudited pro forma consolidated balance sheet data reflects our financial position as if the BrT Transaction had occurred on December 31, 2008. See "Summary — Summary Financial and Other Information — Summary unaudited pro forma combined financial information" and "Unaudited Pro Forma Combined Financial Information."

Market share and other information

We make statements in this offering memorandum 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 ANATEL, among others. Notwithstanding any investigation that we and the initial purchasers 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 and the initial purchasers 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 offering memorandum. As a result, numerical figures shown as totals in some tables may not be arithmetic aggregations of the figures that precede them.

CERTAIN TERMS AND CONVENTIONS

As used in this offering memorandum, the following terms shall have the meanings indicated below:

"3G" refers to third-generation telecommunications services.

"ADSL" refers to asymmetric digital subscriber lines.

"ANATEL" refers to *Agência Nacional de Telecomunicações*, the Brazilian federal telecommunications regulator.

"CADE" refers to *Conselho Administrativo de Direito Econômico*, the Brazilian antitrust regulator.

"EDGE" refers to Enhanced Data rates for GSM Evolution.

"FTTH/GPON" refers to Fiber to Home/Gigabit Passive Optical Network.

"Gbps" refers to gigabytes per second.

"GPRS" refers to General Packet Radio Service.

"HFC cable" refers to hybrid fiber/coaxial cable.

"Kbps" refers to kilobytes per second.

"Mbps" refers to megabytes per second.

"PASOO" refers to the Mandatory Alternative Service Plan (*Plano Alternativo de Serviços de Oferta Obrigatória*).

"PBM" refers to the Basic Plan per Minute (*Plano Básico de Minutos*).

"PGA" refers to the General Plan of Authorizations (*Plano Geral de Autorizações*).

"Region I" refers to the telecommunications service area comprised of 16 Brazilian states located in the northeastern and part of the northern and southeastern regions of Brazil, excluding a certain area in the State of Minas Gerais. See the map of Brazil showing the different service regions on the inside page of the front cover.

"Region II" refers to the telecommunications service area comprised of nine Brazilian states located in the western, central and southern regions of Brazil and in the Federal District, excluding small areas in the states of Goiás, Mato Grosso do Sul and Paraná. See the map of Brazil showing the different service regions on the inside page of the front cover.

"Region III" refers to the telecommunications service area comprised of the Brazilian State of São Paulo. See the map of Brazil showing the different service region on the inside page of the front cover.

"SIM" refers to Subscriber Identity Module.

"SMP" refers to mobile services (*Serviço Móvel Pessoal*).

"WAP" refers to Wireless Application Protocol.

"WiMAX" refers to Worldwide Interoperability Microwave Access.

In this offering memorandum, we use the terms "subscriber," "user" and "customer" interchangeably to refer to our customers or customers of other telecommunications service providers, as the context requires.

FORWARD-LOOKING STATEMENTS

This offering memorandum 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 Securities Act 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 numerous 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;
- management's current expectations and estimates concerning our future financial performance, financing plans and programs;
- changes in the legal and regulatory environment that affect the telecommunications industry and our business in general, including tax issues and issues relating to the remuneration for the use of our network;
- the Brazilian government's telecommunications policies and changes or developments of the regulations of ANATEL applicable to us;
- developments and changes in Brazilian capital markets legislation and regulation;
- cost and availability of financing;
- general level of demand for, and changes in the market prices of, our products and services;
- our ability to implement our corporate strategies in order to increase our average revenue per user;
- our ability to integrate successfully the operations of Telemar and BrT;
- political, regulatory and economic conditions in Brazil and the specific Brazilian states in which we operate;
- a longer than anticipated continuation of the current worldwide economic downturn or further deterioration in the Brazilian and world economies;
- inflation and fluctuation in exchange rates;
- legal and administrative proceedings to which we are or become a party; and
- other factors identified or discussed under "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 update publicly any forward-looking statement, whether as a result of new information, future events or otherwise.

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SUMMARY

This summary highlights information presented in greater detail elsewhere in this offering memorandum. This summary is not complete and does not contain all the information you should consider before investing in the notes. You should carefully read this entire offering memorandum before investing, including "Risk Factors" and the consolidated financial statements and pro forma financial information included in this offering memorandum. See "Presentation of Financial and Other Information" for information regarding our consolidated financial statements, exchange rates and other introductory matters.

Information in this offering memorandum is presented giving effect to the acquisition of control of BrT by Telemar in the BrT Transaction on January 8, 2009. However, financial and other data included in this offering memorandum regarding Telemar and its consolidated subsidiaries as of December 31, 2008 and earlier dates and for periods ended on December 31, 2008 and earlier dates is historical in nature and does not give pro forma effect to the BrT Transaction, other than information specifically identified as pro forma in nature under the captions "— Summary Financial and Other Information — Unaudited pro forma combined financial information" and "Unaudited Pro Forma Combined Financial Information" or except as otherwise noted.

Overview

We are the largest telecommunications service provider in Brazil. We are the largest telecommunications provider in Region I in Brazil, based on revenues and customers as of and for the year ended December 31, 2008, according to information available from ANATEL and other publicly available information. As a result of our acquisition of control of BrT on January 8, 2009, we are also the largest telecommunications service provider in Region II in Brazil, based on revenues and customers as of and for the year ended December 31, 2008, according to information available from ANATEL and other publicly available information. We commenced offering mobile telecommunications services in Region III in October 2008. We offer a range of integrated telecommunications services that includes fixed-line and mobile telecommunications services, data transmission services (including broadband access services), internet service provider, or ISP, services and other services, for residential customers, small, medium and large companies, and governmental agencies. We operate under the brand name "Oi", which we adopted in February 2007 as the sole brand for all of our products. We expect to use the "Oi" brand name for the marketing of BrT's services as we integrate its operations. In the year ended December 31, 2008, fixed-line telecommunications services and data transmission services generated approximately 76.4% of our total consolidated gross operating revenue, and mobile telecommunications services generated 23.6% of our total consolidated gross operating revenue.

According to the Brazilian Institute for Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística*), or IBGE:

- Region I (which consists of 16 states of Brazil located in the northeastern and part of the northern and southeastern regions of Brazil) had a population of approximately 100.8 million as of April 1, 2007, representing 54.8% of the total Brazilian population, and represented approximately 40.0% of Brazil's total gross domestic product, or GDP, for 2006 (the most recent period for which such information is currently available).
- Region II (which consists of the Federal District of Brazil and nine states of Brazil located in the western, central and southern regions of Brazil) had a population of approximately 43.5 million as of April 1, 2007, representing 23.6% of the total Brazilian population, and represented approximately 26.2% of Brazil's total GDP for 2006.
- Region III (comprising the state of São Paulo) had a population of approximately 39.8 million as of April 1, 2007, representing 21.6% of the total Brazilian population, and represented approximately 33.9% of Brazil's total GDP for 2006.

On January 8, 2009, we acquired control of BrT, which provides fixed-line telecommunications services, as well as broadband services, mobile telecommunications services and a variety of data transmission services, primarily in Region II. See "Business — Our history and development — Acquisition of BrT." We intend to integrate the operations of Telemar and BrT as soon as possible. See "Risk Factors — Risks relating to the BrT Transaction." In the year ended December 31, 2008, BrT Part generated gross operating revenues from fixed-line and data transmission services, mobile telecommunications services and internet services of R$14,845 million, R$2,561 million and R$454 million, respectively.

Fixed-line telecommunications 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 believe we were one of the largest fixed-line telecommunications companies in South America in terms of total number of lines in service as of December 31, 2008. Based on our 13.9 million fixed lines in service as of December 31, 2008, we were the principal fixed-line telecommunications service provider in Region I, with an estimated market share of 83.9% of the total fixed lines in service in this region as of December 31, 2008, according to our internal estimates. As a result of our acquisition of control of BrT on January 8, 2009, we are now also the principal fixed-line telecommunications services provider in Region II. BrT had 8.1 million fixed lines in service in Region II as of December 31, 2008 and an estimated market share of 85.0% of the total fixed lines in service in this region as of December 31, 2008, according to our internal estimates. For the year ended December 31, 2008, our highly mature fixed-line business segment generated R$17.3 billion in gross operating revenue, which represented a decrease of 2.8% compared to the year ended December 31, 2007.

Mobile telecommunications services

We offer mobile telecommunications services throughout Brazil. Based on our 24.4 million mobile subscribers in Region I as of December 31, 2008, we believe that we are one of the principal mobile telecommunications service providers in Region I, with an estimated market share of 30.4% of the total number of mobile subscribers in this region as of December 31, 2008, according to information available from ANATEL. Our position in the mobile telecommunications services market in Region I has been enhanced by our acquisition on April 3, 2008, of control of Amazônia Celular, which operated in five states in the northern section of Region I. As of March 31, 2008, Amazônia Celular had 1.5 million mobile subscribers. We commenced offering mobile telecommunications services in Region III in October 2008 and had 2.0 million mobile subscribers as of December 31, 2008 and an estimated market share of 5.3% of the total number of mobile subscribers in this region as of December 31, 2008, according to information available from ANATEL. As a result of our acquisition of control of BrT on January 8, 2009, we believe that we are one of the principal mobile telecommunications services providers in Region II. BrT had 5.6 million mobile subscribers as of December 31, 2008 and an estimated market share of 14.4% of the total number of mobile subscribers in this region as of December 31, 2008, according to information available from ANATEL. For the year ended December 31, 2008, our mobile services business generated R$6.4 billion in gross operating revenue, which represented an increase of 44.3% compared to the year ended December 31, 2007.

Data transmission services

We offer a variety of high-speed data transmission services. Our broadband services, primarily utilizing ADSL, technology, are marketed in Region I under the brand name "Oi Velox." As of December 31, 2008, we had 2.0 million ADSL subscribers, representing 14.1% of our fixed lines in service at that date. As a result of our acquisition of control of BrT on January 8, 2009, we now also offer broadband services, primarily utilizing

ADSL technology, in Region II under the brand name "Turbo." As of December 31, 2008, BrT had 1.8 million ADSL subscribers, representing 22.2% of BrT's fixed lines in service at that date. We also provide voice and data services to corporate clients throughout Brazil. For the year ended December 31, 2008, our data transmission services business generated R$3.4 billion in gross operating revenue, which represented an increase of 18.0% compared to the year ended December 31, 2007.

Other services

Following our acquisition of control of BrT on January 8, 2009, we operate a fiber optic cable system that connects the United States, Bermuda, Brazil and Venezuela, and we operate an internet portal under the brand name "iG" that was the second largest internet portal in Brazil in terms of the number of unique visitors in 2008, according to Ibope/NetRatings.

In September 2008, ANATEL authorized us to provide subscription television services throughout Brazil, using direct-to-home, or DTH, satellite technology. We currently plan to launch these services in mid-2009.

Our strengths

Our competitive strengths include:

Strong market share in broad and highly populated market

Based on information available from ANATEL and other publicly available information, we were the largest telecommunications service provider in Region I, the most highly populated telecommunications service region in Brazil, in terms of revenues and customers as of and for the year ended December 31, 2008. According to IBGE, the 16 Brazilian states that comprise Region I had a combined population of approximately 100.8 million as of April 1, 2007, representing 54.8% of the total Brazilian population at that date, and represented approximately 40.0% of Brazil's total GDP for 2006. In addition, we recently launched our mobile telecommunications services in Region III, which, according to IBGE, had the highest per capita income in Brazil in 2006, and represented 33.9% of Brazil's total GDP for 2006 and 21.6% of its total population as of April 1, 2007. As a result of our acquisition of control of BrT on January 8, 2009, we offer fixed-line, mobile and data transmission services in Region II, which, according to IBGE, represented 26.2% of Brazil's total GDP for 2006 and 23.6% of its total population as of April 1, 2007.

Strong brand recognition

We operate under the brand name "Oi", which we adopted in February 2007 as the sole brand for all of our products. We expect to use the "Oi" brand name for marketing of BrT's services as we integrate its operations. We believe that consolidating our operations under the brand name "Oi" has helped increase customer recognition of our products and will help to increase our market share across our services, which we offer in integrated, or "bundled," packages. We believe our strong brand recognition throughout Brazil will also help us in connection with the expansion of our mobile telecommunications services into Region III.

Expansion as a result of the recent acquisition of control of BrT

The telecommunications market in Brazil has experienced significant consolidation in recent years, resulting in the creation of four conglomerates. We believe that our recent acquisition of control of BrT will provide us with the size, national coverage and operational and financial strength to compete more effectively in the Brazilian telecommunications market by taking advantage of economies of scale to lower our costs, as well as by further expanding and integrating our service offerings.

Integrated service offerings

We provide our fixed-line telecommunications, mobile telecommunications and broadband services in integrated service packages, taking advantage of our "Oi" brand. We believe the offering of integrated service packages results in greater customer loyalty and, consequently, a decrease in churn rates. Excluding Amazônia Celular, of which we acquired control in April 2008 and for which we do not calculate churn rates, our churn rate was 2.4% per month for the year ended December 31, 2008 compared to 3.0% per month for the year ended December 31, 2007.

Use of advanced technology

We have made, and continue to make, significant investments to modernize our network, including replacing analog switches with digital switches, in an effort to increase the supply and quality of services provided to our customers, as well as reducing our maintenance costs. We have been at the forefront of adopting new technologies in our markets. For example, we believe that we were one of the first telecommunications service providers in Latin America to implement Metro Ethernet technology for high-speed internet access, which is one of the latest technologies in the data transmission industry.

Highly experienced management team with proven track record

Our business is run by a group of seasoned professionals in the telecommunications industry. Our senior management team has helped us to maintain our position as the leading telecommunications service provider in Region I. In addition, our senior management team has enhanced our service offerings through internal growth and strategic acquisitions, such as the acquisition of control of BrT, to enable us to compete more effectively and to continue to grow and expand our business.

Our strategy

The principal components of our strategy are:

Maintain our focus on convergence

The convergence of media and telecommunications services is a general trend in the telecommunications market. We were a pioneer in the Brazilian market in the convergence of fixed-line and mobile telecommunications services. We focus on our customers by offering integrated service packages designed to meet their needs, integrating fixed-line, mobile, broadband and other services. In addition to potential synergies, which can lead to reductions in operating costs and investments, we believe our convergence strategy allows us to increase our sales through a cross-selling approach, contributing to increases in average revenue per customer and decreases in customer-acquisition costs. We believe the offering of integrated service packages also results in greater customer loyalty and, consequently, a decrease in churn rates.

Expand our integrated service offerings

Having received authorization from ANATEL in September 2008 to provide subscription television services throughout Brazil using DTH satellite technology, we currently plan to launch these services in mid-2009. We believe that becoming a "quadruple play" provider is essential for our strategy of offering integrated service packages, thereby expanding the benefits to our customers and helping us to maintain our ability to compete effectively with other integrated service packages in the market, particularly those offered by cable television service providers. We intend to continue assessing potential strategic partnerships and acquisitions in the subscription television market.

Increase the growth opportunities of our mobile telecommunications services business, focusing on profitability

We began providing mobile telecommunications services in June 2002 with a marketing strategy focused on innovative offers and subsidies for mobile handsets. In 2005, we adopted a different strategy which focuses on the profitability of our customer base. The large number of unblocked mobile handsets in Brazil that can be used with different mobile telecommunications service providers has enabled us to adopt a strategy of eliminating mobile handset subsidies, particularly in the pre-paid segment, since a new customer may use our SIM card in any unblocked mobile handset. We intend to continue to pursue a strategy of selling SIM cards independently of mobile handsets to the pre-paid segment and of offering integrated service packages, focusing on profitability and differentiating ourselves in the market through varied service offerings.

We believe the mobile telecommunications services market in Brazil still presents several growth opportunities that we intend to pursue in the future, including the expansion of our mobile telecommunications services in Region III which we commenced in October 2008. By offering mobile telecommunications services in Region III, we are able to provide our customers in Region I with roaming services within our own network in the State of São Paulo at competitive costs. We believe the São Paulo market is an attractive market. We will also continue to seek to benefit from the advantages offered by our mobile payment platform, which we acquired through our acquisition of Paggo in December 2007. Moreover, we believe our recent acquisition of 3G licenses will enable us to improve existing data services, such as mobile television, which we launched in 2007, and to offer new services, such as mobile broadband.

Participate in the consolidation processes

Consolidation in the Brazilian telecommunications industry has taken place through the consolidation of regional mobile telecommunications services companies and companies in other segments of the telecommunications industry, resulting in the creation of four conglomerates, including those controlled by Telefónica S.A., or Telefónica, and América Móvil S.A.B. de C.V., or América Móvil. Due to the anticipated decrease in growth rates in the mobile and broadband services markets, which are expected to result in lower levels of organic growth, in order to maintain our competitive position, we plan to continue to take part in the consolidation of the Brazilian telecommunications industry, in an effort to achieve economies of scale, to create synergies among our business segments and to enhance our provision of integrated service packages, such as through our recent acquisition of control of BrT. We continue to evaluate opportunities to participate further in the consolidation process. Any other mergers, acquisitions or joint ventures we pursue will focus on increasing our market share, expanding our products and services portfolio and obtaining access to new markets.

Expand our broadband services

We began offering broadband services in 2001, and, as of the date of this offering memorandum, offer these services in more than 200 municipalities in Region I. At December 31, 2008, we had 2.0 million ADSL subscribers, representing an increase of 29.4% in the number of subscribers compared to December 31, 2007. We believe that currently low market penetration in terms of the number of households in Region I that subscribe to broadband services suggests that the broadband market still has growth potential in the short- and medium-term. We intend to continue expanding the coverage and availability of our ADSL network, both in municipalities in which we already provide coverage and in new ones, because we regard it as both a way to leverage our growth and an essential element in our offering of integrated services.

We also intend to continue investing in the improvement of our network to increase the speed of our broadband services. We are upgrading our network to ADSL technology in selected areas as part of our strategy to offer video-on-demand and, subject to changes in current Brazilian regulation, subscription television in the

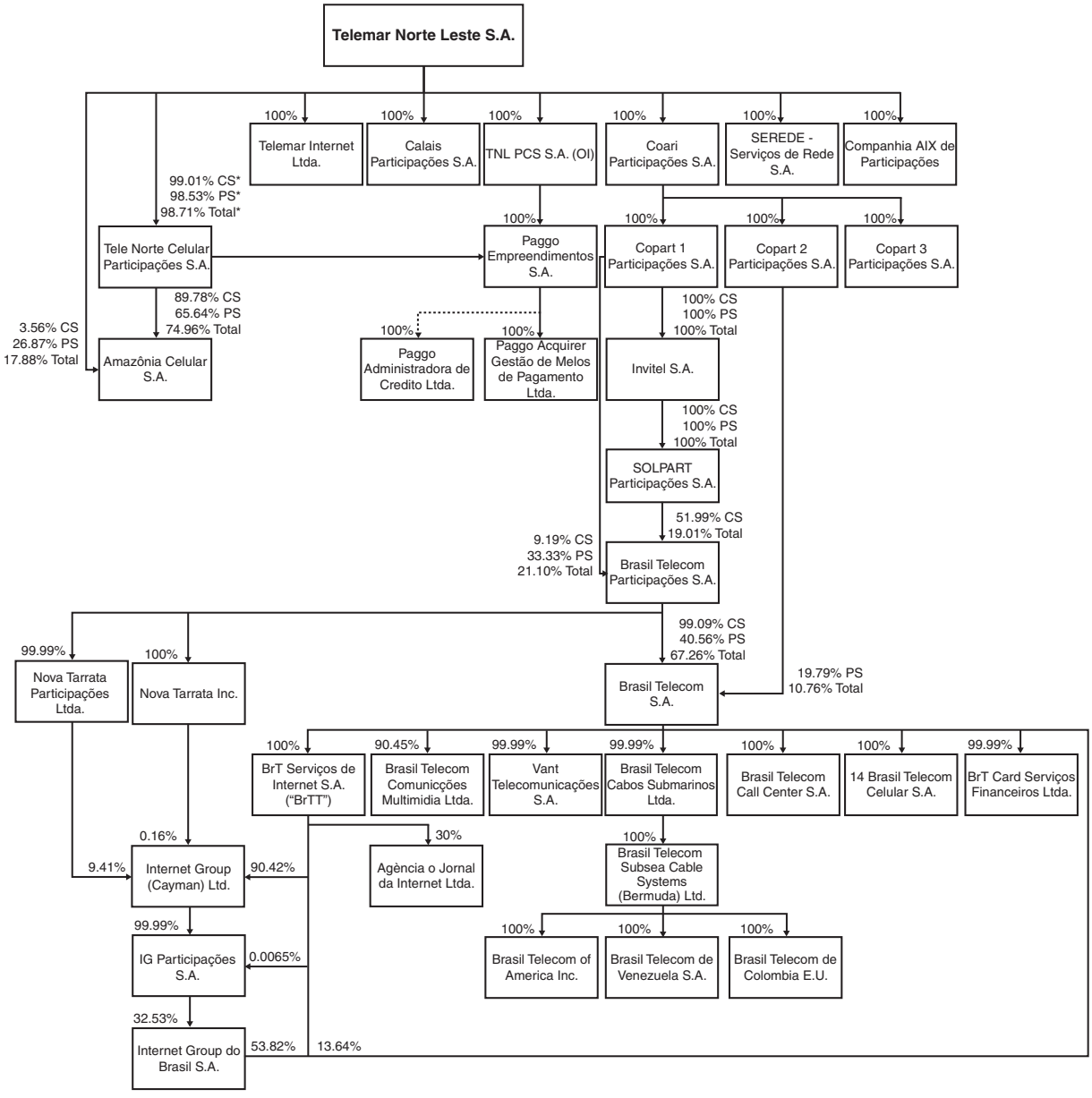
future. In order to maximize the availability of broadband services, we are continuing to study the use of new technologies, such as WiMAX and FTTH/GPON. Additionally, our acquisition in April 2008 of frequency authorizations for 3G services allows us to offer this technology to our broadband customers.

Increase efficiency and control costs

We intend to continue pursuing initiatives to increase the efficiency of our internal processes in order to control our costs and improve the quality of our services. We plan to continue improving our method of allocating funds among our business segments with a view to reducing our costs through the achievement of additional economies of scale. Our focus in this area will include efforts to standardize processes, optimize outsourced services and manage contingencies. For example, we recently contracted with Huawei and Nokia to improve Brasil Telecom Mobile's coverage area and to upgrade its core mobile network to facilitate the integration of BrT's mobile network with Oi's mobile network, which we expect to conclude by the end of 2009. Improving the quality of services provided and customer service will continue to be an important part of our strategy of focusing on our customers.

Corporate structure

The chart below shows our corporate structure at January 31, 2009.



* CS represents the percentage ownership of total outstanding common shares. PS represents the percentage ownership of total outstanding preferred shares. Total represents the percentage ownership of the total outstanding share capital (common shares and preferred shares).

Our principal executive office is located at Rua Humberto de Campos, 425, 8th floor, Leblon, Rio de Janeiro, RJ 22430-190, Brazil, and our telephone number at this address is 55-21-3131-1314.

Summary of the Offering

The following summary contains basic information about the notes and is not intended to be complete. It does not contain all of the information that is important to you. For a more complete understanding of the notes, please refer to the section of this offering memorandum entitled "Description of the Notes."

Issuer	Telemar Norte Leste S.A., which we refer to as the Issuer or Telemar.
The notes	The Issuer is offering US$750,000,000 aggregate principal amount of its 9.500% notes due April 23, 2019.
Issue price	The Issuer will offer the notes at 99.209% of the principal amount thereof plus accrued interest, if any, from April 23, 2009.
Maturity date	The notes will mature on April 23, 2019.
Interest rate	The notes will bear interest from April 23, 2009 at the annual rate of 9.500%.
Interest payment dates	Interest on the notes will be payable semi-annually on April 23 and October 23 of each year, commencing on October 23, 2009.
Ranking	The notes will be senior obligations of the Issuer and will not be secured by any collateral. The right to payment under the notes will be: • equal in right of payment to all other existing and future unsecured and unsubordinated debt of the Issuer; • senior in right of payment to the Issuer's subordinated debt; • effectively subordinated to certain obligations of the Issuer that benefit from priority of payment under applicable law; and • effectively subordinated to secured debt of the Issuer to the extent of such security. As of December 31, 2008, on a consolidated basis, the Issuer had R$20,408 million (US$8,733 million) aggregate principal amount of debt outstanding, of which R$3,204 million (US$1,371 million) was secured, and the Issuer's obligations under the notes would have been effectively subordinated to approximately R$636 million (US$272 million) of debt obligations and approximately R$1,972 million (US$844 million) of trade payables (net of intercompany trade payables) of the Issuer's subsidiaries. On a pro forma basis as of December 31, 2008, giving effect to the BrT Transaction, the Issuer would have had R$25,483 million (US$10,904 million) aggregate principal amount of debt outstanding, and the Issuer's obligations under the notes would have been effectively subordinated to approximately R$5,711 million

	(US$2,444 million) of debt obligations and approximately R$4,416 million (US$1,890 million) of trade payables (net of intercompany trade payables) of the Issuer's subsidiaries (including Brasil Telecom).
Additional amounts	Any and all payments in respect of the notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or other governmental charges of any nature imposed by Brazil or by the jurisdictions in which any paying agents appointed by the Issuer are organized or the location where payment is made, or any political subdivision thereof or therein having power to tax, unless such withholding or deduction is required by law. In that event, the Issuer shall pay such additional amounts as will result in the receipt by the noteholders of such amounts as would have been received by them if no such withholding or deduction had been required. See "Description of the Notes — Certain covenants — Payment of additional amounts."
Repayment	The principal amounts of the notes will be payable in full at par in a single payment upon maturity unless redeemed or repurchased pursuant to the terms of the Indenture (as defined herein). See "Description of the Notes — General — Principal, maturity and interest."
Tax redemption	The Issuer may, at its option, redeem the notes, in whole but not in part, at 100% of their principal amount plus accrued and unpaid interest and additional amounts, if any, upon the occurrence of specified events relating to the applicable tax law. See "Description of the Notes — Redemption and repurchase — Tax redemption."
Optional redemption	The Issuer may, at its option, redeem the notes, in whole or in part, by paying the principal amount of the notes being redeemed and a "make-whole" amount (if applicable) plus accrued interest. See "Description of the Notes — Redemption and repurchase — Optional redemption with "make-whole" amount."
Repurchase upon change of control . .	If a Change of Control that results in a Ratings Decline (each as defined herein) occurs, each holder of the notes may require the Issuer to repurchase all or a portion of such holder's notes at a price equal to 101% of their principal amount, plus accrued and unpaid interest, if any, to the date of purchase. See "Description of the Notes — Redemption and repurchase — Repurchase of the notes upon a change of control."
Covenants	The terms of the Indenture (as defined herein) will impose certain covenants on the Issuer including, among other things: • paying all amounts owed by it under the notes and the Indenture when such amounts become due; • performing all obligations specified under the notes and the Indenture;

	• maintaining all necessary government authorizations and approvals; • maintaining an office or agency in New York City for the purpose of service of process; and • giving notice to the trustee of any default or event of default under the Indenture. In addition, the terms of the Indenture will restrict the Issuer's and its subsidiaries' ability, among other things, to: • undertake certain mergers, consolidations or similar transactions; • create certain liens on its assets; and • undertake certain sale and lease-back transactions. These covenants are subject to a number of important qualifications and exceptions. See "Description of the Notes — Certain covenants."
Absence of further restrictive covenants	The Indenture will not contain any covenants restricting the ability of the Issuer to (i) make payments, (ii) incur Indebtedness (as defined herein), (iii) dispose of assets, (iv) issue and sell capital stock, (v) create or incur liens on its property, except as noted under "Description of the Notes — Certain covenants — Limitation on liens" or (vi) engage in business other than its present business.
Further issuances	The Issuer may from time to time, without the consent of the holders of the notes, issue additional notes on terms and conditions identical to those of the notes, which additional notes shall increase the aggregate principal amount of, and shall be consolidated, form a single series and vote together with, the notes.
Form and denomination	The notes will be issued in registered form, without interest coupons attached, only in denominations of US$100,000 and integral multiples of US$1,000 in excess thereof. Certificated notes will only be issued under certain limited circumstances. See "Description of the Notes — Form, denomination and registration — Certificated notes." The notes will be represented by two or more permanent global certificates registered in the name of DTC, or its nominee, and deposited with The Bank of New York Mellon, as the custodian for DTC. See "Description of the Notes — Form, denomination and registration."
Listing	Application has been made to admit the notes to listing on the Luxembourg Stock Exchange and to trade the notes on the Euro MTF Market.
PORTAL	The notes that are sold to qualified institutional buyers are expected to be eligible for trading on the PORTAL Market.
Use of proceeds	The Issuer intends to use the net proceeds of the issuance of the notes for general corporate purposes, including the redemption or repayment of indebtedness. See "Use of Proceeds."

Governing law	The Indenture and the notes will be governed by, and construed in accordance with, the laws of the State of New York.
Indenture	The notes will be issued under an indenture, or the Indenture, among the Issuer, The Bank of New York Mellon, as trustee, registrar, paying agent and transfer agent, The Bank of New York Mellon Trust (Japan), Ltd., as principal paying agent, and The Bank of New York (Luxembourg) S.A., as Luxembourg paying agent, transfer agent and listing agent.
Trustee, registrar, paying agent and transfer agent	The Bank of New York Mellon
Principal paying agent	The Bank of New York Mellon Trust (Japan), Ltd.
Luxembourg paying agent, transfer agent and listing agent	The Bank of New York (Luxembourg) S.A.
Substitution of the Issuer	The terms and conditions of the notes will contain provisions allowing for the substitution of the Issuer under the notes, as more fully described in "Description of the Notes — Substitution of the Issuer."
Events of default	The Indenture will contain certain events of default, consisting of, among others, the following: • failure to pay principal when due; • failure to pay interest and other amounts (i) within 30 calendar days of the due date therefor, in the case of payments made in respect of any interest payment date occurring prior to the expected maturity date, and (ii) when due, in the case of any interest payment date occurring on or after the maturity date; • subject to a cure period, breach of a covenant or agreement contained in the Indenture or the notes; • acceleration of Indebtedness of the Issuer or any of its Material Subsidiaries (as defined herein) for a failure to pay amounts due in respect of Indebtedness when due that, in aggregate, equal or exceed US$50 million; • certain judgments against the Issuer or any of its Material Subsidiaries that equal or exceed US$50 million; • certain events of bankruptcy, liquidation or insolvency of the Issuer or any of its Material Subsidiaries;

	• certain events relating to the unenforceability of any of the notes and the Indenture against the Issuer; and • expropriation of all or substantially all of the Issuer's or any of its Material Subsidiaries' assets.
ERISA and certain other considerations	Sales of the notes or any interest in any note to specified types of employee benefit plans and affiliates are subject to certain conditions. Purchasers of notes or any interests therein will be deemed to have made certain representations in this regard. See "Notice to Investors" and "ERISA and Certain Other Considerations."
Notice to investors	The notes have not been, and will not be, registered under the Securities Act and are subject to limitations on transfers as described under "Notice to Investors."

Risk Factors

You should carefully read and consider the risk factors discussed elsewhere in this offering memorandum before purchasing any notes.

SUMMARY FINANCIAL AND OTHER INFORMATION

Historical financial and other information

Telemar

The summary financial data at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008 have been derived from Telemar's consolidated financial statements at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008, which include for comparative purposes our financial data at December 31, 2007 and for the year ended December 31, 2007, as adjusted and restated for the changes in accounting practices described below and which financial statements are included elsewhere in this offering memorandum. The summary financial data at December 31, 2006 and for the year ended December 31, 2006 have been derived from Telemar's audited consolidated financial statements at December 31, 2007 and 2006 and for each of the two years ended December 31, 2007 included elsewhere in this offering memorandum. Telemar's audited consolidated financial statements have been prepared in accordance with accounting practices adopted in Brazil, which differ in certain significant respects from U.S. GAAP. See "Annex A: Summary of Significant Differences between Accounting Practices Adopted in Brazil and U.S. GAAP — Telemar."

On December 28, 2007, the Brazilian government enacted Law No. 11,638/07, which became effective on January 1, 2008, amended Law No. 6,404/76, as amended, and changed the accounting practices adopted in Brazil. In December 2008, the CVM issued *Deliberação* 565/08 implementing these changes in accounting practices. For additional information with respect to these changes and their effects on Telemar's financial statements, see "Presentation of Financial and Other Information" and notes 2(c) and 2(d) to Telemar's consolidated financial statements at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008 included elsewhere in this offering memorandum.

In order to make Telemar's financial data at December 31, 2007 and for the year ended December 31, 2007 comparable to its financial data at December 31, 2008 and for the year ended December 31, 2008, Telemar has restated its financial data at December 31, 2007 and for the year ended December 31, 2007 included in its consolidated financial statements at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008 to conform to the changes in accounting practices introduced by Law No. 11,638/07 and *Deliberação* 565/08. Telemar has not restated its financial statements at December 31, 2007 and 2006 and for each of the two years ended December 31, 2007 to conform to these changes in accounting practices and, therefore, the summary financial data at December 31, 2006 and for the year ended December 31, 2006 may not be comparable to the summary financial data at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008. For a discussion of the impact of these changes in accounting policy on certain line items in our statement of operations, see "Management's and Discussion and Analysis of Financial Condition and Results of Operations — Telemar — Results of operations — Year ended December 31, 2006 compared with year ended December 31, 2007."

This summary financial information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations — Telemar" and Telemar's consolidated financial statements, as applicable, included elsewhere in this offering memorandum.

Statement of operations data

	Year Ended December 31,			
	2006(1)	2007	2008	2008(2)
	(in millions of R$)			(in millions of US$)
Net operating revenue	16,872	17,572	18,665	7,987
Cost of goods sold and services rendered	(9,360)	(9,247)	(9,600)	(4,108)
Gross profit	7,512	8,325	9,065	3,879
Operating expenses	(4,577)	(4,457)	(5,788)	(2,477)
Operating income	2,935	3,868	3,277	1,402
Interest expenses, net	(1,103)	(305)	(1,339)	(573)
Income from continuing operations before tax	1,832	3,563	1,938	829
Income tax and social contribution and tax benefits	(217)	(674)	(413)	(177)
Minority interest	—	—	(4)	(2)
Net income	1,615	2,889	1,521	651

(1) Financial information at December 31, 2006 and for the year ended December 31, 2006 is derived from financial statements prepared under accounting practices adopted in Brazil in force at the time that such financial statements were issued and accordingly may not be comparable to financial information at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008, which has been derived from financial statements prepared under the accounting practices adopted in Brazil that include the changes introduced by Law No. 11,638/07 and *Deliberação* 565/08.

(2) Translated for convenience only using the exchange rate as reported by the Central Bank at December 31, 2008 for *reais* into U.S. dollars of R$2.337=US$1.00.

Balance sheet data

	At December 31,			
	2006(1)	2007	2008	2008(2)
	(in millions of R$)			(in millions of US$)
Cash and cash equivalents	3,999	2,888	8,606	3,682
Trade accounts receivable, net	3,808	3,278	3,897	1,668
Total current assets	9,328	11,706	16,284	6,968
Property, plant and equipment	11,729	11,790	12,831	5,490
Intangible assets	1,306	1,513	2,682	1,148
Total assets	26,417	29,274	40,086	17,153
Loans and financing — current	1,633	1,338	3,604	1,542
Debentures — current	93	76	98	42
Total current liabilities	5,630	6,194	9,154	3,917
Loans and financing — long-term	3,809	4,363	13,766	5,890
Debentures — long-term	2,160	2,171	3,705	1,585
Total debt(3)	7,695	7,948	21,173	9,060
Shareholders' equity	11,929	13,788	9,984	4,272

(1) Financial information at December 31, 2006 and for the year ended December 31, 2006 is derived from financial statements prepared under accounting practices adopted in Brazil in force at the time that such financial statements were issued and accordingly may not be comparable to financial information at

December 31, 2008 and 2007 and for each of the two years ended December 31, 2008, which has been derived from financial statements prepared under the accounting practices adopted in Brazil that include the changes introduced by Law No. 11,638/07 and *Deliberação* 565/08.

(2) Translated for convenience only using the exchange rate as reported by the Central Bank at December 31, 2008 for *reais* into U.S. dollars of R$2.337=US$1.00.

(3) Consists of current and long-term loans and financing, debentures and derivatives.

Other financial information and operating data

	At or for the Year Ended December 31,			
	2006(1)	2007	2008	2008(2)
	(in millions of R$, except ratios and as otherwise indicated)			(in millions of US$)
Cash flow data:				
Net cash provided by operating activities	5,854	5,006	5,175	2,214
Net cash provided by (used in) investing activities	(2,331)	(4,118)	(6,488)	(2,776)
Net cash provided by (used in) financing activities	(1,124)	(420)	7,030	3,008
Operating data				
Number of subscribers (in millions)	28.6	31.7	40.3	n/a
Fixed-line	14.4	14.2	13.9	n/a
Mobile	13.1	16.0	24.4	n/a
Broadband	1.1	1.5	2.0	n/a
Other financial information				
Capital expenditures	2,327	2,381	5,009	2,143
Depreciation and amortization	3,009	2,479	2,712	1,160
EBITDA and financial ratios				
Total debt(3)/EBITDA(4)	1.25	1.22	3.47	3.47
EBITDA(4)/Interest expense(5)	7.19	9.19	3.01	3.01
Other data				
Fixed-line				
Installed access lines (in millions)	17.1	16.5	16.5	n/a
Access lines in service (in millions)	14.4	14.2	13.9	n/a
Broadband access lines in service (in millions)	1.1	1.5	2.0	n/a
Mobile				
Total Subscribers (in millions)	13.1	16.0	24.4	n/a
Pre-paid	10.7	13.4	20.5	n/a
Post-paid	2.4	2.6	3.9	n/a
Average monthly revenue per mobile user (in R$)(6)	22	23	21	9
Pre-paid	14	14	15	6
Post-paid	46	63	53	23
Churn (%)(7)	2.3%	3.0%	2.4%	n/a
Pre-paid	2.3%	3.0%	2.6%	n/a
Post-paid	3.0%	3.0%	1.4%	n/a

(1) Financial information at December 31, 2006 and for the year ended December 31, 2006 is derived from financial statements prepared under accounting practices adopted in Brazil in force at the time that such financial statements were issued and accordingly may not be comparable to financial information at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008, which has been

derived from financial statements prepared under the accounting practices adopted in Brazil that include the changes introduced by Law No. 11,638/07 and *Deliberação* 565/08.

(2) Translated for convenience only using the exchange rate as reported by the Central Bank at December 31, 2008 for *reais* into U.S. dollars of R$2.337=US$1.00.

(3) Consists of current and long-term loans and financing, debentures and derivatives.

(4) Telemar defines EBITDA, a performance measure used by the company, as operating income before depreciation, amortization and results from disposals and impairment of permanent assets. EBITDA is not recognized under Brazilian GAAP, accounting practices adopted in Brazil or U.S. GAAP as a measure of financial performance and should not be considered in isolation from other financial measures. EBITDA does not purport to be an alternative to net income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Other companies may calculate EBITDA differently, and therefore this presentation of EBITDA may not be comparable to other similarly titled measures used by other companies. Following is a reconciliation of EBITDA to operating income:

	Year Ended December 31,			
	2006	2007	2008	2008
	(in millions of R$)			(in millions of US$)
Operating income	2,935	3,868	3,277	1,402
Depreciation	3,009	2,479	2,712	1,160
Amortization	196	196	138	59
Equity adjustments	1	(1)	(18)	(8)
Permanent assets disposals, net	9	—	—	—
EBITDA	6,150	6,542	6,109	2,614

(5) Consists of derivative results, monetary and exchange variation on outstanding loans, interest on outstanding loans and interest on debentures.

(6) Calculated by dividing net services revenue (total revenue from mobile telephone services minus revenue from the sale of mobile handsets and accessories) during a period by the average number of subscribers during that period.

(7) Average of the monthly churn rates for each period calculated by dividing the number of subscribers whose service is disconnected during each month, whether voluntarily or involuntarily (such as when a subscriber fails to pay his or her bill), by the number of subscribers at the beginning of such month. Excludes churn rates of customers of Amazônia Celular, of which we acquired control in April 2008 and for which we do not calculate churn rates.

Brasil Telecom Participações

The summary financial data at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008 have been derived from BrT Part's audited consolidated financial statements at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008 included elsewhere in this offering memorandum. The summary financial data at December 31, 2006 and for the year ended December 31, 2006 have been derived from BrT Part's audited consolidated financial statements at December 31, 2007 and 2006 and for each of the two years ended December 31, 2007 included elsewhere in this offering memorandum. BrT Part's audited consolidated financial statements at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008 have been prepared in accordance with accounting practices adopted in Brazil, which include the changes introduced by Law No. 11,638/07 and *Deliberação* 565/08 and differs in certain significant respects from U.S. GAAP. See "Annex B: Summary of Significant Differences between Accounting Practices Adopted in Brazil and U.S. GAAP — Brasil Telecom Participações."

In order to make BrT Part's financial data at December 31, 2007 and for the year ended December 31, 2007 comparable to its financial data at December 31, 2008 and for the year ended December 31, 2008, BrT Part has restated its financial data at December 31, 2007 and for the year ended December 31, 2007 included in its

consolidated financial statements at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008 to conform to the changes in accounting practices introduced by Law No. 11,638/07 and *Deliberação* 565/08. See "— Telemar" above. For additional information with respect to these changes and their effects on BrT Part's financial statements, see note 2 to BrT Part's audited consolidated financial statements at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008 included elsewhere in this offering memorandum.

The summary historical financial data as of and for the year December 31, 2006 presented in this offering memorandum has been derived from the consolidated financial statements at December 31, 2007 and 2006 and for each of the two years ended December 31, 2007, which were issued in accordance with accounting practices adopted in Brazil in force at the time that such financial statements were issued and do not reflect the changes introduced by Law No. 11,638/07 and *Deliberação* 565/08. As a result, the summary financial data at December 31, 2006 and for the year ended December 31, 2006 may not be comparable to the summary financial data at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008.

This summary financial information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations — Brasil Telecom Participações" and BrT Part's consolidated financial statements, as applicable, included elsewhere in this offering memorandum.

Statement of operations data

	Year Ended December 31,			
	2006(1)	2007	2008	2008(2)
	(in millions of R$)			(in millions of US$)
Net operating revenues	10,297	11,059	11,297	4,834
Operating expenses	(3,066)	(3,332)	(3,224)	(1,379)
Operating income before financial expenses	771	1,344	1,864	798
Financial expenses, net(3)	(82)	(50)	(154)	(66)
Income before taxes and minority interest(3)	688	1,294	1,710	732
Income tax and social contribution	(108)	(359)	(591)	(253)
Minority interest	(141)	(262)	(337)	(144)
Net income	470	673	782	335

(1) Financial information at December 31, 2006 and for the year ended December 31, 2006 is derived from financial statements prepared under accounting practices adopted in Brazil in force at the time that such financial statements were issued and accordingly may not be comparable to financial information at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008, which has been derived from financial statements prepared under the accounting practices adopted in Brazil that include the changes introduced by Law No. 11,638/07 and *Deliberação* 565/08.

(2) Translated for convenience only using the exchange rate as reported by the Central Bank at December 31, 2008 for *reais* into U.S. dollars of R$2.337=US$1.00.

(3) Excludes the effect of interest on shareholders' equity.

Balance sheet data

	At December 31,			
	2006(1)	2007	2008	2008(2)
	(in millions of R$)			(in millions of US$)
Cash and cash equivalents	128	730	2,710	1,160
Trade accounts receivable	2,128	2,190	2,210	946
Current assets	7,498	7,462	7,591	3,248
Property, plant and equipment	6,535	5,691	5,903	2,526
Intangible assets	1,163	1,249	1,638	701
Total assets	17,794	17,388	19,437	8,317
Loans and financing — current	1,110	399	671	287
Total current liabilities	4,852	4,762	4,971	2,127
Loans and financing — long term	4,266	3,603	3,993	1,709
Total debt(3)	5,375	4,408	4,886	2,091
Shareholders' equity	5,278	5,199	5,764	2,466

(1) Financial information at December 31, 2006 and for the year ended December 31, 2006 is derived from financial statements prepared under accounting practices adopted in Brazil in force at the time that such financial statements were issued and accordingly may not be comparable to financial information at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008, which has been derived from financial statements prepared under the accounting practices adopted in Brazil that include the changes introduced by Law No. 11,638/07 and *Deliberação* 565/08.

(2) Translated for convenience only using the exchange rate as reported by the Central Bank at December 31, 2008 for *reais* into U.S. dollars of R$2.337=US$1.00.

(3) Consists of current and long-term loans and financing, debentures and derivatives.

Other financial information and operating data

	At or for the Year Ended December 31,			
	2006(1)	2007	2008	2008(2)
	(in millions of R$, except ratios and as otherwise indicated)			(in millions of US$)
Cash flow data:				
Net cash provided by operating activities	2,662	3,307	3,193	1,366
Net cash provided by (used in) investing activities	(1,755)	(1,665)	(729)	(312)
Net cash provided by (used in) financing activities	(454)	(1,335)	(484)	207
Operating data				
Number of subscribers (in millions)	13.1	13.9	15.5	n/a
Fixed-line	8.4	8.0	8.1	n/a
Mobile	3.4	4.3	5.6	n/a
Broadband	1.3	1.6	1.8	n/a
Other financial information				
Capital expenditures	1,451.1	1,398.8	2,677.9	1,145.9
Depreciation and amortization	2,731.2	2,441.7	2,072.8	886.9

	At or for the Year Ended December 31,			
	2006(1)	2007	2008	2008(2)
	(in millions of R$, except ratios and as otherwise indicated)			(in millions of US$)
Other data				
Fixed-line				
Installed access lines (in millions)	10.4	10.4	10.4	n/a
Access lines in service (in millions)	8.4	8.0	8.1	n/a
Broadband access lines in service (in millions)	1.3	1.6	1.8	n/a
Mobile				
Total Subscribers (in millions)	3.4	4.3	5.6	n/a
Pre-paid	2.4	3.4	4.6	n/a
Post-paid	1.0	0.9	1.0	n/a
Average monthly revenue per mobile user (in R$)(3)	31	34	29	12
Pre-paid	26	28	23	10
Post-paid	42	53	56	24
Churn (%)(4)	2.3%	3.6%	4.1%	n/a
Pre-paid	1.3%	4.4%	3.5%	n/a
Post-paid	2.7%	3.3%	4.3%	n/a

(1) Financial information at December 31, 2006 and for the year ended December 31, 2006 is derived from financial statements prepared under accounting practices adopted in Brazil in force at the time that such financial statements were issued and accordingly may not be comparable to financial information at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008, which has been derived from financial statements prepared under the accounting practices adopted in Brazil that include the changes introduced by Law No. 11,638/07 and *Deliberação* 565/08.

(2) Translated for convenience only using the exchange rate as reported by the Central Bank at December 31, 2008 for *reais* into U.S. dollars of R$2.337=US$1.00.

(3) Calculated by dividing net services revenue (total revenue from mobile telephone services minus revenue from the sale of mobile handsets and accessories) during a period by the average number of subscribers during that period.

(4) Average of the monthly churn rates for each period calculated by dividing the number of subscribers whose service is disconnected during each month, whether voluntarily or involuntarily (such as when a subscriber fails to pay his or her bill), by the number of subscribers at the beginning of such month.

Summary unaudited pro forma combined financial information

The Summary Unaudited Pro Forma Combined Financial Information presented below has been derived from the Unaudited Pro Forma Combined Financial Information, including the notes thereto, included elsewhere in this offering memorandum.

The Unaudited Pro Forma Combined Financial Information of Telemar is derived from the historical audited consolidated financial statements of Telemar, the historical audited consolidated financial statements of BrT Part and the historical audited consolidated financial statements of Invitel, each included elsewhere in this offering memorandum, and the historical audited consolidated financial statements at December 31, 2008 and for the year ended December 31, 2008 of Solpart, which are not included in this offering memorandum.

The Unaudited Pro Forma Combined Financial Information was prepared based on accounting practices adopted in Brazil, including the specific rules and regulations of the CVM, with Telemar treated as the acquirer for purposes of the business combination related to the BrT Transaction. The Unaudited Pro Forma Combined Financial Information was prepared as if the BrT Transaction had been completed as of January 1, 2008 for pro forma statement of operations purposes and on December 31, 2008 for pro forma balance sheet purposes.

The Unaudited Pro Forma Combined Financial Information is based upon the historical consolidated financial statements of Telemar, BrT Part, Invitel and Solpart, adjusted to give effect to the BrT Transaction. The pro forma assumptions and adjustments are described in the accompanying notes to the Unaudited Pro Forma Combined Financial Information.

The Unaudited Pro Forma Combined Financial Information is provided for illustrative purposes only and does not purport to represent what the actual consolidated results of operations or the consolidated financial position of Telemar would have been had the BrT Transaction occurred on the respective dates assumed, nor is it necessarily indicative of the combined company's future consolidated results of operations or financial position. See "Risk Factors — Risks relating to the BrT Transaction — The unaudited pro forma combined financial information included in this offering memorandum is subject to our ongoing due diligence review of BrT and BrT Part."

The Unaudited Pro Forma Combined Financial Information does not include the anticipated realization of cost savings from any operating efficiencies, synergies or restructurings resulting from the BrT Transaction and does not contemplate the liabilities that may be incurred in connection with the business combination and any related restructurings.

The Unaudited Pro Forma Combined Financial Information presented below should be read in conjunction with the accompanying notes to the Unaudited Pro Forma Combined Financial Information and the historical consolidated financial statements and accompanying notes of Telemar, BrT Part and Invitel included elsewhere in this offering memorandum. You should not rely on the Unaudited Pro Forma Combined Financial Information as an indication of either (i) the consolidated results of operations or financial position that would have been achieved if the BrT Transaction had taken place on the dates assumed or (ii) the consolidated results of operations or financial position of Telemar after the completion of such transaction.

Summary unaudited pro forma combined statement of operations data

	Year Ended December 31, 2008 (in millions of R$)
Net operating revenue	29,962
Cost of goods sold and services rendered	(16,227)
Gross profit	13,735
Operating expenses	(9,081)
Operating income	4,654
Interest expenses, net	(2,241)
Income from continuing operations before tax	2,431
Income tax and social contribution	(580)
Net income	875

Summary unaudited pro forma combined balance sheet data

	At December 31, 2008 (in millions of R$)
Cash and cash equivalents	8,009
Trade accounts receivable, net	6,032
Total current assets	18,498
Property, plant & equipment	21,395
Intangible assets	5,574
Total assets	58,985
Loans and financing — current	5,309
Debentures — current	110
Total current liabilities	15,041
Loans and financing — long-term	16,811
Debentures — long-term	4,785
Total debt(1)	27,016
Shareholders' equity	9,984

(1) Consists of current and long-term loans and financing, debentures and derivatives.

RISK FACTORS

Before making an investment decision, you should consider all of the information set forth in this offering memorandum, as supplemented or amended. In particular, you should consider the special considerations applicable to an investment in us and in Brazil, including the risk factors set forth below. 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 our company and the Brazilian telecommunications industry

Our fixed-line telecommunications 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 telecommunications services in Regions I and II face increasing competition from mobile services as the prices for mobile services decline and approach those of fixed-line services. According to ANATEL, from December 2005 to December 2008, the number of fixed lines in service in Brazil increased from 39.8 million to 41.1 million. We expect the number of fixed lines in service in Brazil to continue to stagnate or decline, as certain customers eliminate their fixed-line services in favor of mobile services, and the use of existing fixed lines to decrease as customers make additional calls on mobile phones as a result of promotional rates (such as free calls within a mobile provider's network). The rate at which the number of fixed lines in service in Brazil declines 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 incomes than our existing customers, subscribe to our lower cost service plans and generate fewer chargeable minutes of usage. Because we derive a significant portion of our operating revenue from our traditional local fixed-line telecommunications services (for the years ended December 31, 2008 and 2007, these services represented 41.3% and 46.4%, respectively, of our gross operating revenue), a reduction in the number of our fixed-lines in service would negatively affect our 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, in Region I, and primarily with Embratel and GVT S.A., or GVT, in Region II. In addition to direct competition for corporate customers in Region I, Embratel competes with us for residential customers in Regions I and II through services that it provides using the cable infrastructure of its affiliate, Net Serviços de Comunicação S.A, or Net, as described below. In addition, we compete in each of these regions with smaller companies that have been authorized by ANATEL to provide local fixed-line services. In March 2007, ANATEL adopted the General Regulation of Portability (Regulamento Geral de Portabilidade), which established the general rules regarding portability of fixed-line numbers, which allow customers to move to a new home or office or switch service providers while retaining the same fixed-line number. Implementation of number portability commenced in August 2008 and was completed in March 2009. We believe that number portability may negatively affect our local fixed-line business, particularly our services to corporate customers, because it allows our customers to overcome their general resistance to changing their fixed-line telephone numbers and thereby allows our competitors to attract these customers.

In November 2005, Embratel, our main competitor in fixed-line services, announced a telecommunications services agreement with Net, a cable television company that is our main competitor in the broadband services market. Both companies are affiliates of Teléfonos de México S.A.B. de C.V., or Telmex, one of the leading

telecommunications service providers in Latin America. This agreement supports the offering to the Brazilian residential market of integrated voice, broadband and pay television services through a single network infrastructure. This bundling strategy has increased competition in the local fixed-line services and broadband businesses, which may require us to increase our marketing and capital expenditures, or reduce our rates to maintain market share, in each case leading to a reduction in our profitability.

Our loss of a significant number of fixed-line customers would adversely affect our gross 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 "Business — 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 have experienced increased competition in Region I from large competitors such as TIM Participações S.A., or TIM, Vivo Participações S.A., or Vivo, and Telecom Americas Group, which markets its services under the brand name "Claro." As of December 31, 2008, according to information available from ANATEL, we were the market leader in Region I with a 30.4% share of the mobile services market based on the total number of subscribers as of that date, followed by Vivo with 24.4%, TIM with 24.1% and Claro with 20.7%. Similarly, BrT, which had an estimated 14.4% share of the mobile services market in Region II as of December 31, 2008, based on the total number of subscribers as of that date, faces competition from Vivo, Claro and TIM, which had estimated market shares of 32.8%, 27.7% and 24.9%, respectively, as of that date. Vivo, TIM and Telecom Americas Group are each controlled by multinational companies that may have more significant financial and marketing resources and a greater ability to access capital on a timely basis and on more favorable terms than us.

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 2008, our average monthly churn rate in the mobile services segment (excluding churn rates of Amazônia Celular, of which we acquired control in April 2008 and for which we do not calculate churn rates), representing the number of subscribers whose service is disconnected during each month, whether voluntarily or involuntarily, divided by the number of subscribers at the beginning of such month, was 2.4% per month. BrT's average customer churn in the mobile services segment during 2008 was 4.1% 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 could 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 operating revenue and profitability.

Our launch of mobile telecommunications services in Region III in October 2008 exposes us to a new competitive environment. We anticipate that our entry into the Region III market is likely to generate a market response by Vivo, Claro and TIM, each of which competes in the mobile services market in Region III. A response from a competitor that is more aggressive than that anticipated in our business plans may result in higher costs and lower revenues than we expected, which may adversely affect our results of operations.

For a detailed description of our competition in the mobile services market, see "Business — 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. The long-distance services market in Brazil is highly competitive. Our principal competitor for long-distance services originating on fixed-line telephones in Region I is Embratel, and our principal competitors for these services in Region II are Embratel (an affiliate of Telecom Americas Group) and GVT. We compete for long-distance services originating on mobile telephones in Region I with Embratel, Telecomunicações de São Paulo S.A., or Telesp (an affiliate of Vivo) and TIM, and in Region II with Embratel, Telesp and TIM. Generally, callers placing fixed-line long-distance calls in Brazil tend to select the long-distance carrier affiliated with the provider of their fixed-line service. Similarly, callers placing mobile long-distance calls in Brazil tend to select the long-distance carrier affiliated with the provider of their mobile or fixed-line service. Embratel, as the incumbent long-distance service provider, is the most aggressive of these competitors, offering discounts and other promotions from time to time in an effort to increase its market share in the long-distance market. Competition in the long-distance market may require us to increase our marketing expenses or provide services at lower rates than those we currently expect to charge for such services. If competition in the domestic long-distance market increases, it could have a material adverse effect on our revenues and margins. See "Business — 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 does not require them to use our network, thereby allowing them to reach our clients without paying interconnection and/or mobile network usage fees to our company. Additionally, we anticipate that ANATEL will auction radio frequency licenses, possibly in 2010, that may be used to establish Worldwide Interoperability for Microwave Access, or WiMax, networks. The implementation of WiMax networks may allow other ISPs to deploy wireless internet protocol, or IP, networks over a much greater area, for a much lower cost, than previously possible. This reduced deployment cost may give our competitors, or new entrants into the data transmission market, the ability to provide voice over internet protocol, or VoIP, and other data services over WiMAX networks at lower rates than we are able to offer.

Increasing competition in data transmission services may lead to rate reductions in this segment, adversely affecting the operating revenue 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 "Business — 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. 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. If ANATEL auctions radio frequency spectrum for use in the development of WiMax networks, we expect that we may be required to participate in these auctions and deploy a WiMax network to remain competitive in the broadband services market. 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 telecommunications 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.

After the current Brazilian government took office on January 1, 2003, some of its members advocated the revision of the regulatory model followed by regulatory agencies in Brazil, including ANATEL, in order to make them subordinate to their respective ministries. The loss of ANATEL's independence could pose a material risk to our business, given the potential for undue political influence that could be exercised over ANATEL under that type of regulatory model.

In October 2008, ANATEL published items that are on its regulatory agenda in the short-term (up to two years), medium-term (up to five years) and long-term (up to 10 years). In the short term, ANATEL is expected to address the following items, among others: (1) review of and amendments to concession agreements to include additional obligations to expand existing networks; (2) assessment of the adequacy of fixed-line regulations in light of the convergence of telecommunications services; (3) regulation of service providers with significant market power; and (4) establishment of additional obligations to extend mobile networks, including broadband services, to rural areas. We cannot predict when regulations regarding these matters will be proposed, whether these regulations will be adopted as proposed or whether ANATEL, the Brazilian Ministry of Communications 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.

Proposed laws seeking the termination of monthly subscription fees for local fixed-line services may adversely affect our business and financial condition.

Certain legislative bills seeking to terminate monthly subscription fees charged by local fixed-line service providers have been submitted to the Brazilian Congress and remain pending. In March 2008, a special committee was formed in the Brazilian House of Representatives to discuss the various proposed bills on this issue. As of the date of this offering memorandum, no action had been taken by the committee.

In 2008, monthly subscription fees represented 25.5% of our gross operating revenue and 21.6% of BrT's gross operating revenue. The enactment of legislation terminating the monthly subscription fees would have a material adverse effect on our results of operations.

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 telecommunications 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. The first amendment to each of the concession agreements is expected to become effective on January 1, 2011. In connection with each first amendment, we are currently discussing modifications to our concession agreements with ANATEL, and ANATEL is expected to publish a public notice of the proposed modifications to these concession agreements in the second quarter of 2009. ANATEL will engage in public consultation in connection with each five-year amendment to discuss its proposals for new conditions and quality and universal service targets. Our obligations under the concession agreements may be subject to revision in connection with each amendment. We cannot assure you that any of these 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 gross 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 assets may be subject to temporary confiscation or permanent expropriation.

In the event it were in the national interest, the Brazilian government could take over our business by enacting a specific law authorizing such taking and indemnifying us. Such reasons for a takeover include natural disaster, war, significant public unrest, threats against the peace, economic reasons or other reasons related to national security. Such a taking would result in an adverse effect on our financial condition and results of operations, and we cannot assure you that any compensation would be adequate or timely. Subject to certain conditions, the expropriation of all or substantially all of our assets would constitute an event of default under the notes.

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 them 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*), or GPUS, and General Plan on Quality Goals (*Plano Geral de Metas de Qualidade*), or GPQG, and other regulations adopted by ANATEL and implemented in 2006, the terms of which could affect our financial condition and results of operations. Our local fixed-line concession agreements also require us to meet 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 our concession agreements for noncompliance with its quality and universal service obligations. See “Business — 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 comply satisfactorily with those inquiries or our service obligations under our concession agreements, ANATEL may commence administrative proceedings in connection with such noncompliance. We have received numerous notices of commencement of administrative proceedings from ANATEL, mostly due to our inability to achieve certain targets established in the GPQG and the GPUS, among others. We had recorded provisions in the amount

of R$432.0 million as of December 31, 2008 in connection with fines sought to be imposed by ANATEL. BrT has also received numerous notices of commencement of administrative proceedings from ANATEL, mostly due to its inability to achieve certain targets established in the GPQG and the GPUS, among others. BrT had recorded provisions in the amount of R$149.1 million as of December 31, 2008 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 "Business — Regulation of the Brazilian telecommunications industry," "Business — Legal proceedings — Telemar — Administrative proceedings — ANATEL proceedings" and "Business — Legal proceedings — BrT Part — Administrative proceedings — ANATEL 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 authorization could be revoked by ANATEL. See "Business — Regulation of the Brazilian telecommunications industry — Regulation of mobile services — Obligations of personal mobile services providers."

We may be unable to implement our 2G network in Region III, our 3G network or our upgrades and enhancements project for our existing mobile networks in a timely manner or without unanticipated costs.

Following our receipt in December 2007 of the authorizations and radio frequency licenses necessary to offer Global System for Mobile communications, or GSM, services, which we refer to as 2G services, in Region III and 3G services in Regions I and III, and BrT's receipt in December 2007 of the radio frequency licenses necessary to offer 3G services in Region II, we have undertaken significant capital expenditure programs to implement the networks necessary for us to provide these services. In addition, we have undertaken a project to upgrade a portion of our mobile networks to enable us to increase the capacity of these networks. Our ability to achieve our strategic objectives relating to our mobile services depends on and will depend on, in large part, the successful, timely and cost-effective implementation of these networks and projects. Factors that could affect this implementation include:

- our ability to generate cash flow or to obtain future financing necessary for such implementation;
- 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 networks 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 depend on key suppliers and vendors to provide equipment that we need to operate our business.

We depend upon various key suppliers and vendors, including Ericsson, Alcatel-Lucent, Nokia and Huawei, to provide us with network equipment, which we need in order to expand and to operate our business. These suppliers may, among other things, extend delivery times, raise prices and limit supply due to their own shortages and business requirements. If these suppliers or vendors fail to provide equipment or service to us on a timely basis, we could experience disruptions, 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.

We are permitted to negotiate rates for interconnection to our mobile networks with providers of fixed line-services. ANATEL arbitration of these rates as a result of our failure to reach agreement with providers of fixed line-services may result in reductions of the interconnection rates that we currently charge.

In order to receive or send calls from or to customers of other Brazilian and international fixed-line and mobile networks, we must interconnect with the networks of our competitors. The Brazilian General Telecommunications Law (*Lei Geral das Telecomunicações*) requires all telecommunications service providers to interconnect their networks with those of other providers on a non-discriminatory basis. ANATEL sets the interconnection rates that fixed-line networks may charge.

Interconnection rates that mobile networks charge have typically been higher than the rates set by ANATEL for fixed-line networks. As a result, mobile operators generally have received a large portion of revenues generated by fixed-to-mobile calls, while fixed-line networks generally have received a small portion of revenues generated by mobile-to-fixed calls. Since July 2004, the interconnection rates that mobile networks may charge have been freely negotiable. Brazilian laws and regulations provide that if interconnection rates for mobile networks are not agreed among telecommunications service providers, ANATEL is empowered to arbitrate, at its discretion, the interconnection rates that mobile telecommunications companies may charge.

When we and 14 Brasil Telecom Celular S.A., which we refer to as Brasil Telecom Mobile, began offering mobile services, we were each unable to agree with fixed-line service providers on the interconnection rates that we would charge the fixed-line service providers. Similarly, none of the other mobile services providers were able to agree with fixed-line service providers on the interconnection rates that they would charge the fixed-line service providers at the time that their authorizations to provide mobile services were granted. Each of the mobile services providers and the fixed-line service providers with which they interconnected commenced arbitration proceedings before ANATEL to establish the applicable interconnection rates. ANATEL established provisional rates applicable to each mobile services provider, pending a final decision in the arbitration proceedings.

An initial decision approving these provisional rates was rendered in September 2007, but an appeal remains pending before ANATEL's council of directors (*Conselho Diretor*). We cannot predict whether the final interconnection rates established by ANATEL will be equivalent to those currently applied by us. If ANATEL sets interconnection rates that mobile operators may charge at a level that differs substantially from the current level, our results of operations may be materially adversely affected.

Our controlling shareholder, TmarPart, has control over us and our controlled companies.

We are controlled indirectly by TmarPart, which, as of January 31, 2009, held 53.71% of the voting shares of TNL, which in turn owned 97.35% of Telemar's voting shares as of such date. TmarPart's shareholders are parties to two shareholders' agreements governing their equity interests in TmarPart. See "Principal Shareholders and Related Party Transactions — TmarPart — TmarPart shareholders' agreements." Our controlling shareholder 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 our controlling shareholder and its controlling shareholders on these matters may be contrary to the expectations or preferences of holders of our indebtedness, including holders of the notes.

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: (1) difficulties in capturing synergies in the integration process, causing the anticipated benefits of the acquisition to be more limited than originally expected; (2) costs associated with any unforeseen antitrust restrictions; (3) failure to identify contingencies during the due diligence process; (4) uncertainty in relation to regulatory approval; and (5) 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.

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.

For a discussion of risks specifically pertaining to the BrT Transaction, see "— Risks relating to the BrT Transaction."

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

At December 31, 2008, we had total consolidated debt of R$21,173 million and a ratio of debt to equity of 2.12:1. On a pro forma basis, giving effect to the BrT Transaction, we would have had total consolidated debt of R$27,015 million and a pro forma ratio of debt (including swap adjustments) to equity of 2.71:1.

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 and/or our subsidiaries to maintain certain specified financial ratios. In general, the occurrence of an event of default under one of our debt instruments may trigger defaults under our other debt instruments. 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 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 our debt instruments and our indebtedness, as well as that of BrT Part, at December 31, 2008, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Telemar — Liquidity and capital resources" and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Brasil Telecom Participações — 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 claims but do not make

provisions for possible and remote claims. At December 31, 2008, we had provisioned R$1,962.4 million for probable claims relating to various tax, labor and civil legal and administrative proceedings against us. At December 31, 2008, BrT had provisioned R$1,453.0 million for probable claims relating to various tax, labor and civil legal and administrative proceedings against it.

At December 31, 2008, we had claims against us of approximately R$8,279.7 million in tax proceedings, R$1,132.6 million in labor proceedings and R$1,521.9 million in civil proceedings with a risk of loss classified as "possible" or "remote," and for which we had made no provisions. See note 23 to our consolidated financial statements at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008, included in this offering memorandum. At December 31, 2008, BrT had claims against it of approximately R$1,796.9 million in tax proceedings, R$634.8 million in labor proceedings and R$1,221.0 million in civil proceedings with a risk of loss classified as "possible," and for which it had made no provisions. BrT Part does not include in its financial statement the estimated contingency in connection with proceedings in respect of which it considers the risk of loss to be "remote." See note 8 to the audited consolidated financial statements of BrT Part at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008 included in this offering memorandum.

In addition, as reflected in the Unaudited Pro Forma Combined Financial Information, we have increased the provisions of BrT in respect of risks of loss classified as "possible" or "remote" by R$2,197 million (R$1,450 million, net of tax effects). This increase was as a result of our ongoing review of the accounting practices and estimates used by BrT and BrT Part to reconcile such accounting practices and estimates with those of Telemar and its parent company, TNL, following our acquisition of control of BrT. See note (K) to the notes accompanying the Unaudited Pro Forma Combined Financial Information.

We are subject to delinquencies of our accounts receivables.

Our business significantly depends on our customers' ability to pay their bills and comply with their obligations to us. In 2007 and 2008, we recorded provisions for doubtful accounts in the amount of R$649.5 million and R$797.5 million, respectively, primarily due to subscribers' delinquencies. As a percentage of our gross operating revenues, our provision for doubtful accounts was 2.6% at December 31, 2007 and 2.9% at December 31, 2008. In 2007 and 2008, BrT recorded provisions for doubtful accounts in the amount of R$348.0 million and R$370.2 million, respectively, primarily due to subscribers' delinquencies. As a percentage of its gross operating revenue, BrT's provision for doubtful accounts was 2.2% at December 31, 2007 and 2.2% at December 31, 2008.

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. See "— Risks relating to Brazil."

If key members of our senior management team were to resign, or if we are unable to attract and retain skilled management, our business could be materially adversely affected.

Our ability to remain competitive in our markets and achieve our growth strategy depends on our senior management team. We may not be able to continue to successfully attract and retain skilled management. If key

members of our senior management team were to resign, or if we are unable to continue to attract and retain skilled management, our business, financial condition and results of operations could be adversely affected.

Our operations depend on our ability to maintain, upgrade and operate efficiently our accounting, billing, customer service, information technology and management information systems and 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 telecommunications 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 can 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 network can 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 revenues 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.

An increase in taxes levied on the telecommunications sector could affect our results of operations.

Fixed-line telecommunications services are subject to certain taxes which are levied exclusively on these services. Fixed-line telecommunications service providers must pay (i) the Fund for Universal Telecommunications Services (*Fundo de Universalização dos Serviços de Telecomunicações*), or FUST, and (ii) the Fund for Technological Development of Brazilian Telecommunications (*Fundo para o Desenvolvimento Tecnológico das Telecomunicações Brasileiras*), or FUNTTEL. The contributions to FUST and FUNTTEL, which began in 2000, are charged at the rate of 1% and 0.5%, respectively, of the concessionaires' gross revenue and may not be passed on to customers of telecommunications services as part of the tariffs charged. If additional taxes for telecommunications services are created, or if existing FUST or FUNTTEL taxes are increased, our profit margin could be materially adversely affected in light of the high level of overall taxation to which we are currently subject.

Periods of electricity shortage could affect our financial condition and results of operations.

During 2001, Brazil suffered a significant electricity shortage that resulted in the implementation of a rationing plan that had adverse effects on the Brazilian economy. There can be no assurances that another electricity shortage will not occur in the future. Any future electricity shortage could affect our provision of telecommunications services, which could adversely affect our financial condition and results of operations as a result of a decrease in revenues, an increase in costs to maintain or repair equipment damaged by the interruption of the supply of electricity or an increase in expenses relating to indemnification claims by our customers that suffered losses as a result of interruption in our telecommunications services due to an electricity shortage.

Our insurance coverage could be insufficient to cover damages that we may incur.

Our insurance coverage may not be sufficient to cover damages that we may incur if the amount of such damages surpasses the amount of our insurance coverage or the damages are not covered by our insurance policies. Such losses could cause us to suffer significant unanticipated expenses resulting in an adverse effect on our business, financial condition and results of operations.

We are subject to potential liabilities relating to our third-party service providers, which could have a material adverse effect 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 employer obligations. 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.

Changes in Brazilian labor law could affect our relations with our workforce.

In April 2003, Brazil's House of Deputies reinitiated a debate with respect to changes in Brazilian labor laws and rules governing relations between companies and labor unions. The progress of these debates has slowed since April 2003 as a result of resistance from certain political forces, and the effect of any potential changes to Brazilian labor laws cannot be readily assessed at this time. Nevertheless, any changes to Brazilian labor laws could have an adverse affect on our business, financial condition and results of operations.

Risks relating to the BrT Transaction

We may not be able to integrate successfully, or may experience difficulties in integrating, BrT into our operations and therefore may fail to achieve the anticipated benefits from the BrT Transaction.

On January 8, 2009, pursuant to the Share Purchase Agreement entered into on April 25, 2008, Telemar acquired control of BrT, becoming the indirect holder of 81,092,986 common shares issued by BrT Part, representing 61.18% of the voting capital stock of BrT Part, which in turn owns 67.26% of the outstanding share capital, including 99.09% of the voting share capital, of BrT. Telemar intends to integrate the operations of Telemar and BrT as soon as possible.

Integration of BrT's operations into our operations will be a complex, costly and time-consuming process. We may be unable to integrate successfully the personnel and operations of BrT into our business. In addition, we may be unable to achieve the operational synergies or other cost savings and benefits that we had anticipated in the expected timeframe, or at all. Moreover, we may incur significant costs in connection with the integration of BrT.

Risks and challenges that may impair our ability to achieve the anticipated benefits of the BrT Transaction include the following:

- we lack experience in integrating operations as substantial as the combined operations of BrT Part and BrT. The integration of these operations into ours may require significant management of time and resources and may divert our management's attention from our day-to-day business;
- we may incur unexpected liabilities or contingencies related to taxes, labor, environmental regulation or other matters as a result of our acquisition of control of BrT Part and BrT that could materially adversely affect our results of operations and financial condition;
- we may encounter difficulties or delays in implementing common billing and other key information systems, operating procedures, sales and credit policies and financial controls; and
- we may be subject to additional restrictions, conditions or limitations imposed by governmental authorities.

If we are unable to respond successfully to these risks and challenges, we may experience substantially higher than expected operating costs or fail to achieve the anticipated benefits of the BrT Transaction.

ANATEL imposed significant obligations on our company as conditions to its approval of the BrT Transaction, and compliance with these obligations could adversely affect our business and results of operations.

On December 19, 2008, ANATEL granted its approval of our acquisition of control of BrT, subject to a number of conditions contained in the order granting the approval. The most significant of these conditions requires us to:

- 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 our contributions to FUNTTEL, which may be increased to 100% at ANATEL's discretion;
- extend fiber optic cables to the city of Boa Vista by December 31, 2009, the city of Manaus by December 31, 2010, and 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 100 new municipalities in Regions I and II by December 31, 2010 and an additional 40 new municipalities in each of the succeeding five years; and
- employ at least the aggregate number of employees that Telemar and BrT employed on February 1, 2008 until March 25, 2011.

Compliance with the conditions contained in ANATEL's order could require us to undertake significant capital expenditures, which could materially and adversely affect our business, financial condition and results of operations. See "Business — Our history and development — Acquisition of BrT — Regulatory approvals."

The Brazilian antitrust authorities could impose costly or restrictive conditions on the approval of the BrT Transaction, which could adversely affect our business and results of operations.

The BrT Transaction has been submitted to the Brazilian antitrust regulator, CADE, in accordance with Brazilian law, and the transaction is subject to the final approval of CADE. However, Brazilian law permits us to consummate this transaction prior to receiving this final approval, unless CADE issues a writ of prevention blocking a transaction or requires the parties to enter into an agreement permitting the effects of the transaction to be reversed which, by its terms, delays the consummation of the transaction. The antitrust authorities will determine whether this transaction negatively impacts competitive conditions in the markets in which we compete or adversely affects consumers in these markets.

On December 10, 2008, we entered into an Agreement for Maintenance of the Reversibility of Operation (*Acordo de Preservação de Reversibilidade da Operação*) with CADE relating to our acquisition of control of BrT. Under this agreement:

- we have agreed to submit to CADE's analysis any authorizations that we are granted in the future to provide WiMax, 3G, and Multichannel Multipoint Distribution Service, or MMDS, services;
- we have agreed to maintain Internet Group do Brasil S.A., which we refer to as iG, and Telemar Internet Ltda., which we refer to as Oi Internet, our respective broadband internet access providers, as independent business units until CADE's final decision on the BrT Transaction is issued;
- we have agreed to maintain until CADE's final decision on the BrT Transaction is issued a free dial-up ISP in all municipalities in which Oi Internet, iG or iBest S.A., or iBest, provided dial-up ISP services free of charge on the date of the agreement.

If the Brazilian antitrust authorities do not grant a final approval for the BrT Transaction, we could be required to dispose of our direct and indirect interest in BrT and to separate our operations to the extent that they have been integrated. In addition, if such authorities take any action to impose conditions or performance commitments on us as part of the approval process for the BrT Transaction, it could materially and adversely affect our business and results of operations and prevent our company from achieving the anticipated benefits of the BrT Transaction.

Our acquisition of control of BrT could make it difficult for you to evaluate our future prospects.

Because our acquisition of control of BrT was consummated in January 2009, the historical financial information included in this offering memorandum with respect to our company does not include financial information regarding BrT. Accordingly, the historical financial information included in this offering memorandum may not reflect what our results of operations and financial condition would have been if this acquisition had occurred prior to December 31, 2008. The challenge inherent in integrating BrT's business into ours makes evaluating our future financial prospects difficult. You should consider our potential for future business success and operating profitability in light of the risks, uncertainties, expenses and difficulties typically encountered by recently combined companies.

The unaudited pro forma combined financial information included in this offering memorandum is subject to our ongoing due diligence review of BrT and BrT Part.

Due to ANATEL regulations, we were prohibited from communicating with representatives of BrT and BrT Part prior to the consummation of the BrT Transaction, and therefore we did not have access to either company's

non-public information prior to that date. As a result, our ability to conduct due diligence with respect to BrT and BrT Part prior to the consummation of the BrT Transaction was extremely limited. As of the date of this offering memorandum, our review of the accounting practices and estimates used by BrT and BrT Part, as well as the appraisal of their assets and liabilities for purposes of the allocation of the purchase price paid by us, is ongoing. Based on our review to date, we have included in the unaudited pro forma combined financial information certain amounts to reconcile the accounting practices of BrT Part with those of Telemar and its parent company, TNL, with respect to, among others, provisions for legal contingencies, allowances for doubtful accounts and the valuation of pension plan assets and liabilities. See note (K) to the notes accompanying the unaudited pro forma combined financial information. We cannot assure you that our ongoing review will not reveal matters that would impact the unaudited pro forma combined financial information included in this offering memorandum or that, as a result, any unaudited pro forma combined financial information prepared following completion of our due diligence review would not differ materially from the unaudited pro forma combined results of operations and financial position included in this offering memorandum. Moreover, the unaudited pro forma combined financial information contained in this offering memorandum is provided for illustrative purposes only and does not purport to represent what the actual combined results of operations or the combined financial position of our company would have been if the BrT Transaction had occurred on the date assumed, and it is not necessarily indicative of our future combined results of operations or combined financial position.

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.

Substantially all of our operations and customers are located in Brazil, except for minor services 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;
- 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 operating and financial results of businesses, such as our company. The term of Brazil's current President, Luiz Inácio Lula da Silva, expires in January 2011, and under Brazilian law he is not permitted to run for another four-year term in the October 2010 elections. Uncertainty regarding the election of President Lula's successor and speculation about the policies that may be implemented by the Brazilian federal or state governments could adversely affect our business, results of operations and financial condition.

The global financial and credit crisis may adversely affect economic growth in Brazil, limit our access to the financial markets and, therefore, negatively impact our business and financial condition.

The global financial and credit crisis and related instability in the international financial system have had, and may continue to have, a negative effect on economic growth in Brazil. The ongoing crisis has reduced the availability of liquidity and credit to fund the continuation and expansion of industrial business operations worldwide. The shortage of liquidity and credit combined with recent substantial losses in worldwide equity markets, including in Brazil, could lead to an extended worldwide economic recession or depression. A prolonged slowdown in economic activity in Brazil could reduce demand for some of our services, particularly broadband services if the rate of computer sales in Brazil declines, which would adversely affect our results of operations.

We may also face significant liquidity challenges if conditions in the financial markets do not improve. 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 financial and credit crisis 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 global financial and credit crisis deepens further, 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$1.955 per U.S. dollar on December 31, 2000 to R$3.533 on December 31, 2002. The *real* appreciated against the U.S. dollar by 8.1% in 2004, 11.8% in 2005, 8.7% in 2006 and 17.1% in 2007. 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 BOVESPA. On April 15, 2009, the *real*/U.S. dollar exchange rate was R$2.199 per U.S. dollar. See "Exchange Rates."

A significant amount of our financial assets and liabilities are denominated in or indexed to foreign currencies, primarily U.S. dollars and Japanese yen. As of December 31, 2008, R$3,197.9 million, or 18.4% of our financial indebtedness, was denominated in a foreign currency, not including swap adjustments. As of December 31, 2008, R$882.4 million of Invitel's consolidated financial indebtedness was denominated in a foreign currency, not including swap adjustments. 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 their value has not changed in their original currency. This 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 in place for a portion of our foreign currency debt. If the cost of swap instruments increases substantially, we may be unable to maintain our hedge policy, resulting in an increased foreign currency exposure which could in turn lead to substantial foreign exchange losses.

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.

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 these risks. 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.

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 12.1% in 2004, 1.2% in 2005, 3.8% in 2006, 7.9% in 2007 and 9.1% in 2008. According to the Broad Consumer Price Index (*Índice Nacional de Preços ao Consumidor Ampliado*), or IPCA, published by IBGE, the Brazilian consumer price inflation rates were 7.5% in 2004, 5.7% in 2005, 3.1% in 2006, 4.5% in 2007 and 9.1% in 2008.

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 indexes, 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. At December 31, 2008, we had, among other debt obligations, R$14,718 million of loans and financing and

debentures that were subject to the Interbank Certificate of Deposit (*Certificado Depositário Interbancário*), or CDI, rate, an interbank rate, R$3,083 million of loans and financing and debentures that were subject to the TJLP (*Taxa de Juros de Longo Prazo*), or TJLP, a long-term interest rate, R$32 million of loans and financing and debentures that were subject to IPCA and R$2,893 million of loans and financing that were subject to LIBOR. At December 31, 2008, Invitel had, among other debt obligations, R$2,564 million of loans and financing that were subject to the TJLP rate, R$2,071 million of local commercial paper and debentures that were subject to the CDI rate and R$281.7 million of loans and financing that were subject to Japanese Yen LIBOR.

The TJLP includes an inflation factor and is determined quarterly by the Central Bank. 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, in 2008, the CDI rate increased from 11.18% per annum at December 31, 2007 to 12.38% per annum at December 31, 2008. 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 emerging market countries, which may have a negative effect on the trading price of the notes and may restrict our access to international capital markets.

Economic and market conditions in other emerging market countries, especially those in Latin America, may influence the market for securities issued by Brazilian companies. Investors' reactions to developments in these other countries may have an adverse effect on the market value of securities of Brazilian issuers. Adverse economic conditions in other emerging market countries have at times resulted in significant outflows of funds from Brazil. In 2008, certain Brazilian and Mexican companies announced significant losses in connection with currency derivatives as a result of the depreciation of the Mexican peso and the *real* against the U.S. dollar, respectively. As a result, a number of these companies have suffered financial distress and have sought or are contemplating seeking protection under various bankruptcy regimes. In addition, in October 2008, the Argentine government nationalized the Argentine private pension funds. Crises in other emerging countries or economic policies of other countries, in particular the United States, may adversely affect investors' demand for securities issued by Brazilian companies, including the notes. Any of these factors could adversely affect the market price of the notes and impede our ability to access the international capital markets and finance our operations in the future on terms acceptable to us or at all.

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

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. The imposition of such restrictions on currency conversions and remittances could hinder or prevent us from paying principal, interest and/or additional amounts due on the notes. It could also prevent us from making payments on any other dollar-denominated debt obligations, which would cause us to default on those obligations, and hinder our ability to access international capital markets. As a result, these restrictions could reduce the trading price of the notes.

Risks relating to the notes

Payments on the notes will be junior to Telemar's secured debt obligations and effectively junior to debt obligations of Telemar's subsidiaries.

The notes will constitute a senior unsecured obligation of Telemar. The notes will rank equal in right of payment with all of Telemar's other existing and future senior unsecured indebtedness. Although the notes will provide the holders of the notes with a direct, but unsecured claim on Telemar's assets and property, payment on the notes will be subordinated to secured debt of Telemar to the extent of the assets and property securing such debt. Payment on the notes will also be structurally subordinated to the payment of secured and unsecured debt and other obligations of Telemar's subsidiaries.

Upon any liquidation or reorganization of Telemar, any right of the holders of the notes to participate in the assets of Telemar, including the capital stock of its subsidiaries, will be subject to the prior claims of Telemar's secured creditors, and any such right to participate in the assets of Telemar's subsidiaries will be subject to the prior claims of the creditors of its subsidiaries. The indenture relating to the notes includes a covenant limiting the ability of Telemar and its subsidiaries to create or suffer to exist liens, although this limitation is subject to significant exceptions.

As of December 31, 2008, on a consolidated basis, Telemar had R$20,408 million (US$8,733 million) aggregate principal amount of debt outstanding, of which R$3,204 million (US$1,371 million) was secured, and Telemar's obligations under the notes would have been effectively subordinated to approximately R$636 million (US$272 million) of debt obligations and approximately R$1,972 million (US$844 million) of trade payables (net of intercompany trade payables) of Telemar's subsidiaries. On a pro forma basis, as of December 31, 2008, giving effect to the BrT Transaction, Telemar would have had R$25,483 million (US$10,904 million) aggregate principal amount of debt outstanding, and Telemar's obligations under the notes would have been effectively subordinated to approximately R$5,711 million (US$2,444 million) of debt obligations and approximately R$4,416 million (US$1,890 million) of trade payables (net of intercompany trade payables) of Telemar's subsidiaries (including Brasil Telecom).

Telemar conducts a portion of its business operations through subsidiaries, including Telemar Internet Ltda., TNL PCS S.A., AIX S.A., Serede S.A., Amazônia Celular S.A., and, following the recent acquisition of control of BrT Part, Brasil Telecom S.A. In servicing payments to be made on the notes, Telemar will rely, in part, on cash flows from these subsidiaries, mainly dividend payments. The ability of these subsidiaries to make dividend payments to Telemar will be affected by, among other factors, the obligations of these entities to their creditors, requirements of Brazilian corporate and other law, and restrictions contained in agreements entered into by or relating to these entities.

Obligations of Telemar under the notes are subordinated to certain statutory liabilities.

Under Brazilian law, obligations of Telemar under the notes are subordinated to certain statutory preferences. In the event of bankruptcy of Telemar, and according to the Brazilian bankruptcy law, such statutory preferences, such as certain claims for salaries and wages up to a certain limit, social security and other taxes and court fees and expenses, will have preference over any other claims, including claims by any investor in respect of the notes.

Because a substantial portion of our assets are dedicated to providing an essential public service, they will not be available for liquidation in the event of our bankruptcy and cannot be subject to attachment to secure a judgment.

A substantial portion of our assets, including our fixed-line telecommunications network are dedicated to providing an essential public service. These assets would not be available for liquidation in the event of our bankruptcy or attachment to secure a judgment, and in the case of our bankruptcy would, pursuant to the terms of

our concession and Brazilian law, revert to the Brazilian government. Although the Brazilian government would be obligated to compensate us for early termination of our concessions, we cannot assure you that the amount ultimately paid by the Brazilian government would be equal to the market value of the reverted assets. These restrictions on liquidation may lower significantly the amounts available to holders of the notes in the event of our liquidation and may adversely affect our ability to obtain adequate financing.

Telemar may not be able to purchase the notes upon a specified change of control event.

Upon the occurrence of a specified change of control event, Telemar will be required to offer to purchase each holder's notes at a price equal to 101% of their principal amount plus accrued and unpaid interest. At the time of any specified change of control event, Telemar may not have sufficient financial resources to purchase all of the notes that holders may tender in connection with any such change of control offer.

Payments under the notes are subject to our obtaining certain governmental authorizations.

The issuance of the notes are subject to certain registrations with the Central Bank, namely (i) registration of the main financial terms under the relevant Declaratory Registry of Financial Operations (*Registro Declaratório de Operações Financeiras*), or ROF, on the Information System of the Central Bank, which will be obtained prior to any such issuance, and (ii) registration of the schedule of payments in connection with any such issuance, which shall occur after the entry of the related proceeds into Brazil. In addition, further authorization from the Central Bank will be required to enable us to remit payments abroad in foreign currency under the notes other than scheduled payments of principal, interest, costs and expenses contemplated by the relevant ROF or to make any payment provided for in such ROF on a date after the 120th day from the payment dates scheduled therein. There can be no assurance that any such special Central Bank authorization would be obtained or that if such authorization is obtained, such authorization would be obtained on a timely basis.

We cannot assure you that a judgment of a U.S. court for liabilities under U.S. securities laws would be enforceable in Brazil, or that an original action can be brought in Brazil against Telemar for liabilities under U.S. securities laws.

Telemar is a corporation organized under the laws of Brazil. All of the directors and officers of Telemar and some of the advisors named herein reside in Brazil or elsewhere outside the United States, and all or a significant portion of the assets of such persons may be located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States or other jurisdictions outside Brazil upon such persons, or to enforce against such persons judgments predicated upon the civil liability provisions of the U.S. federal securities laws or the laws of such other jurisdictions. See "Enforcement of Civil Liabilities."

We cannot assure you that an active trading market for the notes will develop.

The notes constitute a new issue of securities for which there is no existing market. Although application has been made to list the notes on the Luxembourg Stock Exchange and to trade the notes on the Euro MTF Market, we cannot assure you that the application will be accepted. In addition, we cannot provide you with any assurances regarding the future development of a market for the notes, the ability of holders of the notes to sell their notes or the price at which such holders may be able to sell their notes. If such a market were to develop, the notes could trade at prices that may be higher or lower than the initial offering price depending on many factors, including prevailing interest rates, our results of operations and financial condition, political and economic developments in and affecting Brazil and the market for similar securities. The initial purchasers of this offering have advised our company that they currently intend to make a market in the notes. However, the initial purchasers are not obligated to do so, and any market-making with respect to the notes may be discontinued at any time without notice.

The notes are subject to transfer restrictions.

The notes have not been, and will not be, registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Such exemptions include offers and sales that occur outside the United States in compliance with Regulation S under the Securities Act and in accordance with any applicable securities laws of any other jurisdiction and sales to qualified institutional buyers as defined under Rule 144A under the Securities Act. For a discussion of certain restrictions on resale and transfer, see "Notice to Investors."

Brazilian bankruptcy laws may be less favorable to you than U.S. bankruptcy and insolvency laws.

If we are unable to pay our indebtedness, including our obligations under the notes, then we may become subject to bankruptcy proceedings in Brazil. Brazilian bankruptcy laws are significantly different from, and may be less favorable to creditors than, those of the United States. In addition, in the event of our bankruptcy, all of our debt obligations that are denominated in foreign currency, including the notes, will be converted into *reais* at the prevailing exchange rate on the date of declaration of our bankruptcy by the court.

Judgments of Brazilian courts enforcing our obligations under the notes or the indenture would be payable only in reais.

If proceedings were brought in the courts of Brazil seeking to enforce our obligations under the notes, we would not be required to discharge our obligations in a currency other than *reais*. Any judgment obtained against us in a Brazilian court in respect of any payment obligations under the notes or the indenture would be expressed in *reais* equivalent to the amount of foreign currency of such sum at the prevailing exchange rate: (a) at the date the debt was originally due; or (b) at the date on which the judicial proceeding was filed; or (c) at the date the judgment is rendered, in which cases the inflation adjustment of the amount due should be made in accordance with the indexes established by the court. There can be no assurance that such rate of exchange will afford you full compensation of the amount invested in the notes plus accrued interest.

USE OF PROCEEDS

We expect the net proceeds to Telemar from the sale of the notes to be approximately US$739.7 million after deducting the fees and expenses of the offering.

We intend to use the net proceeds of the issuance of the notes, together with cash on hand and other borrowings, for general corporate purposes, including the redemption or repayment of indebtedness.

EXCHANGE RATES

Prior to March 14, 2005, there were two principal foreign exchange markets in Brazil:

- the commercial rate exchange market; and
- the floating rate exchange market.

Most trade and financial foreign-exchange transactions were carried out on the commercial rate exchange market. The floating rate exchange market generally applied to transactions to which the commercial market rate did not apply.

On March 4, 2005, the National Monetary Council (*Conselho Monetário Nacional*) enacted Resolution No. 3,265, as well as additional regulations, that consolidated the two foreign exchange markets into a single foreign exchange market, effective as of March 14, 2005, in order to make foreign exchange transactions more straight-forward and efficient. Consequently, all foreign exchange transactions in Brazil are now carried out in this single foreign exchange market through authorized financial institutions. We cannot predict the impact of the enactment of any new regulations on the foreign exchange market.

Foreign exchange rates continue to be freely negotiated, but may be influenced from time to time by Central Bank intervention. From March 1995 through January 1999, the Central Bank allowed the gradual depreciation of the *real* against the U.S. dollar. In January 1999, the Central Bank allowed the *real*/U.S. dollar exchange rate to float freely. Since then, the *real*/U.S. dollar exchange rate has been established mainly by the Brazilian interbank market and has fluctuated considerably. From December 31, 2000 through December 31, 2002, the *real* depreciated by 80.6% against the U.S. dollar. From December 31, 2002 through December 31, 2007, the *real* appreciated by 49.9% against the U.S. dollar, and in 2008, the *real* depreciated by 31.9% against the U.S. dollar. At April 15, 2009, the selling rate for U.S. dollars was R$2.199 per US$1.00. 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 allow the *real* to float freely or will intervene in the exchange rate market through a currency band system or otherwise, or that the exchange market will not be volatile as a result of political or economic instability or other factors. We also cannot predict whether the *real* will depreciate or appreciate in value in relation to the U.S. dollar in the future.

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**
2004	R$3.205	R$2.654	R$2.926	R$2.654
2005	2.762	2.163	2.434	2.341
2006	2.371	2.059	2.176	2.138
2007	2.156	1.733	1.948	1.771
2008	2.500	1.559	1.838	2.337

	Reais per U.S. Dollar	
Month	**High**	**Low**
November 2008	R$2.428	R$2.121
December 2008	2.500	2.337
January 2009	2.380	2.189
February 2009	2.392	2.245
March 2009	2.422	2.238
April 2009 (through April 15)	2.290	2.170

Source: Central Bank

CAPITALIZATION

The following table sets forth our cash and cash equivalents, consolidated debt and capitalization at December 31, 2008, derived from our audited consolidated financial statements prepared in accordance with accounting practices adopted in Brazil:

- on an actual historical basis;
- on a pro forma basis to give effect to the closing of the BrT Transaction (See "Unaudited Pro Forma Combined Financial Information"); and
- on a pro forma basis as adjusted for the sale of the notes in this offering and the receipt of proceeds therefrom before deduction of commissions and expenses we must pay in connection with the offering.

You should read this table in conjunction with our audited consolidated financial statements at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008 included in this offering memorandum.

	At December 31, 2008					
	Historical		Pro Forma		Pro Forma As Adjusted	
	(in millions of R$)	(in millions of US$)(1)	(in millions of R$)	(in millions of US$)(1)	(in millions of R$)	(in millions of US$)(1)
Cash and cash equivalents	8,606	3,682	8,009	3,427	9,748(5)	4,171(5)
Short-term debt(2)	3,702	1,584	5,419	2,319	5,419	2,319
Long-term debt(3)	17,471	7,476	21,597	9,241	23,350	9,991
Shareholders' equity	9,984	4,272	9,984	4,272	9,984	4,272
Total capitalization(4)	27,455	11,748	31,581	13,513	33,334	14,263

(1) Translated for convenience only using the exchange rate as reported by the Central Bank at December 31, 2008 for *reais* into U.S. dollars of R$2.337=US$1.00.
(2) Consists of current loans and financing, debentures and derivatives, plus the current portion of long-term debt.
(3) Consists of non-current loans and financing, debentures and derivatives, excluding the current portion thereof.
(4) Total capitalization includes long-term debt and shareholders' equity.
(5) Calculated before deduction of commissions and expenses to be paid in connection with the offering.

There has been no material change in our capitalization since December 31, 2008, except as disclosed in this offering memorandum. Substantially contemporaneous with this offering, we are offering debentures in an aggregate principal amount of up to R$3,000 million in an offering being made in Brazil. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Telemar — Recent developments — Proposed offering of debentures."

SELECTED FINANCIAL AND OTHER INFORMATION

Historical financial and other information

Telemar

The selected financial data at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008 have been derived from Telemar's consolidated financial statements at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008, which include for comparative purposes our financial data at December 31, 2007 and for the year ended December 31, 2007, as adjusted and restated for the changes in accounting practices described below and which financial statements are included elsewhere in this offering memorandum. The selected financial data at December 31, 2006 and for the year ended December 31, 2006 have been derived from Telemar's audited consolidated financial statements at December 31, 2007 and 2006 and for each of the two years ended December 31, 2007 included elsewhere in this offering memorandum. Telemar's audited consolidated financial statements have been prepared in accordance with accounting practices adopted in Brazil, which differ in certain significant respects from U.S. GAAP. See "Annex A: Summary of Significant Differences between Accounting Practices Adopted in Brazil and U.S. GAAP — Telemar."

On December 28, 2007, the Brazilian government enacted Law No. 11,638/07, which became effective on January 1, 2008, amended Law No. 6,404/76, as amended, and changed the accounting practices adopted in Brazil. In December 2008, the CVM issued *Deliberação* 565/08 implementing these changes in accounting practices. For additional information with respect to these changes and their effects on Telemar's financial statements, see "Presentation of Financial and Other Information" and notes 2(c) and 2(d) to Telemar's consolidated financial statements at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008 included elsewhere in this offering memorandum.

In order to make Telemar's financial data at December 31, 2007 and for the year ended December 31, 2007 comparable to its financial data at December 31, 2008 and for the year ended December 31, 2008, Telemar has restated its financial data at December 31, 2007 and for the year ended December 31, 2007 included in its consolidated financial statements at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008 to conform to the changes in accounting practices introduced by Law No. 11,638/07 and *Deliberação* 565/08. Telemar has not restated its financial statements at December 31, 2007 and 2006 and for each of the two years ended December 31, 2007 to conform to these changes in accounting practices and, therefore, the selected financial data at December 31, 2006 and for the year ended December 31, 2006 may not be comparable to the selected financial data at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008. For a discussion of the impact of these changes in accounting policy on certain line items in our statement of operations, see "Management's and Discussion and Analysis of Financial Condition and Results of Operations — Telemar — Results of operations — Year ended December 31, 2006 compared with year ended December 31, 2007."

This selected financial information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations — Telemar" and Telemar's consolidated financial statements, as applicable, included elsewhere in this offering memorandum.

Statement of operations data

	Year Ended December 31,			
	2006(1)	2007	2008	2008(2)
	(in millions of R$)			(in millions of US$)
Net operating revenue	16,872	17,572	18,665	7,987
Cost of goods sold and services rendered	(9,360)	(9,247)	(9,600)	(4,108)
Gross profit	7,512	8,325	9,065	3,879
Operating expenses	(4,577)	(4,457)	(5,788)	(2,477)
Operating income	2,935	3,868	3,277	1,402
Interest expenses, net	(1,103)	(305)	(1,339)	(573)
Income from continuing operations before tax	1,832	3,563	1,938	829
Income tax and social contribution and tax benefits	(217)	(674)	(413)	(177)
Minority interest	—	—	(4)	(2)
Net income	1,615	2,889	1,521	651

(1) Financial information at December 31, 2006 and for the year ended December 31, 2006 is derived from financial statements prepared under accounting practices adopted in Brazil in force at the time that such financial statements were issued and accordingly may not be comparable to financial information at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008, which has been derived from financial statements prepared under the accounting practices adopted in Brazil that include the changes introduced by Law No. 11,638/07 and *Deliberação* 565/08.

(2) Translated for convenience only using the exchange rate as reported by the Central Bank at December 31, 2008 for *reais* into U.S. dollars of R$2.337=US$1.00.

Balance sheet data

	At December 31,			
	2006(1)	2007	2008	2008(2)
	(in millions of R$)			(in millions of US$)
Cash and cash equivalents	3,999	2,888	8,606	3,682
Trade accounts receivable, net	3,808	3,278	3,897	1,668
Total current assets	9,328	11,706	16,284	6,968
Property, plant and equipment	11,729	11,790	12,831	5,490
Intangible assets	1,306	1,513	2,682	1,148
Total assets	26,417	29,274	40,086	17,153
Loans and financing — current	1,633	1,338	3,604	1,542
Debentures — current	93	76	98	42
Total current liabilities	5,630	6,194	9,154	3,917
Loans and financing — long-term	3,809	4,363	13,766	5,890
Debentures — long-term	2,160	2,171	3,705	1,585
Total debt(3)	7,695	7,948	21,173	9,060
Shareholders' equity	11,929	13,788	9,984	4,272

(1) Financial information at December 31, 2006 and for the year ended December 31, 2006 is derived from financial statements prepared under accounting practices adopted in Brazil in force at the time that such financial statements were issued and accordingly may not be comparable to financial information at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008, which has been derived from financial statements prepared under the accounting practices adopted in Brazil that include the changes introduced by Law No. 11,638/07 and *Deliberação* 565/08.

(2) Translated for convenience only using the exchange rate as reported by the Central Bank at December 31, 2008 for *reais* into U.S. dollars of R$2.337=US$1.00.
(3) Consists of current and long-term loans and financing, debentures and derivatives.

Other financial information and operating data

	At or for the Year Ended December 31,			
	2006(1)	2007	2008	2008(2)
	(in millions of R$, except ratios and as otherwise indicated)			(in millions of US$)
Cash flow data:				
Net cash provided by operating activities	5,854	5,006	5,175	2,214
Net cash provided by (used in) investing activities	(2,331)	(4,118)	(6,488)	(2,776)
Net cash provided by (used in) financing activities	(1,124)	(420)	7,030	3,008
Operating data				
Number of subscribers (in millions)	28.6	31.7	40.3	n/a
Fixed-line	14.4	14.2	13.9	n/a
Mobile	13.1	16.0	24.4	n/a
Broadband	1.1	1.5	2.0	n/a
Other financial information				
Capital expenditures	2,327	2,381	5,009	2,143
Depreciation and amortization	3,009	2,479	2,712	1,160
EBITDA and financial ratios				
Total debt(3)/EBITDA(4)	1.25	1.22	3.47	3.47
EBITDA(4)/Interest expense(5)	7.19	9.19	3.01	3.01
Other data				
Fixed-line				
Installed access lines (in millions)	17.1	16.5	16.5	n/a
Access lines in service (in millions)	14.4	14.2	13.9	n/a
Broadband access lines in service (in millions)	1.1	1.5	2.0	n/a
Mobile				
Total Subscribers (in millions)	13.1	16.0	24.4	n/a
Pre-paid	10.7	13.4	20.5	n/a
Post-paid	2.4	2.6	3.9	n/a
Average monthly revenue per mobile user (in R$)(6)	22	23	21	9
Pre-paid	14	14	15	6
Post-paid	46	63	53	23
Churn (%)(7)	2.3%	3.0%	2.4%	n/a
Pre-paid	2.3%	3.0%	2.6%	n/a
Post-paid	3.0%	3.0%	1.4%	n/a

(1) Financial information at December 31, 2006 and for the year ended December 31, 2006 is derived from financial statements prepared under accounting practices adopted in Brazil in force at the time that such financial statements were issued and accordingly may not be comparable to financial information at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008, which has been derived from financial statements prepared under the accounting practices adopted in Brazil that include the changes introduced by Law No. 11,638/07 and *Deliberação* 565/08.
(2) Translated for convenience only using the exchange rate as reported by the Central Bank at December 31, 2008 for *reais* into U.S. dollars of R$2.337=US$1.00.
(3) Consists of current and long-term loans and financing, debentures and derivatives.

(4) Telemar defines EBITDA, a performance measure used by the company, as operating income before depreciation, amortization and results from disposals and impairment of permanent assets. EBITDA is not recognized under Brazilian GAAP, accounting practices adopted in Brazil or U.S. GAAP as a measure of financial performance and should not be considered in isolation from other financial measures. EBITDA does not purport to be an alternative to net income as a measure of operating performance or to cash flows from operating activities as a measure of liquidity. Other companies may calculate EBITDA differently, and therefore this presentation of EBITDA may not be comparable to other similarly titled measures used by other companies. Following is a reconciliation of EBITDA to operating income:

	Year Ended December 31,			
	2006	2007	2008	2008
	(in millions of R$)			(in millions of US$)
Operating income	2,935	3,868	3,277	1,402
Depreciation	3,009	2,479	2,712	1,160
Amortization	196	196	138	59
Equity adjustments	1	(1)	(18)	(8)
Permanent assets disposals, net	9	—	—	—
EBITDA	6,150	6,542	6,109	2,614

(5) Consists of derivative results, monetary and exchange variation on outstanding loans, interest on outstanding loans and interest on debentures.

(6) Calculated by dividing net services revenue (total revenue from mobile telephone services minus revenue from the sale of mobile handsets and accessories) during a period by the average number of subscribers during that period.

(7) Average of the monthly churn rates for each period calculated by dividing the number of subscribers whose service is disconnected during each month, whether voluntarily or involuntarily (such as when a subscriber fails to pay his or her bill), by the number of subscribers at the beginning of such month. Excludes churn rates of customers of Amazônia Celular, of which we acquired control in April 2008 and for which we do not calculate churn rates.

Brasil Telecom Participações

The selected financial data at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008 have been derived from BrT Part's audited consolidated financial statements at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008 included elsewhere in this offering memorandum. The selected financial data at December 31, 2006 and for the year ended December 31, 2006 have been derived from BrT Part's audited consolidated financial statements at December 31, 2007 and 2006 and for each of the two years ended December 31, 2007 included elsewhere in this offering memorandum. BrT Part's audited consolidated financial statements at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008 have been prepared in accordance with accounting practices adopted in Brazil, which include the changes introduced by Law No. 11,638/07 and *Deliberação* 565/08 and differs in certain significant respects from U.S. GAAP. See "Annex B: Summary of Significant Differences between Accounting Practices Adopted in Brazil and U.S. GAAP — Brasil Telecom Participações."

In order to make BrT Part's financial data at December 31, 2007 and for the year ended December 31, 2007 comparable to its financial data at December 31, 2008 and for the year ended December 31, 2008, BrT Part has restated its financial data at December 31, 2007 and for the year ended December 31, 2007 included in its consolidated financial statements at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008 to conform to the changes in accounting practices introduced by Law No. 11,638/07 and *Deliberação* 565/08. See "— Telemar" above. For additional information with respect to these changes and their effects on BrT Part's financial statements, see note 2 to BrT Part's audited consolidated financial statements at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008 included elsewhere in this offering memorandum.

The selected historical financial data as of and for the year December 31, 2006 presented in this offering memorandum has been derived from the consolidated financial statements at December 31, 2007 and 2006 and for each of the two years ended December 31, 2007, which were issued in accordance with accounting practices adopted in Brazil in force at the time that such financial statements were issued and do not reflect the changes introduced by Law No. 11,638/07 and *Deliberação* 565/08. As a result, the selected financial data at December 31, 2006 and for the year ended December 31, 2006 may not be comparable to the selected financial data at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008.

This selected financial information should be read in conjunction with "Management's Discussion and Analysis of Financial Condition and Results of Operations — Brasil Telecom Participações" and BrT Part's consolidated financial statements, as applicable, included elsewhere in this offering memorandum.

Statement of operations data

	Year Ended December 31,			
	2006(1)	2007	2008	2008(2)
	(in millions of R$)			(in millions of US$)
Net operating revenues	10,297	11,059	11,297	4,834
Operating expenses	(3,066)	(3,332)	(3,224)	(1,379)
Operating income before financial expenses	771	1,344	1,864	798
Financial expenses, net(3)	(82)	(50)	(154)	(66)
Income before taxes and minority interest(3)	688	1,294	1,710	732
Income tax and social contribution	(108)	(359)	(591)	(253)
Minority interest	(141)	(262)	(337)	(144)
Net income	470	673	782	335

(1) Financial information at December 31, 2006 and for the year ended December 31, 2006 is derived from financial statements prepared under accounting practices adopted in Brazil in force at the time that such financial statements were issued and accordingly may not be comparable to financial information at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008, which has been derived from financial statements prepared under the accounting practices adopted in Brazil that include the changes introduced by Law No. 11,638/07 and *Deliberação* 565/08.

(2) Translated for convenience only using the exchange rate as reported by the Central Bank at December 31, 2008 for *reais* into U.S. dollars of R$2.337=US$1.00.

(3) Excludes the effect of interest on shareholders' equity.

Balance sheet data

	At December 31,			
	2006(1)	2007	2008	2008(2)
	(in millions of R$)			(in millions of US$)
Cash and cash equivalents	128	730	2,710	1,160
Trade accounts receivable	2,128	2,190	2,210	946
Current assets	7,498	7,462	7,591	3,248
Property, plant and equipment	6,535	5,691	5,903	2,526
Intangible assets	1,163	1,249	1,638	701
Total assets	17,794	17,388	19,437	8,317
Loans and financing — current	1,110	399	671	287
Total current liabilities	4,852	4,762	4,971	2,127
Loans and financing — long term	4,266	3,603	3,993	1,709
Total debt(3)	5,375	4,408	4,886	2,091
Shareholders' equity	5,278	5,199	5,764	2,466

(1) Financial information at December 31, 2006 and for the year ended December 31, 2006 is derived from financial statements prepared under accounting practices adopted in Brazil in force at the time that such financial statements were issued and accordingly may not be comparable to financial information at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008, which has been derived from financial statements prepared under the accounting practices adopted in Brazil that include the changes introduced by Law No. 11,638/07 and *Deliberação* 565/08.
(2) Translated for convenience only using the exchange rate as reported by the Central Bank at December 31, 2008 for *reais* into U.S. dollars of R$2.337=US$1.00.
(3) Consists of current and long-term loans and financing, debentures and derivatives.

Other financial information and operating data

	At or for the Year Ended December 31,			
	2006(1)	2007	2008	2008(2)
	(in millions of R$, except ratios and as otherwise indicated)			(in millions of US$)
Cash flow data:				
Net cash provided by operating activities	2,662	3,307	3,193	1,366
Net cash provided by (used in) investing activities	(1,755)	(1,665)	(729)	(312)
Net cash provided by (used in) financing activities	(454)	(1,335)	(484)	207
Operating data				
Number of subscribers (in millions)	13.1	13.9	15.5	n/a
Fixed-line	8.4	8.0	8.1	n/a
Mobile	3.4	4.3	5.6	n/a
Broadband	1.3	1.6	1.8	n/a
Other financial information				
Capital expenditures	1,451.1	1,398.8	2,677.9	1,145.9
Depreciation and amortization	2,731.2	2,441.7	2,072.8	886.9
Other data				
Fixed-line				
Installed access lines (in millions)	10.4	10.4	10.4	n/a
Access lines in service (in millions)	8.4	8.0	8.1	n/a
Broadband access lines in service (in millions)	1.3	1.6	1.8	n/a
Mobile				
Total Subscribers (in millions)	3.4	4.3	5.6	n/a
Pre-paid	2.4	3.4	4.6	n/a
Post-paid	1.0	0.9	1.0	n/a
Average monthly revenue per mobile user (in R$)(3)	31	34	29	12
Pre-paid	26	28	23	10
Post-paid	42	53	56	24
Churn (%)(4)	2.3%	3.6%	4.1%	n/a
Pre-paid	1.3%	4.4%	3.5%	n/a
Post-paid	2.7%	3.3%	4.3%	n/a

(1) Financial information at December 31, 2006 and for the year ended December 31, 2006 is derived from financial statements prepared under accounting practices adopted in Brazil in force at the time that such financial statements were issued and accordingly may not be comparable to financial information at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008, which has been derived from financial statements prepared under the accounting practices adopted in Brazil that include the changes introduced by Law No. 11,638/07 and *Deliberação* 565/08.

(2) Translated for convenience only using the exchange rate as reported by the Central Bank at December 31, 2008 for *reais* into U.S. dollars of R$2.337=US$1.00.
(3) Calculated by dividing net services revenue (total revenue from mobile telephone services minus revenue from the sale of mobile handsets and accessories) during a period by the average number of subscribers during that period.
(4) Average of the monthly churn rates for each period calculated by dividing the number of subscribers whose service is disconnected during each month, whether voluntarily or involuntarily (such as when a subscriber fails to pay his or her bill), by the number of subscribers at the beginning of such month.

UNAUDITED PRO FORMA COMBINED FINANCIAL INFORMATION

The Unaudited Pro Forma Combined Financial Information of Telemar presented below is derived from the historical audited consolidated financial statements of Telemar, the historical audited consolidated financial statements of BrT Part and the historical audited consolidated financial statements of Invitel, each included elsewhere in this offering memorandum, and the historical audited consolidated financial statements at December 31, 2008 and for the year ended December 31, 2008 of Solpart, which are not included in this offering memorandum.

The Unaudited Pro Forma Combined Financial Information was prepared based on accounting practices adopted in Brazil, including the specific rules and regulations of the CVM, with Telemar treated as the acquirer for purposes of the business combination related to the BrT Transaction. The Unaudited Pro Forma Combined Financial Information was prepared as if the BrT Transaction had been completed as of January 1, 2008 for pro forma statement of operations purposes and on December 31, 2008 for pro forma balance sheet purposes.

The Unaudited Pro Forma Combined Financial Information is based upon the historical consolidated financial statements of Telemar, BrT Part, Invitel and Solpart, adjusted to give effect to the BrT Transaction. The pro forma assumptions and adjustments are described in the accompanying notes presented below.

The Unaudited Pro Forma Combined Financial Information is provided for illustrative purposes only and does not purport to represent what the actual consolidated results of operations or the consolidated financial position of Telemar would have been had the BrT Transaction occurred on the respective dates assumed, nor is it necessarily indicative of the combined company's future consolidated results of operations or financial position. See "Risk Factors — Risks relating to the BrT Transaction — The unaudited pro forma combined financial information included in this offering memorandum is subject to our ongoing due diligence review of BrT and BrT Part."

The Unaudited Pro Forma Combined Financial Information does not include the anticipated realization of cost savings from any operating efficiencies, synergies or restructurings resulting from the BrT Transaction and does not contemplate the liabilities that may be incurred in connection with the business combination and any related restructurings.

This Unaudited Pro Forma Combined Financial Information should be read in conjunction with the accompanying notes presented below and the historical consolidated financial statements and accompanying notes of Telemar, BrT Part and Invitel included elsewhere in this offering memorandum. You should not rely on the Unaudited Pro Forma Combined Financial Information as an indication of either (i) the consolidated results of operations or financial position that would have been achieved if the BrT Transaction had taken place on the dates assumed or (ii) the consolidated results of operations or financial position of Telemar after the completion of such transaction.

Telemar Norte Leste S.A.
Unaudited Pro Forma Combined Balance Sheet
As of December 31, 2008
(in millions of R$)

	Historical					
	Telemar Consolidated	BrT Part Consolidated	Invitel Parent Company	Solpart Parent Company	Pro Forma Adjustments	Unaudited Combined Pro Forma Telemar
Assets						
Current assets						
Cash and cash equivalents	9,844	3,485	37	14	(5,371)(A)	8,009
Trade accounts receivable, net	3,897	2,210	—	—	(76)(K)	6,032
Recoverable taxes	1,543	974	10	8	—	2,535
Prepaid expenses	593	—	—	—	—	593
Judicial deposits and blockings	—	679	—	—	—	679
Inventories	153	54	—	—	—	207
Dividends receivables	—	—	43	43	(85)	—
Other current assets	254	189	—	—	—	443
	16,284	**7,591**	**90**	**65**	**(5,532)**	**18,498**
Non-current assets						
Long-term						
Loans to subsidiaries	450	5	—	—	—	455
Recoverable and deferred taxes	2,211	1,925	—	28	670(K)	4,834
Prepaid expenses	437	—	—	—	—	437
Judicial deposits and blockings	1,408	2,231	—	—	—	3,639
Other long-term assets	136	140	—	—	—	276
	4,643	**4,301**	**—**	**28**	**670**	**9,642**
Permanent						
Investments	3,313	4	1,537	1,091	(5,898)(B)	47
Property, plant & equipment	12,831	5,903	—	—	2,661(C)	21,395
Intangible assets	2,682	1,638	293	398	563(D)	5,574
Goodwill	—	—	—	—	3,495(E)	3,495
Deferred charges	333	—	—	—	—	333
	19,159	**7,545**	**1,830**	**1,489**	**822**	**30,845**
	23,802	**11,846**	**1,830**	**1,517**	**1,492**	**40,487**
Total assets	**40,086**	**19,437**	**1,920**	**1,582**	**(4,041)**	**58,985**

See accompanying notes to the Unaudited Pro Forma Combined Financial Information.

Telemar Norte Leste S.A.
Unaudited Pro Forma Combined Balance Sheet
As of December 31, 2008
(in millions of R$)

	Historical					
	Telemar Consolidated	BrT Part Consolidated	Invitel Parent Company	Solpart Parent Company	Pro Forma Adjustments	Unaudited Combined Pro Forma Telemar
Liabilities						
Current liabilities						
Suppliers	2,015	2,072	—	—	—	4,088
Loans and financing	3,604	749	956	—	—	5,309
Authorizations payable	150	160	—	—	—	310
Payroll and related accruals	271	110	—	0	—	381
Deferred tax and taxes payable	973	736	—	2	—	1,711
Tax financing program	127	—	—	—	—	127
Debentures	98	12	—	—	—	110
Dividends and interest on stockholders' capital	1,530	516	—	43	(85)	2,004
Provisions for legal contingencies	—	219	—	—	—	219
Provision for pensions and other benefits	—	148	—	—	—	148
Other current liabilities	386	249	—	0	—	635
	9,153	**4,971**	**956**	**45**	**(85)**	**15,041**
Non-current liabilities						
Long-term						
Loans and financing	13,766	3,045	—	—	—	16,811
Authorizations payable	904	624	—	—	—	1,528
Tax financing program	389	—	—	—	—	389
Provisions for legal contingencies	1,962	714	—	—	2,197(K)	4,874
Debentures	3,705	1,080	—	—	—	4,785
Provision for pensions and other benefits	—	607	—	—	(303)(K)	304
Deferred tax and taxes payable	100	371	—	—	1,097(F)	1,568
Other long-term liabilities	96	218	—	—	—	314
	20,923	**6,659**	**—**	**—**	**2,991**	**30,572**
Minority interest	**25**	**2,044**	**—**	**—**	**1,318**(G)	**3,388**
Shareholders' equity						
Capital stock	7,419	2,596	789	1,434	(4,819)	7,419
Capital reserves	2,199	309	307	—	(616)	2,199
Profits reserve	383	2,858	(132)	104	(2,830)	383
Treasury reserve	(17)	—	—	—	—	(17)
	9,984	**5,763**	**964**	**1,537**	**(8,265)**	**9,984**
Total liabilities & shareholders' equity	**40,086**	**19,437**	**1,920**	**1,582**	**(4,041)**	**58,985**

See accompanying notes to the Unaudited Pro Forma Combined Financial Information.

Telemar Norte Leste S.A.
Unaudited Pro Forma Combined Statement of Operations
For the year ended December 31, 2008
(in millions of R$)

	Historical					
	Telemar Consolidated	BrT Part Consolidated	Invitel Parent Company	Solpart Parent Company	Pro Forma Adjustments	Unaudited Combined Pro Forma Telemar
Net operating revenue	18,665	11,297				29,962
Cost of goods sold and services rendered	(9,600)	(6,209)			(418)(H)	(16,227)
Gross profit	9,065	5,088	—	—	(418)	13,735
Operating expenses						
Selling expenses	(3,532)	(1,364)	—	—		(4,896)
General and administrative expenses	(1,582)	(1,428)	(9)	(3)		(3,021)
Other operating expenses, net	(692)	(432)	(12)	(28)	—	(1,164)
	(5,806)	(3,224)	(20)	(31)	—	(9,081)
Operating income	3,259	1,864	(20)	(31)	(418)	4,654
Interest expenses, net	(1,339)	(154)	(102)	18	(665)(I)	(2,241)
Equity Income	18		77	150	(227)(J)	18
Income from continuing operations before tax	1,938	1,710	(46)	138	(1,310)	2,431
Income tax and social contribution	(413)	(591)		(21)	445(F)	(580)
Income before minority interest	1,525	1,119	(46)	117	(864)	1,851
Minority interest	(4)	(337)			(634)(G)	(976)
Net income	1,521	782	(46)	117	(1,498)	875
Stock outstanding at balance sheet date (in thousands of shares)	238,614					238,614
Net income per share outstanding at the balance sheet date (in R$)	6.37					3.67

See accompanying notes to the Unaudited Pro Forma Combined Financial Information.

Notes to the Unaudited Pro Forma Combined Financial Information

1. Basis of presentation

The Unaudited Pro Forma Combined Financial Information has been derived from the historical consolidated financial statements of Telemar, BrT Part and Invitel included elsewhere in this offering memorandum.

2. The BrT Transaction

Pursuant to the BrT Transaction, on January 8, 2009, Telemar became the indirect holder of 81,092,986 common shares issued by BrT Part, representing 61.2% of the voting capital stock of BrT Part, in exchange for an aggregate purchase price of R$5,371,098,527.04, which is equivalent to a price per common share of BrT Part of R$77.04. For more information relating to the BrT Transaction, see "Business — Our history and development — Acquisition of BrT."

3. Pro forma assumptions and adjustments

The following assumptions and related pro forma adjustments give effect to the BrT Transaction as if such business combination had occurred on January 1, 2008 for purposes of the Unaudited Pro Forma Combined Statement of Operations and on December 31, 2008 for purposes of the Unaudited Pro Forma Combined Balance Sheet.

- The Unaudited Pro Forma Combined Financial Information is provided for illustrative purposes only and does not purport to represent what the actual consolidated results of operations or the consolidated financial position of Telemar would have been had the BrT Transaction occurred on the respective dates assumed, nor is it necessarily indicative of the combined company's future consolidated results of operations or financial position.
- Expected future cash cost savings, if any, are not recognized in this Unaudited Pro Forma Combined Financial Information.
- The pro forma adjustments, including purchase price and consolidation adjustments, were performed taking into consideration both Telemar's pre-existing investment in preferred shares of BrT Part, representing 21.06% of BrT Part's total share capital, as well as the acquisition of control of BrT Part, representing 22.28% of BrT Part's total share capital. Therefore, the step-ups in the fair value of BrT Part's assets and liabilities for purposes of the business combination were performed at 43.34% of the total fair value adjustments of BrT Part's assets and liabilities at December 31, 2008.

Additionally, liabilities may be incurred in connection with the business combination and any ultimate restructuring activities. These additional liabilities and costs have not been contemplated in the Unaudited Pro Forma Combined Financial Information because information necessary to reasonably estimate such costs and to formulate detailed restructuring plans depend on the conclusion of assessments and studies which are still being prepared by Telemar as of the date of this offering memorandum. Accordingly, the allocation of the purchase price cannot be estimated with a reasonable degree of accuracy and may differ materially from the amounts assumed in the Unaudited Pro Forma Combined Financial Information.

The pro forma and purchase price allocation adjustments are estimated as follows (in millions of R$):

(A) This pro forma adjustment reflects the payment of the purchase price for the acquisition of control of BrT Part, comprising 61.2% of its common shares and 22.28% of its total shares.

(B) This pro forma adjustment reflects the exclusion of the investment previously held by Telemar in preferred shares of BrT Part, as well as the investment held by Invitel in Solpart and by Solpart in common

shares of BrT Part, due to the consolidation of BrT Part's assets and liabilities as a result of the business combination. BrT Part's preferred shares previously held by Telemar were valued at their acquisition cost which is different than their book value measured at the fair value of BrT Part's assets and liabilities at December 31, 2008; this difference between cost and book value is being treated as goodwill (see note (E)).

(C) This pro forma adjustment reflects the estimated partial step-up of 43.34% of the total fair value adjustments of BrT Part's property, plant and equipment, mainly related to cables, transmission, switching and other equipment and underground ducts. The pro forma adjustment was estimated based both on business drivers common to fixed-line and mobile telecommunications operators as well as drivers related specifically to the operations of BrT Part, such as its concession area and customer base. This estimate was calculated prior to the consummation of the BrT Transaction, when Telemar was restricted under Brazilian law from accessing underlying information about the fair value and book value of BrT Part's property, plant and equipment. Following the consummation of the BrT Transaction, Telemar began performing a detailed assessment of the assets and liabilities of BrT Part which is still in progress as of the date of this offering memorandum. The actual fair value adjustments based on this detailed assessment could differ substantially from the estimates made in connection with this pro forma adjustment.

(D) This pro forma adjustment reflects estimated fair value adjustments to BrT Part's intangible assets of: (i) R$497 million related to the partial step-up of 43.34% of the total fair value adjustments of the regulatory licenses whose estimated fair value was calculated through a "royalty relief" methodology and based on amounts paid for the licenses by BrT Part as well as BrT Part's revenues as a result of the operation of those licenses; and (ii) R$67 million related to the partial step-up of 43.34% of the total fair value adjustments of internet domains held by BrT Part whose fair value was estimated based on a "market multiple" methodology that took into consideration BrT Part's results generated by the respective businesses. Following the consummation of the BrT Transaction, Telemar began performing a detailed assessment of the assets and liabilities of BrT Part which is still in progress as of the date of this offering memorandum. The actual fair value adjustments based on this detailed assessment could differ substantially from the estimates made in connection with this pro forma adjustment.

(E) This pro forma adjustment reflects goodwill in the amount of R$2,932 million generated as a result of the acquisition of control of BrT Part and BrT Part's preferred shares, taking into consideration the estimated fair value adjustments to BrT Part's assets and liabilities and the purchase price of R$5,371 million for the acquisition of control of BrT Part and R$2,060 million for the acquisition of preferred shares of BrT Part. The purchase price for the acquisition of preferred shares of BrT Part (R$1,211 million) is being treated as a reduction in minority interest in the pro forma adjustments as Telemar's direct investment in BrT represents a reduction in the minority shareholder base for BrT Part. Additionally, this pro forma adjustment reflects the partial step-up (43.34%) of the net effects of the adjustments described in note (K) below in the amount of R$563 million, which constitute part of the goodwill generated by the acquisition. Following the consummation of the BrT Transaction, Telemar began performing a detailed assessment of the assets and liabilities of BrT Part which is still in progress as of the date of this offering memorandum. The actual fair value adjustments based on this detailed assessment could differ substantially from the estimates made in connection with this pro forma adjustment.

(F) This pro forma adjustment reflects the deferred income tax effect of the pro forma adjustments recognized using the statutory rate (34%) in effect for the periods presented.

(G) This pro forma adjustment reflects the impact of the consolidation adjustments on minority interest. No minority interest has been recognized over the fair value adjustments of BrT Part's assets and liabilities, as these adjustments were limited to the pro forma percentage of total capital stock held by Telemar. For balance sheet purposes, the investment held in preferred shares of BrT Part (R$1,211 million) is being treated as a reduction in minority interest in the pro forma adjustments, as Telemar's direct investment in BrT represents a reduction in the minority shareholder base of BrT Part.

(H) This pro forma adjustment reflects the estimated increase in depreciation and amortization expense related to the pro forma increase in property, plant and equipment and intangible assets associated with regulatory licenses. Pro forma depreciation amounted to R$380 million for the year ended December 31, 2008, based on the average depreciation rate of 14.3% per year for BrT Part's network assets. Pro forma amortization amounted to R$38 million for the year ended December 31, 2008, based on an amortization rate of 7.6% per year for BrT Part's regulatory licenses. Following the consummation of the BrT Transaction, Telemar began performing a detailed assessment of the assets and liabilities of BrT Part which is still in progress as of the date of this offering memorandum. The actual fair value adjustments based on this detailed assessment could differ substantially from the estimates made in connection with this pro forma adjustment.

(I) This pro forma adjustment reflects the estimated decrease in financial income of R$665 million for the year ended December 31, 2008, as a result of the payment of the purchase price of R$5,371 million. Interest yield has been computed at an assumed rate of 12.38% for the year ended December 31, 2008, equivalent to the Brazilian interbank rate for the period applicable to Telemar's own funds.

(J) This pro forma adjustment relates to the elimination of equity income for consolidation purposes.

(K) Following the consummation of the BrT Transaction on January 8, 2009, Telemar began the process of reviewing the accounting practices and estimates used by BrT Part to reconcile them with those of TNL and Telemar. Additionally, a specialized appraisal firm was hired to prepare an appraisal for purposes of the allocation of the purchase price. The work in connection with this review and appraisal has not yet been concluded as of the date of this offering memorandum.

BrT is involved in various tax, labor and civil proceedings with respect to which the relevant risk of loss has been classified by its external legal counsel as "possible" or "remote" and for which no provisions have been recorded. As part of the above-mentioned reconciliation and to prepare the appraisal report, Telemar intends to re-evaluate these estimates of risk, and if necessary, revise the probable outcome.

The Unaudited Pro Forma Combined Financial Information reflects:

- R$(2,197) million (R$(1,450) million, net of tax effects) for the above-mentioned litigation risks, which are substantially related to legal proceedings involving the rights of shareholders under the "*Planos de Expansão*," labor claims and tax claims;
- R$303 million (R$200 million, net of tax effects) for pension plans based on Telemar's adoption of the "*corredor*" method for the evaluation of Brasil Telecom's pension plan assets and liabilities; and
- R$(76) million (R$(50) million, net of tax effects) relating to allowances for doubtful accounts based on the adoption of the standard used by Telmar for the various methodologies for recording such provisions.

Applying the partial step-up of 43.34% to the total effect of the legal contingencies, reversal of provisions for pension plans and provisions for allowances for doubtful accounts, net of tax effects of R$1,300 million, would result in an increase of R$563 million in the goodwill generated by the BrT Transaction.

4. Additional information

- Interconnection revenues and costs related to transactions between Telemar and BrT Part were not eliminated as such amounts are immaterial.
- Solpart is the holding company through which Invitel owns shares of BrT Part.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Telemar

The following discussion of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements, which are included in this offering memorandum, as well as with the information presented under the sections entitled "Presentation of Financial and Other Information," "Selected Financial and Other Information" and "Unaudited Pro Forma Combined Financial Information."

The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those set forth in "Forward-Looking Statements" and "Risk Factors."

The following discussion and analysis of our financial condition and results of operations presents the following:

- a brief overview of our company and the principal factors that influence our results of operations, financial condition and liquidity;
- a review of our financial presentation and accounting policies, including our critical accounting policies;
- a discussion of the principal factors that influence our results of operations;
- a discussion of developments since the end of 2008 that may materially affect our results of operations, financial condition and liquidity;
- a discussion of our results of operations for the years ended December 31, 2008, 2007 and 2006;
- a discussion of our liquidity and capital resources, including our working capital at December 31, 2008, our cash flows for the years ended December 31, 2008, 2007 and 2006, and our material short-term and long-term indebtedness at December 31, 2008;
- a discussion of our contractual commitments; and
- a qualitative and quantitative discussion of market risks that we face.

Overview

We are the largest telecommunications service provider in Brazil. We are the largest telecommunications provider in Region I in Brazil, based on revenues and customers as of and for the year ended December 31, 2008, according to information available from ANATEL and other publicly available information. As a result of our acquisition of the control of BrT on January 8, 2009, we are also the largest telecommunications service provider in Region II in Brazil, based on revenues and customers as of and for the year ended December 31, 2008, according to information available from ANATEL and other publicly available information. We commenced offering mobile telecommunications services in Region III in October 2008. We offer a range of integrated telecommunications services that includes fixed-line and mobile telecommunications services, data transmission services (including broadband access services), ISP services and other services, for residential customers, small, medium and large companies, and governmental agencies. We operate under the brand name "Oi", which we adopted in February 2007 as the sole brand for all of our services. We expect to use the "Oi" brand name for the marketing of BrT's services as we integrate its operations. In 2008, we recorded net operating revenues of R$18,665 million and net income of R$1,521 million.

Our results of operations and financial condition will be significantly influenced in future periods by (1) our acquisition on January 8, 2009 of Invitel, the controlling shareholder of BrT, and the consolidation in our financial statements of its assets, liabilities and results of operations as from January 8, 2009, and (2) to a lesser extent, our acquisition on April 3, 2008 of TNCP, the controlling shareholder of Amazônia Celular, and the

consolidation in our financial statements its assets, liabilities and results of operations as from April 3, 2008. For additional information regarding these acquisitions, see "Business — Our history and development — Acquisition of BrT" and "Business — Our history and development — Acquisition of Amazônia Celular."

In addition, our results of operations for the years ended December 31, 2008, 2007 and 2006 have been influenced, and our future results of operations will continue to be influenced, by a variety of factors, including:

- the commencement of our 2G mobile services in the State of São Paulo (Region III) in October 2008 and our 3G services in Region I in July 2008, as well as the expected launch of our 3G services offerings in Region III in the second quarter of 2009, which we anticipate will result in a significant increase in our operating revenues, and resulted in an increase in our selling expenses and our depreciation expenses during 2008;
- the rate of growth of Brazilian GDP, which grew by an estimated 5.1% in 2008 and by 5.4% in 2007 and 3.8% in 2006, which we believe stimulates demand for our services and, consequently, our operating revenues;
- the number of our fixed lines in service, which declined to 13.9 million at December 31, 2008 from 14.2 million at December 31, 2007, and the percentage of our fixed-line customers that subscribe to our alternative plans, which increased to 46.2% at December 31, 2008 from 36.6% at December 31, 2007;
- the number of our mobile customers, which increased by 52.6% to 24.4 million at December 31, 2008 from 16.0 million at December 31, 2007 (including the addition of 2.0 million mobile customers in Region III as of December 31, 2008 and 1.4 million customers of Amazônia Celular as of April 3, 2008, the date of our acquisition of Amazônia Celular);
- the number of our fixed-line customers that subscribe to our broadband services, which increased by 29.4% to 2.0 million at December 31, 2008 from 1.5 million at December 31, 2007;
- the increased competition in the Brazilian market for telecommunications services, which affects the amount of the discounts that we offer on our service rates and the quantity of services that we offer at promotional rates, and resulted in an 87.6% increase in the amount that we recorded as discounts and returns against our gross operating revenues to R$1,289 million in 2008 from R$687 million in 2007;
- inflation rates in Brazil, which were 6.56% in 2008, 3.17% in 2007 and 3.20% in 2006, as measured by the IST, and the resulting adjustments to our regulated rates, as well as the effects of inflation on our *real*-denominated debt that is indexed to take into account the effects of inflation or bears interest at rates that are partially adjusted for inflation;
- changes in regulatory requirements that result in our incurrence of additional capital expenditures, changes in the revenues we generate, or changes in the costs that we incur;
- changes in the *real*/U.S. dollar exchange rate, including the depreciation of the Brazilian *real* against the U.S. dollar by 31.9% in 2008 and the appreciation of the Brazilian *real* against the U.S. dollar by 17.1% in 2007 and 8.7% in 2006, which has affected (1) our net financial expenses as a result of our U.S. dollar-denominated liabilities that require us to make principal and interest payments in U.S. dollars, and (2) the cost in *reais* of a substantial portion of the network equipment that we purchase for our capital expenditure projects, the prices of which are denominated in U.S. dollars or are U.S. dollar-linked; and
- the level of our outstanding indebtedness, fluctuations in benchmark interest rates in Brazil, principally the CDI rate, which affects our interest expenses on our *real*-denominated floating rate debt, fluctuations in the LIBOR rate, which affects our interest expenses on our U.S. dollar-denominated floating rate debt.

Our financial condition and liquidity is influenced by a variety of factors, including:

- our ability to generate cash flows from our operations;
- prevailing Brazilian and international interest rates and movements in exchange rates, which affect our debt service requirements;

- our ability to borrow funds from Brazilian and international financial institutions and to sell our debt securities in the Brazilian and international securities markets, which is influenced by a number of factors discussed below;
- our capital expenditure requirements, primarily consisting of (1) investments in infrastructure to expand our mobile telecommunications services, including the commencement of our 2G services in the São Paulo (Region III) market and the implementation and future expansion of our 3G networks, and (2) investments in fixed-line telecommunications network equipment, primarily to enhance the technical capabilities of our network in order to enable us to provide value-added services, such as broadband and IP TV services, and to comply with our universal service obligations; and
- the requirement under Brazilian Corporate law and our bylaws that we pay dividends on an annual basis in an amount equal to at least 25% of our adjusted net income, unless our board of directors deems it inconsistent with our financial position.

Financial presentation and accounting policies

Presentation of financial statements

We have prepared our consolidated financial statements at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008 in accordance with accounting practices adopted in Brazil, which include the changes introduced by Law No. 11,638/07 and *Deliberação* 565/08 and which differ in certain important respects from U.S. GAAP. See "Annex A: Summary of Significant Differences between Accounting Practices Adopted in Brazil and U.S. GAAP — Telemar."

On December 28, 2007, the Brazilian government enacted Law No. 11,638/07, which became effective on January 1, 2008, amended Law No. 6,404/76, as amended, and changed the accounting practices adopted in Brazil. In December 2008, the CVM issued *Deliberação* 565/08 implementing these changes in accounting practices. In December 2008, the Brazilian government issued Provisional Measure No. 449, which instituted the "*Regime Tributário de Transição — RTT*" (transitory tax-payer regime) for the determination of taxable net income of companies subject to the real profit tax regime as a result of the implementation of these changes in accounting policies and Law No. 6,404/76, as amended.

The principal changes introduced by Law No. 11,638/07, *Deliberação* 565/08 and Provisional Measure No. 449 as they relate to our financial statements are, among others:

- We are no longer required to include a statement of changes in financial position in our financial statements, but are instead required to include a statement of cash flows in our financial statements.
- We are required to record under the caption "property, plant and equipment" in our balance sheet tangible assets that we lease under capital leases if those assets are maintained or used in the operation of our business and to record the related payment obligations as financial liabilities on our balance sheet.
- We are required to periodically review and analyze the recoverability of amounts under the captions "property, plant and equipment," "intangible assets" and "deferred charges" in our balance sheet to ensure that (1) impairment losses are recorded as a result of decisions to discontinue activities related to such assets or when there is evidence that future operating results will not be sufficient to ensure their realization and (2) the criteria used to determine the estimated remaining useful life of such assets for purposes of recording depreciation, amortization and depletion expense are reviewed and adjusted.
- We are required to record investments in financial instruments, including derivatives, at (1) fair value or the equivalent value for securities held for trading or securities available-for-sale, or (2) the lower of historical cost, adjusted for contractual interest and other contractual provisions, and realizable value for other investments.

- We are no longer permitted to record government investment grants (including tax incentives) directly as capital reserves in shareholders' equity. Such items are now required to be recorded as part of earnings in our statement of operations. Donations and government grants (including tax incentives) may be required to be allocated, after being recorded in earnings, to the tax incentive reserve in equity.
- We are required to record under the caption "deferred charges" in our balance sheet pre-operational expenses and certain restructuring costs that will effectively benefit earnings in future periods that do not represent future cost reductions or increases in future operational efficiencies.
- We no longer record non-operating income or expenses. Items which we previously have recorded as non-operating income and expense will be required to be recorded as operating income and expenses.
- We are required to record certain long-term assets and liabilities at present value and, if material, certain short-term assets and liabilities.
- We are required to recognize the fair value of employee and management stock options as an expense.

For additional information with respect to these changes and their effects on our financial statements, see notes 2(c) and 2(d) to our consolidated financial statements at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008 included elsewhere in this offering memorandum.

The financial data at December 31, 2006 and for the year ended December 31, 2006, presented in this offering memorandum was derived from the consolidated financial statements at December 31, 2007 and 2006 and for each of the two years ended December 31, 2007, which were prepared in accordance with accounting practices adopted in Brazil in force at the time that such financial statements were issued and do not reflect the changes introduced by Law No. 11,638/07 and *Deliberação* 565/08. As a result, the financial data at December 31, 2006 and for the year ended December 31, 2006 may not be comparable to the financial data at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008.

Business segments and presentation of segment financial data

We have implemented an organizational structure that we believe reflects our business activities and corresponds to the principal services that we provide. We report our results in three segments to reflect this organizational structure:

- *Fixed-line services* — This segment includes our local fixed-line services (including public telephones), our long-distance services, our data transmission services and interconnections to our fixed-line network.
- *Mobile services* — This segment includes our mobile services and interconnections to our mobile network.
- *Other* — This segment includes non-operating holding companies, our investment in Companhia AIX de Participações S.A., or AIX, and the operations of our subsidiaries Oi Internet, Serede S.A., or Serede, and Paggo Empreendimentos S.A., or Paggo.

We evaluate and manage business segment performance based on information generated from our statutory accounting records, which are maintained in accordance with accounting practices adopted in Brazil, and, accordingly, the segment data included in this offering memorandum is presented under accounting practices adopted in Brazil. We have included a reconciliation of the operating results of our segments to our consolidated results under "— Results of operations" below.

Critical accounting policies and estimates

Our significant accounting policies are described in note 3 to our audited consolidated financial statements included in this offering memorandum. In preparing the consolidated financial statements, we relied on estimates

and assumptions derived from historical experience and various other factors that we deemed reasonable and relevant. Critical accounting policies are those that are important to the portrayal of our consolidated financial position and results of operations and require management's subjective and complex judgments, estimates and assumptions. The application of these critical accounting policies often requires judgments made by management regarding the effects of matters that are inherently uncertain with respect to our results of operations and the carrying value of our assets and liabilities. Our results of operations and financial position may differ from those set forth in the consolidated financial statements if our actual experience differs from management's assumptions and estimates. In order to provide an understanding of our critical accounting policies, including some of the variables and assumptions underlying the estimates, and the sensitivity of those assumptions and estimates to different parameters and conditions, we set forth below a discussion of our critical accounting policies relating to:

- revenue recognition and accounts receivable;
- provision for doubtful accounts;
- depreciation of property, plant and equipment;
- contingencies;
- derivatives;
- goodwill; and
- deferred income tax.

Revenue recognition and accounts receivable

Our revenue recognition policy is significant because our revenue is a key component of our results of operations. Management's determination of price, collectability and the rights to receive certain revenues for the use of our network are based on judgments regarding the nature of the fee charged for services rendered, the price for certain products delivered and the collectability of those revenues. Should changes in conditions or discussions cause management to determine that these criteria are not met for certain transactions, the amount of accounts receivable could be adversely affected. In addition, we rely upon revenue recognition measurement guidelines in accordance with rules issued by ANATEL.

Revenues from the usage of our network by other telecommunications service providers are recorded based on a formal document of declared traffic and services rendered, the Traffic Exchange Declaration (*Documento de Declaração de Tráfego e Prestação de Serviço*), or DETRAF, issued by an independent, outsourced clearinghouse.

Accounts receivable from telecommunications services are valued by applying the rates on the date the service is rendered. These receivables also include credits for services rendered but not yet billed, up to the balance sheet date. The value of services rendered but not yet billed is determined by the valuation of the metered services at year-end or by estimates that take into account the performance of the previous month. The related taxes are determined similarly and accounted for on an accrual basis.

Late-payment interest is accounted for upon the issue of the first bill following the payment of the overdue bill.

The revenues related to the sale of public telephone cards, handsets and accessories are accounted for upon the transfer of ownership. However, mobile pre-paid cards revenues are deferred and recognized as income, based on customer usage.

Provision for doubtful accounts

This provision is established in order to recognize probable losses on accounts receivable and takes into account limitations we impose on services to customers with past-due accounts and actions we take to collect delinquent accounts, beginning when the account is either 60 days past due for the fixed-line segment or 15 days past due for the mobile services segment, as follows:

Fixed-line Segment Outstanding Bills	Service Restriction/Collection Process	% Provisioned Loss
Over 30 and up to 60 days	Restriction to make calls/collection	Zero
Over 61 and up to 90 days	Restriction to make and receive calls/collection	40
Over 91 and up to 120 days	Shut-off after 15-day warning/collection	60
Over 121 and up to 150 days	Outsourced collection	80
Over 151 and up to 180 days	Outsourced collection	100

Mobile Services Segment Outstanding Bills	Service Restriction/Collection Process	% Provisioned Loss
Over 15 and up to 30 days	Partial service restriction/collection	Zero
Over 31 and up to 60 days	Restriction to make and receive calls/collection	Zero
Over 61 and up to 90 days	Shut-off after 15-day warning/collection	40
Over 91 and up to 120 days	Outsourced collection	60
Over 121 and up to 150 days	Outsourced collection	80
Over 151 and up to 180 days	Outsourced collection	100

After 181 days of default, accounts receivable and the respective provision for doubtful accounts are written off the balance sheet.

As of February 13, 2008, the amendments to the personal mobile services regulations, applicable to the mobile services segment, came into effect, as approved by ANATEL Resolution No. 477, dated August 7, 2007. This resolution resulted in the following changes to the foregoing service restriction/collection processes:

- shut-off can occur after 45 days, which is 30 days after the partial service restriction, rather than 15 days after the shut-off warning; and
- the contract may be cancelled 90 days after the date the invoice is due.

Government entities, corporate customers and other telecommunications service providers are all included in the calculation of the provision for doubtful accounts. We have also entered into agreements with certain customers to collect past-due amounts, including agreements allowing customers to settle their delinquent accounts in installments. The amounts that we actually fail to collect in respect of these accounts may differ from the amount of the provision established, either favorably or unfavorably.

Depreciation of property, plant and equipment

We depreciate property, plant and equipment using the straight-line method at rates we judge compatible with the useful lives of the underlying assets, primarily five to 10 years for network and equipment, 25 years for buildings, underground ducting, posts and towers, five years for hardware and 10 years for furniture, fixtures and other. Depreciation rates are adjusted and may vary between the fixed-line and mobile services segments to take into account changes in estimated useful lives based on technical obsolescence and assessment by outside experts. Impairment tests are conducted whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. We have not recorded any material impairment during the three years ended December 31, 2008. Maintenance and repair costs are capitalized when, according to management's judgment, such maintenance or repair increased installed capacity or useful life of assets. We have not capitalized any material maintenance and repair costs during the three years ended December 31, 2008.

As a result of the adoption of Law No. 11,638/07 and *Deliberação* 565/08, for periods beginning on or after January 1, 2008, we are required to periodically review and analyze the recoverability of amounts under the captions "property, plant and equipment," "intangible assets" and "deferred charges" in our balance sheet to ensure that (1) impairment losses are recorded as a result of decisions to discontinue activities related to such assets or when there is evidence that future operating results will not be sufficient to ensure their realization and (2) the criteria used to determine the estimated remaining useful life of such assets for purposes of recording depreciation, amortization and depletion expense are reviewed and adjusted.

Contingencies

The preparation of our financial statements requires us to make estimates and assumptions regarding contingencies that affect the valuation of assets and liabilities at the date of the financial statements and revenues and expenses during the reported period. These contingencies include the legal proceedings discussed in note 23 to our consolidated financial statements at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008 included in this offering memorandum.

Unless otherwise required by changes in accounting standards and practices, we will continue to record liabilities in connection with these contingencies in the same manner as we currently do, based on our assessment of the risk of loss at each preparation date of our financial statements. We classify our risk of loss in legal proceedings as remote, possible or probable. Provisions recorded in our consolidated financial statements in connection with these proceedings reflect reasonably estimated losses at the relevant date as determined by our management based on legal advice and in accordance with accounting practices adopted in Brazil. As discussed in note 23 to our consolidated financial statements at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008 included in this offering memorandum, we record as a liability our estimate of the costs of resolution of such claims, when we consider our losses probable. It is possible that our assumptions and, therefore, our estimates of loss in respect of any given contingency will change in the future based on changes in the relevant situation. This may therefore result in changes in future provisioning for legal claims. We record liabilities in connection with pending litigation based on estimates of the amounts of probable losses. See "Business — Legal proceedings — Telemar."

In addition, if we are subject to unfavorable decisions in any legal proceedings and the losses in those proceedings significantly exceed the amount for which we have recorded provisions or involve proceedings for which we have not recorded any provision, our results of operations and financial condition may be materially adversely affected. See "Risk Factors — Risks relating to our company and the Brazilian telecommunications industry — We are subject to numerous legal and administrative proceedings, which could adversely affect our business, results of operations and financial condition."

Labor claims

Brazilian employment and labor legislation is extensive and complex, and we are subject to many claims from current and former employees and outsourced personnel. These claims relate primarily to hazardous work condition premiums, equalization of salary scales and overtime, liability relating to third-party service providers and other matters. As of September 30, 2007, our management changed the method by which it estimates probable losses in connection with outstanding labor claims, basing this estimate on the history of payments made in connection with historic labor claims. Previously, we based such estimates on the most recent ruling in connection with ongoing proceedings. As a result of the change in methodology, we recorded a reversal of provisions for labor contingencies of R$264 million under "Other operating expenses" in 2007.

Tax claims

The Brazilian corporate tax system is complex, and we are currently involved in tax proceedings regarding, and have filed claims to avoid payment of, certain taxes that we believe are unconstitutional. These tax

contingencies, which relate primarily to value-added tax, service tax and taxes on revenue, are described in detail in note 23 to our consolidated financial statements at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008 included in this offering memorandum. We record provisions for probable losses in connection with these claims based on the opinion of external legal counsel and based on an analysis of potential results, assuming a combination of litigation and settlement strategies. We currently do not believe that the proceedings that we consider as probable losses, if decided against us, will have a material adverse effect on our financial position. It is possible, however, that our future results of operations could be materially affected by changes in our assumptions and the effectiveness of our strategies with respect to these proceedings.

Civil claims

We are currently involved in numerous claims regarding issues related to assessments by ANATEL, indemnification requested by former resellers of pre-paid calling cards, individuals requesting indemnity in small claims courts and subcontractors, among others. We record provisions for probable losses based on the opinion of our external legal counsel as to their assessment concerning the outcome of the litigation and their estimates of the amounts involved.

Unrecognized exposures

We have not recorded a provision for every labor, tax or civil exposure, but only for those of which an unfavorable outcome, based on external legal advice, were considered probable as of the relevant balance sheet date. We have estimated the total value of unrecorded exposures to claims considered as possible and remote losses to be R$8,654 million and R$2,281 million, respectively, as of December 31, 2008. We believe that our estimates are based on reasonable assumptions and assessments of external legal counsel. Contingent assets would only be recorded upon a final judicial decision.

Derivatives

As of December 31, 2008, we had loans and financing (including debentures and swap adjustments) subject to floating interest rates, which totaled 98% of our total indebtedness, based on (1) the long-term interest rate, or TJLP, the CDI rate and IPCA in the case of *real*-denominated indebtedness, (2) the London Interbank Offered Rate, or LIBOR, in the case of U.S. dollar- and Yen-denominated indebtedness, and (3) a foreign currency basket in the case of the foreign currency portion of our credit facilities with BNDES.

As of December 31, 2008, 14% of our total indebtedness bore interest based on U.S. dollar or Japanese Yen LIBOR. Giving effect to our hedging transactions (including interest rate swaps and currency swaps) in respect of this indebtedness, 8% of our total indebtedness as of December 31, 2008 was exposed to variations in those rates.

Gains or losses from cross-currency interest rate swap operations are determined and recorded on a monthly basis by comparing contractual exchange rates to month-end exchange rates, when applicable, regardless of the terms of settlement in the applicable derivatives contract.

Our foreign currency loans and financings, including gains or losses on swap agreements, totaled R$3,502 million and R$2,658 million at December 31, 2008 and 2007, respectively.

In the past, we have used derivative contracts (swaps, options and forwards) to swap our foreign currency risks. Currently, most of our derivative contracts are cross-currency interest rate swaps under which an obligation denominated in foreign currency is exchanged for a *real*-denominated obligation bearing interest at the CDI rate. Gains or losses on swap transactions have the effect of reducing or increasing foreign currency indebtedness and will be deemed as effective for Brazilian Corporation Law Method purposes if we maintain these agreements until their maturity.

While the exchange rate variations affect our indebtedness and our financial results, gains and losses on these derivative contracts are recognized in our statement of income under "interest expense." However, gains and losses due to changes in fair value of our derivative contracts are not recognized.

As a result of the adoption of Law No. 11,638/07 and *Deliberação* 565/08, for periods beginning on or after January 1, 2008, we are required to record investments in financial instruments, including derivatives, at (1) fair value or the equivalent value for securities held for trading or securities available-for-sale, or (2) the lower of historical cost, adjusted for contractual interest and other contractual provisions, and realizable value for other investments.

Goodwill

Under accounting practices adopted in Brazil, accounting standards do not specifically address business combinations and the purchase method is applied based on book values. The goodwill or negative goodwill on the acquisition of a company is recorded by calculating the difference between the acquisition cost and its underlying book value.

Prior to December 31, 2007, if the goodwill or negative goodwill was based on future profitability expectations, the goodwill amortization was recognized in the consolidated statements of operations over a period consistent with the period over which the gains or losses are expected to be incurred. If the goodwill or negative goodwill was based on the fair value of property, plant and equipment, the amortization was recognized in the consolidated statements of operations over a period consistent with the assets' remaining economic lives.

As a result of the adoption of Law No. 11,638/07 and *Deliberação* 565/08, for periods beginning on or after January 1, 2008, we do not amortize goodwill in our consolidated statements of income and we are required to test goodwill for impairment on an annual basis.

Deferred income tax

Income taxes in Brazil are calculated and paid on a legal entity basis, and there are no consolidated tax returns. Accordingly, we only recognize deferred tax assets, related to tax loss carryforwards and temporary differences, if it is likely that they will be realized on a legal entity basis.

Under accounting practices adopted in Brazil, the amount recorded is the net amount, which must be supported by a business plan and approved by our board of directors and fiscal council. As required by CVM Instruction No. 273/98 and CVM Instruction No. 371/02, we disclose in our consolidated Brazilian Corporation Law Method financial statements the amounts expected to be recovered for the next ten years.

In Brazil, the tax law is sometimes significantly altered by provisional measures (*Medidas Provisórias*) announced by presidential decree. The provisional measures can affect tax rates as well as other areas that could impact deferred taxes. These measures remain in force for 30 days and expire automatically if they are not extended for an additional period. When calculating the effect of tax changes or other changes on deferred income taxes in Brazil, the provisional measures are substantively considered as enacted law. For the calculation of deferred taxes, accounting practices adopted in Brazil require the use of the tax rate that is expected to be in effect when the temporary differences or tax loss carryforwards will be realized.

Principal factors affecting our financial condition and results of operations

Effects of the BrT Transaction

On January 8, 2009, pursuant to the Share Purchase Agreement entered into on April 25, 2008, we acquired all of the outstanding shares of Invitel and 12,185,836 common shares of BrT Part owned by the shareholders of

Invitel. The aggregate purchase price for these shares was R$5,371.1 million. We financed the acquisition of these shares through the issuance of promissory notes in the aggregate principal amount of R$5,600 million in August 2008 and December 2008.

As of December 31, 2008, Invitel owned all 100.00% the outstanding shares of Solpart. As of that date, Solpart owned 19.01% of the outstanding share capital, including 51.99% of the voting share capital, of BrT Part, which, in turn, owned 67.26% of the outstanding share capital, including 99.09% of the voting share capital, of BrT. See "Business — Our history and development — Acquisition of BrT."

As a result of this acquisition, in accordance with accounting practices adopted in Brazil, we have consolidated the assets, liabilities and results of operations of Invitel and its consolidated subsidiaries, including BrT Part, in our financial statements as from January 8, 2009, the date of the acquisition.

In connection with this acquisition, we intend to commence tender offers for the purchase of shares from the minority shareholders of BrT Part and BrT, as required by Brazilian law, which will have an impact on our liquidity needs. We expect that the cost to purchase the common shares that are subject to these tender offers will be approximately R$3,300 million. We also expect to incur costs and capital expenditures in connection with the integration of the operations of Telemar and BrT.

Our operating income and net income will be significantly affected as from January 8, 2009 by the consolidation in our financial statements of the consolidated results of operations of Invitel. In 2008, Invitel recorded net revenues of R$11,297 million, operating profit before net financial results and equity adjustment of R$1,807 million and net loss of R$69 million. Our operating income and net income could also be affected by any future impairment of the goodwill that we record as a result of the acquisition of Invitel. In our tax accounts, this goodwill will be amortized over a period of ten years, reducing our taxable net income during this period and, consequently, reducing our payments of income taxes and social contribution to the extent that we otherwise generate taxable income during this period.

Our total liabilities and net financial expenses will be affected as from January 8, 2009 by the consolidation in our financial statements of the indebtedness of Invitel. As of December 31, 2008, Invitel had total financial indebtedness of R$5,842 million (consisting of current and non-current loans and financing and derivatives). In addition, we will be required to make capital expenditures to comply with BrT's obligations under ANATEL regulations, BrT's concession contracts and the conditions that ANATEL imposed on our acquisition of control of BrT, and may make additional discretionary capital expenditures to expand and enhance BrT's mobile and fixed-line networks. If we are unable to fund these capital expenditures through our operating cash flows, we may incur additional indebtedness or vendor financing obligations, which would increase our outstanding indebtedness and net financial expenses.

To facilitate the purchase of the shares of Invitel and BrT Part under the Share Purchase Agreement, we entered into an agreement with the controlling shareholders of Invitel under which we agreed to contribute to the settlement of certain outstanding litigation between these parties. Our contribution of R$315 million was recorded as other operating expenses during 2008, contributing to the increase in our other operating expenses, net for 2008.

During 2008, we acquired (1) 76,645,842 preferred shares of BrT Part, representing 33.3% of the outstanding preferred shares of BrT Part and 21.1% of the share capital of BrT Part, in open market purchases and through a voluntary tender offer for these shares for an aggregate purchase price of R$2,059.8 million, and (2) 58,955,565 preferred shares of BrT, representing 19.8% of the outstanding preferred shares of BrT and 10.7% of the share capital of BrT, in open market purchases and through a voluntary tender offer for these shares for an aggregate purchase price of R$1,210.8 million. To finance a portion of the purchase price of these shares, we borrowed R$4,300 million under a line of credit with a Brazilian financial institution in May 2008, which has contributed to the increase in our total indebtedness as of December 31, 2008 and our net financial expenses during 2008.

Effects of the acquisition of Amazônia Celular

On April 3, 2008, pursuant to a Share Purchase Agreement entered into on December 20, 2007, we purchased 1,292,679 common shares and 3,716 preferred shares of Tele Norte Celular Participações S.A., or TNCP, representing 51.86% of the common shares, 0.09% of the preferred shares and 19.34% of the total shares issued by TNCP, for an aggregate purchase price of R$128.6 million. TNCP is the controlling shareholder of Amazônia Celular S.A., or Amazônia Celular, which is a mobile services provider in Area 8 of Region I, consisting of the Brazilian states of Amazonas, Roraima, Amapá, Pará and Maranhão. In addition, we purchased certain rights for the subscription of new shares to be issued by TNCP, as set forth in CVM Ruling No. 319/1999, for an aggregate purchase price of R$22.6 million.

In 2007, TNCP recorded net revenues of R$511 million, operating income of R$29 million and net income of R$6 million. As of March 31, 2008, Amazônia Celular had 1.4 million mobile customers, 14.83% of which subscribed to Amazônia Celular's post-paid plans and 85.17% of which subscribed to its pre-paid plans.

As a result of this acquisition, in accordance with accounting practices adopted in Brazil, we have consolidated the assets, liabilities and results of operations of TNCP and its consolidated subsidiary Amazônia Celular in our financial statements as from April 3, 2008.

In connection with this acquisition, we conducted tender offers for any and all of the common and preferred shares of TNCP and Amazônia Celular that we did not own. Following the acquisitions made through these tender offers, we owned an aggregate of 98.7% of the outstanding share capital of TNCP, including 99.0% of the outstanding common shares of TNCP. Through this ownership interest in TNCP, together with other shares of Amazônia Celular that we owned directly, we owned an aggregate of 92.8% of the outstanding share capital of Amazônia Celular, including 93.3% of the outstanding common shares of Amazônia Celular. The total cost to our company of the shares that we acquired in these tender offers was R$279.2 million.

On March 9, 2009:

- TNCP and Amazônia Celular completed a share exchange, as a result of which Amazônia Celular became a wholly owned subsidiary of TNCP, each holder of common shares of Amazônia Celular, other than TNCP, received 1.529505 common shares of TNCP in exchange for each common share of Amazônia Celular, and each holder of preferred shares of Amazônia Celular, other than TNCP, received 1.151515 preferred shares of TNCP in exchange for each preferred share of Amazônia Celular;
- we contributed all of the shares of Oi that we held to the capital of TNCP as a result of which TNCP held 99.9% of the share capital of Oi; and
- Amazônia Celular merged with and into Oi and was dissolved.

Effects of expansion to Region III and launch of 3G services

In December 2007, we acquired the authorizations and radio frequency licenses necessary for us to commence the offering of 2G services in the State of São Paulo and 3G services throughout Regions I and III. During 2008, we commenced capital expenditure projects to acquire and install the network equipment necessary to offer these services. In addition, we engaged in an extensive marketing and promotion campaign in connection with the launch of these services in October 2008.

During the fourth quarter of 2008, 2.0 million new customers activated accounts for our 2G mobile services in the State of São Paulo and we activated 31,303 accounts for 3G services in Region I. We expect that these services will generate significant additions to our mobile customer base and lead to long-term increases in our revenues and operating income.

The cost of these authorizations and radio frequency licenses was R$994 million, which we will pay to ANATEL in installments through 2016. During 2008, we invested R$669 million in the network equipment

necessary to offer these services, which contributed to an increase in our depreciation expenses for 2008 and will continue to do so during the next several years. We financed the purchase and installation of this network equipment through borrowings of US$300 million under an export credit facility with a European financial institution and R$250 million under a credit facility with a European financial institution, which has contributed to the increase in our total indebtedness and our net financial expenses during 2008.

The marketing and promotion campaign related to the launch of our mobile services in the State of São Paulo contributed to an increase in our selling expenses related to marketing expenses and sales commissions paid to third-party service providers, and also contributed to an increase in the amount of discounts that we recorded against gross operating revenue during the period.

Under our 3G radio frequency licenses, we are required to meet certain service expansion obligations that will require capital expenditures through 2016. If we are unable to fund these capital expenditures through our operating cash flows, we may incur additional indebtedness or vendor financing obligations, which would increase our outstanding indebtedness and net financial expenses.

Rate of growth of Brazil's gross domestic product and demand for telecommunications services

As a Brazilian company with substantially all of our operations in Brazil, we are affected by economic conditions in Brazil. GDP in Brazil grew at an estimated compound average annual rate of 3.3% from 1999 through 2008. While we believe that growth in Brazil's GDP stimulates demand for telecommunications services, we believe that demand for telecommunications services is relatively inelastic in periods of economic stagnation and that the effect on our revenues of low growth or a recession in Brazil as a result of the current international economic downturn would not be material under foreseeable scenarios. However, a substantial and prolonged deterioration of economic conditions in Brazil could have a material adverse effect on the number of subscribers to our services and the volume of usage of our services by our subscribers and, as a result, our operating revenues.

Based on data available from ANATEL, (1) the number of fixed lines in service in Brazil increased from 20.0 million in July 1998 to 41.3 million as of December 31, 2008, and the number of mobile subscribers in Brazil increased from 7.4 million as of December 31, 1998 to 150.6 million as of December 31, 2008. Although the demand for telecommunications services has increased substantially during the past ten years, the tastes and preferences of Brazilian consumers of these services have shifted. During the three years ended December 31, 2008, the number of mobile subscribers in Brazil has grown at an average rate of 20.4% per year while the number of fixed lines in service in Brazil has decreased by an average rate of 1.2% per year. As the incumbent provider of fixed-line services and the leading provider of mobile services in Region I, we are both a principal target and a principal beneficiary of this trend. During the three years ended December 31, 2008, the number of our mobile subscribers has grown at an average rate of 31.2% per year from 10.3 million at December 31, 2005 to 24.4 million at December 31, 2008, while the number of our fixed lines in service has declined by an average rate of 2.1% per year from 14.9 million at December 31, 2005 to 13.9 million at December 31, 2008.

Demand for our telecommunications services

Demand for our local fixed-line services

Brazil's fixed-line penetration level is now similar to that of other countries with similar per capita income, and, as has happened in such other countries, the fixed-line telecommunications customer base has remained stable. Demand for our local fixed-line services has reached a plateau in recent years. Although we activated 6.9 million new fixed lines during the past three years, these fixed lines generally represent customers that have changed addresses or low-income customers from whom we generate revenues at a rate below our average revenue per customer. In addition, as a result of the termination of fixed-line services by 7.8 million of our customers during this period, the number of our fixed lines in service declined by 0.9 million.

We have sought to combat the general trend in the Brazilian telecommunications industry of substitution of mobile services for local fixed-line services by (1) offering value-added services to our fixed-line customers, primarily subscriptions for broadband services, and (2) promoting convergence of our telecommunications services through offerings of bundled packages of local fixed-line, long-distance, mobile and broadband services. As a result of these service offerings, we expect that the number of our fixed lines in service will remain stable or decrease slightly in the near future. As of December 31, 2008, 14.1% of our fixed lines in service also subscribed for ADSL service and 46.2% of our local fixed-line customers subscribed to one of our bundled services packages.

We are required under ANATEL regulations and our concession contracts to offer a basic service plan to our fixed-line residential customers that permits 200 minutes of usage of our fixed-line network to make local calls. A basic plan customer pays a monthly fee for this service, and when the customer makes local calls in excess of this limit, we charge the customer for the excess minutes on a per-minute basis. We offer alternative local fixed-line plans that include significantly larger numbers of minutes and charge higher monthly fees for these plans, although these monthly fees represent a discount from the amount that the customer would be charged under our basic plan if the customer used the number of minutes included in the alternative plan. As the number of our customers selecting these alternative plans has grown in response to our marketing and promotional efforts, we have recorded increased revenues for monthly subscription fees, offset by corresponding declines in revenues for the use of excess minutes. Subscribers to our alternative fixed-line plans represented 46.2% of our fixed lines in service at December 31, 2008 as compared to 2.0% at the end of the second quarter of 2006, when we launched our alternative plans. We believe that our alternative local fixed-line plans contribute to a net increase in our local fixed-line revenue as many subscribers of our alternative fixed-line plans do not use their full monthly allocations of local minutes.

The substantial increase in the number of mobile service users in Brazil has also negatively impacted the use of our public telephones. As the incumbent local fixed-line service provider in Region I, we are required under ANATEL regulations and our concession contracts to meet specified targets with respect to the availability of public telephones throughout our concession area. However, as a larger portion of the population of Region I uses mobile handsets to make calls when not in proximity to a fixed-line telephone, use of our public telephones has declined from 10.4 billion credits consumed in 2005 to 5.7 billion credits consumed in 2008.

Demand for our mobile services

We believe that the primary reason that our customer base for mobile services in Region I has grown from 10.3 million at December 31, 2005 to 24.4 million at December 31, 2008 has been the success of our marketing and promotion campaigns. In addition, our commencement of mobile services in the State of São Paulo in October 2008 led to the addition of 2.0 million mobile customers through December 31, 2008 and our acquisition of Amazônia Celular resulted in the addition of 1.4 million customers as of April 3, 2008.

The market for mobile services is extremely competitive in each of the regions that we serve. During 2008, our average monthly churn rate in the mobile services segment (excluding churn rates of Amazônia Celular, of which we acquired control in April 2008 and for which we do not calculate churn rates), representing the number of subscribers whose service is disconnected during each month, whether voluntarily or involuntarily, divided by the number of subscribers at the beginning of such month, was 2.4% per month. As a result, (1) we incur selling expenses in connection with marketing and sales efforts designed to retain existing mobile customers and attract new mobile customers, and (2) from time to time the discounts that we offer in connection with our promotional activities lead to charges against our gross operating revenues from mobile services. In addition, competitive pressures have in the past required us to introduce service plans under which the monthly and per-minute rates that we charge our mobile customers are lowered, reducing our average revenue per customer.

We expect our overall mobile services business to continue to grow in terms of its customer base, traffic volumes and revenues from value-added services. However, due to market saturation, we expect future growth in

our mobile services business in Region I to occur at lower rates than we have historically achieved. We cannot predict the effects of the eventual curtailment of the promotional activities that we have undertaken in connection with the launch of our mobile services in the State of São Paulo on the retention of our new customer base in Region III.

Demand for our data transmission services

Our broadband services customer base in Region I has grown from approximately 805,000 at December 31, 2005 to 2.0 million at December 31, 2008. We believe that this growth has resulted from (1) our marketing and promotional campaigns, (2) the growth in the number of households in Region I that own personal computers, and (3) a shift in consumer preferences that has led an increasing number of our fixed-line customers to value the data transmission speeds available through our broadband services. We expect the number of our fixed-line customers that subscribe to our broadband services to continue to increase in the near term. However, if the current international economic downturn leads to low growth or a recession in Brazil, the rate of growth of computer ownership in Brazil may decline and, consequently, the rate of growth of our broadband services customer base may be adversely affected.

Effects of competition on the rates that we realize and the discounts we record

The Brazilian telecommunications industry is highly competitive. The competitive environment is significantly affected by key trends, including the following:

- *Technological and service convergence*: The convergence of technology and services enables telecommunications service providers that were previously limited to providing a single service to provide services in other industry segments, such as in the case of broadband services provided by cable TV service providers and by mobile service providers (using 3G technology) and in the case of traditional fixed-voice services transmitted by mobile telecommunications service providers.
- *Consolidation*: Consolidation has taken place in the telecommunications industry throughout Latin America, including Brazil. This consolidation has led to the formation of large conglomerates that benefit both from economies of scale and the ability to undertake coordinated action across different industry segments, which provides them with competitive advantages in an environment that is also characterized by the convergence of media and telecommunications services.
- *Bundled service offerings*: Telecommunications service providers have begun to offer bundled service packages that they are unable to offer independently. For example, in 2005 Embratel, our principal competitor in fixed-line services, and Net, our principal competitor in broadband services, each of which is controlled by Telmex, entered into an agreement pursuant to which they began to offer jointly to the Brazilian residential market a bundled voice, broadband and subscription television service package.

In response to these competitive pressures, (1) we may offer our services at rates below the rate caps established by ANATEL, and (2) from time to time we offer our services with promotional discounts or offer additional complimentary services with the purchase of some of our services. We record the services sold at the rates established under our service plans or at rates approved by ANATEL and record the amount of these services represented by the promotional discounts or delivered on a complimentary basis as discounts and returns in our income statement.

Effects of adjustments to our regulated rates and inflation

Telecommunications services rates are subject to comprehensive regulation by ANATEL. Our rates for local fixed-line services, domestic long-distance services, mobile services, interconnection to our fixed-line network, and EILD and SLD services are subject to regulation by ANATEL. We are required to obtain ANATEL approval prior to offering new alternative fixed-line or mobile plans. The rates established or approved by ANATEL for our services act as caps on the prices that we charge for these services, and we are permitted to offer these

services at a discount from the rates approved by ANATEL. After ANATEL establishes or approves rate caps for these services, these rate caps are subject to annual adjustment based on the rate of inflation, as measured by the IST. Rate caps for local fixed-line plans are adjusted by inflation, as measured by the IST, less an amount that serves as a proxy for productivity gains achieved by our company and the local fixed-line services industry as a whole.

Because substantially all of our cost of services and operating expenses are incurred in *reais* in Brazil, these rate increases act as a natural hedge against inflation and, as a result, our operating margins are not materially affected by inflation. However, because these rate adjustments are only made on an annual basis, in periods of severe inflation, we may not be able to pass our increased costs through to our customers as incurred.

A significant portion of our *real*-denominated debt bears interest at the TJLP or the CDI rate, which are partially adjusted for inflation, and, as a result, inflation results in increases in our financial expenses and debt service obligations.

Effects of changes in regulatory requirements

Compliance with new regulations applicable to the telecommunications industry that are adopted by ANATEL from time to time and compliance with the obligations included in our concession contracts that were entered into in 2006 have required us to make capital expenditures, affected the revenues that we generate and imposed additional costs of service on our company. For example:

- In January 2006 and January 2007, ANATEL reduced the interconnection rates available to fixed-line service providers for interconnection to their networks and capped these rates at a percentage of the rate applicable to a fixed-to-fixed local call. This reduction in the interconnection rates reduced the interconnection revenue generated by our fixed-line services segment, while reducing the interconnection costs recorded by our mobile services segment.
- In July 2006, changes to ANATEL's regulations governing interconnection with the networks of mobile service providers became effective. Under the regulations previously in force, mobile service providers charged for interconnection to their networks under the "bill and keep" system; under the new regulations, mobile service providers charge for interconnection to their networks under the "full billing" system. These changes resulted in significant increases in interconnection revenues of our mobile services segment, as well as significant increases in the interconnection costs of our fixed-line and mobile segments. For additional information on the "full billing" and the "bill and keep" systems, see "Business — Regulation of the Brazilian telecommunications industry — Interconnection regulations — Transition from "bill and keep" system to "full billing" system."
- Our concession agreements that became effective at the beginning of 2006 required us to convert our system of billing local fixed-line usage from a system based on the usage of pulses to a system based on the usage of minutes by July 2007. Implementation of the systems necessary to comply with these amendments required us to make capital expenditures in the aggregate amount of R$274 million. For comparison purposes, we have converted the pulses billed in 2006 and the first seven months of 2007 to minutes in the discussion of our results of operations.
- In March 2007, ANATEL adopted number portability regulations requiring us to permit our mobile and fixed-line customers to maintain their telephone numbers if they change service providers. Implementation of the systems necessary to comply with this regulation required us to make capital expenditures in the aggregate amount of R$535 million. Implementation of these systems was completed in March 2009. We are not currently able to assess the effects of the implementation of number portability by all service providers in Brazil, but believe that in general, number portability will have an adverse effect on the revenue of our fixed-line services segment that will be offset by a positive effect on the revenue of our mobile services segment.

Effects of fluctuations in exchange rates between the real and the U.S. dollar

Substantially all of our cost of services and operating expenses are incurred in *reais* in Brazil. As a result, the appreciation or depreciation of the *real* against the U.S. dollar does not have a material effect on our operating margins. However, the costs of a substantial portion of the network equipment that we purchase for our capital expenditure projects are denominated in U.S. dollars or are U.S. dollar-linked. This network equipment is recorded on our balance sheet at its cost in *reais* based on the applicable exchange rate on the date of purchase. As a result, appreciation of the *real* against the U.S. dollar results in this network equipment being less costly in *reais* and leads to lower depreciation expenses. Conversely, depreciation of the *real* against the U.S. dollar results in this network equipment being more costly in *reais* and leads to greater depreciation expenses.

Our consolidated U.S. dollar-denominated indebtedness represented 15.1% of our outstanding indebtedness at December 31, 2008. As a result, when the *real* depreciates against the U.S. dollar:

- the interest costs on our U.S. dollar-denominated indebtedness increase in *reais*, which negatively affects our results of operations in *reais*;
- the amount of our U.S. dollar-denominated indebtedness increases in *reais*, and our total liabilities and debt service obligations in *reais* increase; and
- our net financial expenses tend to increase as a result of foreign exchange gains that we must record.

An appreciation of the *real* against the U.S. dollar has the converse effects.

In order to mitigate the effects of foreign exchange variations, we have established a hedging policy under which our exposure to foreign exchange variations is subject to limits set by our board of directors. In compliance with this policy, we typically enter into derivative transactions to swap the foreign exchange rate variation for variations in rates on interbank certificates of deposit (*Certificado de Depósito Interbancário*), or CDI. At December 31, 2008, we had entered into hedging transactions in respect of 57.0% of our indebtedness denominated in foreign currencies. The purpose of these hedging transactions is to seek to "match" the currency of our debt with that of our revenues to mitigate foreign exchange risk.

Effect of level of indebtedness and interest rates

At December 31, 2008, our total outstanding indebtedness on a consolidated basis was R$21,173 million. As a result of our acquisition of Invitel on January 8, 2009, we have consolidated Invitel's consolidated indebtedness in our financial statements as of that date. As of December 31, 2008, Invitel's consolidated indebtedness was R$5,842 million.

The level of our indebtedness results in significant financial expenses that are reflected in our statement of operations. Financial expenses consist of interest expense, exchange variations of U.S. dollar- and other foreign currency-denominated debt, foreign exchange losses or gains, and other items as set forth in note 7 to our consolidated financial statements at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008. In 2008, we recorded total interest expenses of R$2,622 million, of which R$1,287 million consisted of interest expense, and R$936 million consisted of monetary and foreign exchange variation on financing. The interest rates that we pay depend on a variety of factors, including prevailing Brazilian and international interest rates and risk assessments of our company, our industry and the Brazilian economy made by potential lenders to our company, potential purchasers of our debt securities and the rating agencies that assess our company and its debt securities.

Standard & Poor's, Moody's and Fitch maintain ratings of our company and our debt securities. Any ratings downgrades in the future would likely result in increased interest and other financial expenses relating to borrowings and debt securities and could adversely affect our ability to obtain such financing on satisfactory terms or in amounts required by us.

Seasonality

Our telecommunications services are generally not affected by major seasonal variations of the market, except for the first quarter of the year, when economic activity is generally reduced in Brazil.

Recent developments

Acquisition of control of BrT

On January 8, 2009, we acquired all of the outstanding shares of Invitel and 12,185,836 common shares of BrT Part for an aggregate purchase price of R$5,371.1 million. As a result of this acquisition, we own indirectly an aggregate of 40.1% of the outstanding share capital of BrT Part, including 61.2% of the outstanding common shares of BrT Part. Through this ownership interest in BrT Part, together with other shares of BrT we own indirectly, we own an aggregate of 37.7% of the outstanding share capital of Brasil Telecom, including 51.5% of the outstanding common shares of Brasil Telecom. As a result of this acquisition, we have consolidated the indebtedness of Invitel in our financial statements as from January 8, 2009. At December 31, 2008, Invitel had consolidated indebtedness of R$5,842 million (consisting of current and non-current loans and financing and derivatives).

Proposed tender offers for common shares of BrT Part and BrT

As a result of the BrT transaction, under CVM Instruction No. 361, of March 5, 2002, as amended, we are required to offer to purchase any and all common shares of BrT Part and BrT held by public shareholders. On February 9, 2009, we applied to register these tender offers with the CVM. Once such tender offers are approved by the CVM, we will be required to purchase any and all common shares of BrT Part and BrT at a price equivalent to at least 80% of the price that we paid for such shares under the Share Purchase Agreement, as adjusted by the Reference Rate (*Taxa Referencial*), a monthly weighted average of the rates of certificates of deposit at 30 selected Brazilian financial institutions, plus 6% from January 8, 2009 until the date of payment. We expect that the cost to purchase these shares will be an aggregate of approximately R$3,300 million if all the shares subject to these tender offers are tendered.

China Development Bank loan

On February 18, 2009, we entered into a credit facility agreement with China Development Bank Corporation under which China Development Bank Corporation agreed to disburse loans in the aggregate principal amount of up to US$300 million. A disbursement of US$68 million under this credit facility was received on March 19, 2009. The proceeds of this credit facility have been and will be used to fund equipment purchases related to our capital expenditures on our mobile telecommunications infrastructure. Loans under this credit facility bear interest at a rate of LIBOR plus 2.5% per annum. Interest on each of these loans is payable semi-annually in arrears through maturity in February 2016. The outstanding principal amount of these loans is payable in 11 equal semi-annual installments commencing in April 2011.

Proposed offering of debentures

Substantially contemporaneous with the offering pursuant to this offering memorandum, we are offering non-convertible debentures in two series in an offering being made in Brazil. The aggregate principal amount of the two series is up to R$3,000 million. The first series of debentures will mature on May 30, 2011, and the second series of debentures will mature on April 6, 2012. The first series of debentures bears interest at a rate of 115% of the average daily interbank deposit rate expressed as an annual rate, or the DI rate, and the second series of debentures bears interest at a rate of 120% of the DI rate per annum.

Results of operations

The following discussion of our results of operations is based on our consolidated financial statements prepared in accordance with accounting practices adopted in Brazil. Financial information for the year ended December 31, 2006 is derived from financial statements prepared under accounting practices adopted in Brazil in force at the time that such financial statements were issued and accordingly may not be comparable to financial information for each of the two years ended December 31, 2008, which has been derived from financial statements prepared under the accounting practices adopted in Brazil that include the changes introduced by Law No. 11,638/07 and *Deliberação* 565/08.

The discussion of the results of our business segments is based upon financial information reported for each of the segments of our business, as presented in the table below. There are certain differences between the concepts used by our company in preparing information about segments and the requirements of accounting practices adopted in Brazil as applied in our statutory financial statements. The principal difference is that operating income for segment reporting purposes does not consider equity method accounting adjustment, whereas such adjustment is classified as an operating item for statutory reporting purposes.

The following tables set forth the operating results of each of our segments and the reconciliation of these results of our segments to our consolidated results of operations. This segment information was prepared on the same basis as the information that our senior management uses to allocate resources among segments and evaluate their performance. We evaluate and manage the performance of our segments based on information generated from our statutory accounting records maintained in accordance with accounting practices adopted in Brazil and reflected in our consolidated financial statements.

	Year Ended December 31, 2008				
	Fixed-Line Services	Mobile Services	Other	Eliminations	Consolidated
	(in millions of R$)				
Gross operating revenues	20,580	8,025	261	(1,763)	27,103
Taxes and deductions	(6,072)	(2,408)	(28)	70	(8,438)
Net operating revenues	14,508	5,617	233	(1,693)	18,665
Cost of goods sold and services rendered	(7,841)	(3,392)	(173)	1,806	(9,600)
Gross profit	6,667	2,225	60	113	9,065
Selling expenses	(2,438)	(1,277)	(190)	373	(3,532)
General and administrative expenses	(1,226)	(331)	(45)	20	(1,582)
Other operating income (expenses), net	187	(223)	(172)	(466)	(674)
Operating income (loss)	3,190	394	(347)	40	3,277

	Year Ended December 31, 2007				
	Fixed-Line Services	Mobile Services	Other	Eliminations	Consolidated
	(in millions of R$)				
Gross operating revenues	20,525	5,560	158	(1,105)	25,138
Taxes and deductions	(6,136)	(1,457)	(17)	44	(7,566)
Net operating revenues	14,389	4,103	141	(1,061)	17,572
Cost of goods sold and services rendered	(7,557)	(2,738)	(116)	1,164	(9,247)
Gross profit	6,832	1,365	25	103	8,325
Selling expenses	(2,085)	(798)	(19)	213	(2,689)
General and administrative expenses	(942)	(236)	(14)	—	(1,192)
Other operating income (expenses), net	73	(59)	(9)	(580)	(575)
Operating income (loss)	3,878	272	(17)	(264)	3,868

	Year Ended December 31, 2006				
	Fixed-Line Services	Mobile Services	Other	Eliminations	Consolidated
	(in millions of R$)				
Gross operating revenues	20,730	4,515	87	(1,100)	24,232
Taxes and deductions	(6,180)	(1,213)	(9)	42	(7,360)
Net operating revenues	14,550	3,302	78	(1,058)	16,872
Cost of goods sold and services rendered	(7,969)	(2,427)	(57)	1,093	(9,360)
Gross profit	6,581	875	21	35	7,512
Selling expenses	(1,790)	(968)	(17)	186	(2,589)
General and administrative expenses	(947)	(204)	(8)	—	(1,159)
Other operating income (expenses), net	(680)	82	(10)	(221)	(829)
Operating income (loss)	3,164	(215)	(14)	—	2,935

In the following discussion, references to increases or decreases in any period are made by comparison with the corresponding prior period, except as the context otherwise indicates.

Year ended December 31, 2008 compared with year ended December 31, 2007

The following table sets forth the components of our net income, as well as the percentage change from the prior year, for the years ended December 31, 2007 and 2008.

	Year ended December 31,		
	2007	2008	% Change
	(in millions of R$, except percentages)		
Gross operating revenues	25,138	27,103	7.8
Taxes and deductions	(7,566)	(8,438)	11.5
Net operating revenues	17,572	18,665	6.2
Cost of services and goods sold	(9,247)	(9,600)	3.8
Gross profit	8,325	9,065	8.9
Operating expenses:			
Selling expenses	(2,689)	(3,532)	31.3
General and administrative expenses	(1,192)	(1,582)	32.7
Other net operating income (expenses)	(575)	(674)	17.2
Operating income before net financial expenses	3,868	3,277	(15.3)
Net financial expenses	(305)	(1,339)	339.0
Income before taxes and minority interest	3,563	1,938	(45.6)
Income and social contribution	(920)	(518)	(43.7)
Fiscal incentives	246	105	(57.3)
Minority interest	—	(4)	
Net income	2,889	1,521	(47.4)

Operating revenues

The composition of gross operating revenues by category of service before deduction of value-added and other indirect taxes and discounts is presented in our financial statements and discussed below. We do not determine net operating revenues for each category of service as we do not believe such information to be useful to investors.

Gross operating revenues increased by 7.8% in 2008, principally due to a 44.3% increase in gross operating revenues of our mobile services segment and a 0.3% increase in gross operating revenues of our fixed-line services segment, as discussed below.

Net operating revenues increased by 6.2% in 2008, principally due to a 36.9% increase in net operating revenues of our mobile services segment and a 0.8% increase in net operating revenues of our fixed-line services segment.

Operating revenue of our fixed-line services segment

The following table sets forth the components of the gross and net operating revenues of our fixed-line services segment, as well as the percentage change from the prior year, for the years ended December 31, 2007 and 2008.

	Year Ended December 31,		
	2007	2008	% Change
	(in millions of R$, except percentages)		
Local services:			
Monthly subscription fees	6,980	6,911	(1.0)
Metered services	1,798	1,395	(22.4)
Fixed-line to mobile calls (VC1)	2,772	2,798	0.9
Other revenues	107	87	(18.7)
	11,657	**11,192**	(4.0)
Long-distance services:			
Fixed-line to mobile calls (VC2 and VC3)	816	853	4.5
Intrasectorial	1,630	1,734	6.4
Intersectorial	436	398	(8.7)
Interregional	629	806	28.0
International	76	63	(17.1)
	3,587	**3,853**	7.4
Other fixed-line services:			
Pre-paid calling cards for public telephones	1,106	656	(40.7)
Additional services	649	676	4.2
Advanced voice	228	216	(5.3)
	1,983	**1,548**	(21.9)
Remuneration for the use of the fixed-line network:			
Fixed-line to fixed-line network use	519	473	(8.9)
Mobile to fixed-line network use	171	475	177.8
	690	**948**	37.4
Data transmission services:			
Asymmetric Digital Subscriber Line (ADSL)	1,121	1,391	24.1
Transmission — EILD	509	602	18.3
Dedicated Line Service — SLD	203	179	(11.8)
Internet protocol services	298	310	4.0
Switching packs and frame relay	217	227	4.6
Other services	260	329	26.5
	2,608	**3,038**	16.5
Total gross operating revenue	**20,525**	**20,580**	0.3
Value-added and other indirect taxes	(5,866)	(5,675)	(3.3)
Discounts and returns	(270)	(397)	47.0
Net operating revenue	**14,389**	**14,508**	**0.8**

Gross operating revenues of our fixed-line services segment increased by 0.3% in 2008, principally due to:

- a 16.5% increase in gross operating revenues from data transmission services;
- a 7.4% increase in gross operating revenue from long-distance services; and
- a 37.4% increase in gross operating revenue from remuneration for the use of our fixed-line network.

The effects of these increases were almost entirely offset by:

- a 4.0% decline in gross operating revenues from local services; and
- a 21.9% decline in gross operating revenues from other fixed-line services, principally sales of pre-paid calling cards for use in public telephones.

Gross operating revenues from local services

Gross operating revenues from local fixed-line services declined by 4.0% in 2008, primarily due to a 22.4% decline in gross operating revenues from metered services and a 1.0% decline in gross operating revenues from monthly subscription fees.

Monthly subscription fees

Gross operating revenues from monthly subscription fees declined by 1.0% in 2008, primarily as a result of a 2.0% decline in the number of lines in service to 13.9 million at December 31, 2008 from 14.2 million at December 31, 2007. The effects of this decline were partially offset by (1) rate increases for our basic service plans of 1.83% and 2.76% that were implemented in July 2007 and July 2008, respectively, and rate increases for our alternative plans that reflected increases in inflation, as measured by the IST, of 2.14% in 2007 and 3.01% in 2008, and (2) a 23.7% increase in the number of subscriptions to our alternative plans to 6.4 million at December 31, 2008 from 5.2 million at December 31, 2007.

Metered services

Gross operating revenues from metered services charges declined by 22.4% in 2008, principally as a result of (1) the migration of our fixed-line customers from our basic service plans to our alternative plans that have higher monthly allowances of minutes, and (2) the migration of local traffic origination to mobile handsets as callers take advantage of mobile plans and promotions under which mobile service providers offer mobile-to-mobile minutes within their networks at rates that are lower than a fixed-to-mobile minute.

Total billed minutes, which are the number of local minutes that exceed the monthly allowance under a customer's service plan, declined by 23.6% in 2008. The effects of this decline were partially offset by rate increases for billed local minutes of 1.83% and 2.76% that were implemented in July 2007 and July 2008, respectively.

Gross operating revenues from long-distance services

Gross operating revenues from long-distance services increased by 7.4% in 2008, primarily due to:

- a 28.0% increase in gross operating revenues from interregional long-distance calls;
- a 6.4% increase in gross operating revenues from intrasectorial long-distance calls; and
- a 4.5% increase in gross operating revenues from fixed-to-mobile long-distance calls.

The effects of these increases were partially offset by an 8.7% decline in gross operating revenues from intersectorial long-distance calls.

Fixed-to-mobile long-distance calls

Gross operating revenues from long-distance calls originated on a fixed-line telephone and terminated on a mobile device, which are charged at the VC2 or VC3 rate, increased by 4.5% in 2008, principally as a result of (1) increases in the VC2 and VC3 rates of 2.88% and 2.76% that were implemented in July 2007 and July 2008, respectively, and (2) a 4.9% increase in total fixed-to-mobile minutes charged at VC2 rates to 304 billion in 2008 from 289 billion in 2007 and a 5.4% increase in total fixed-to-mobile minutes charged at VC3 rates to 295 billion in 2008 from 280 billion in 2007.

Other long-distance calls

We account for calls (1) originated on a fixed-line telephone and terminated on a fixed-line telephone in which callers are located in the same sector, but in different local areas, which are charged at long-distance rates regulated in accordance with the distance separating callers, or (2) originated by a mobile subscriber registered in one home registration area and terminated on a fixed-line telephone or a mobile handset in another home registration area sharing the same first digit (for example, Rio de Janeiro (area code 21) and Vitória (area code (27)), which are charged at the VC2 or VC3 rate, as intrasectorial long-distance calls. A sector for purposes of fixed-to-fixed long-distance calls is a set of local areas, as established by ANATEL, which generally corresponds to a Brazilian state.

We account for calls (1) originated on a fixed-line telephone and terminated on a fixed-line telephone in which callers are located in the same service region, but in different sectors, which are charged at long-distance rates regulated in accordance with the distance separating callers, or (2) originated by a mobile subscriber registered in one home registration area and terminated on a fixed-line telephone or a mobile handset in another home registration area that does not share the same first digit (for example, Rio de Janeiro (area code 21) and São Paulo (area code (11)), which are charged at the VC2 or VC3 rate, as intersectorial long-distance calls. We account for calls involving callers in different service regions as interregional long-distance calls.

Gross operating revenues from interregional and intrasectorial long-distance calls increased by 28.0% and 6.4%, respectively, in 2008, principally as a result of (1) the 52.6% increase in the number of users of mobile devices in Region I in 2008, including the 33.7% increase in the number of our mobile customers in Region I, (2) the success of our "*Oi ligadores*" campaign, and (3) increases in our regulated long-distance rates of 1.83% and 2.76% that were implemented in July 2007 and July 2008, respectively. The effects of these increases were partially offset by a 9.0% decline in the total number of intersectorial long-distance minutes to 1,066 billion in 2008 from 1,171 billion in 2007, the effect of which was partially offset by the increases in our regulated long-distance rates that were implemented in July 2007 and July 2008.

Gross operating revenue from other fixed-lines services

Gross operating revenues from other fixed-line services declined by 21.9% in 2008, primarily as a result of the 40.7% decline in gross operating revenue from the sale of pre-paid calling cards for use in public telephones. Gross operating revenue from the sale of these cards declined principally due to the 30.5% decline in the number of public phone credits used to 5.7 billion in 2008 from 8.2 billion in 2007, primarily due to customers substituting usage of mobile handsets for usage of public phones as a result of promotions by mobile service providers to the pre-paid segment, including bonus calls and pre-paid card recharges at reduced rates. This decline was partially offset by rate increases for public phone usage of 1.83% and 2.53% that were implemented in July 2007 and July 2008, respectively.

Gross operating revenues from remuneration for the use of the fixed-line network

Gross operating revenues from remuneration for the use of the fixed-line network increased by 37.4% in 2008 as a result of a 177.8% increase in gross operating revenue from interconnection fees paid to us for completing calls on our fixed-line network that were originated on the networks of mobile service providers,

primarily due to (1) an increase in traffic as a result of callers taking advantage of mobile plans and promotions under which mobile service providers offer discounts on mobile-to-fixed minutes, and (2) to a lesser extent, increases in the TU-RL and TU-RIU rates of 1.83% and 2.76% that were implemented in July 2007 and July 2008, respectively.

The effects of this increase were partially offset by an 8.9% decline in interconnection fees paid to us for completing calls on our fixed-line network that were originated on the networks of other fixed-line service providers, primarily as a result of the migration of fixed-to-fixed calls to mobile-to-fixed calls, principally attributable to offers by mobile service providers of minute-based plans and packages that include reduced charges for mobile-to-fixed calls. The effects of this migration were partially offset by the increases in the TU-RL and TU-RIU rates.

Of our gross operating revenues from remuneration for the use of the fixed-line network, 32.8% in 2008 and 16.6% in 2007 represented interconnection fees paid by Oi for the use of Telemar's fixed-line network to complete mobile-to-fixed calls and was eliminated in the consolidation of our financial statements.

Gross operating revenues from data transmission services

Gross operating revenues from data transmission services increased by 16.5% in 2008, principally due to:

- a 24.1% increase in gross operating revenue from ADSL subscriptions;
- an 18.3% increase in gross operating revenues from EILD services; and
- a 26.5% increase in gross operating revenue from other data transmission services.

Gross operating revenues from ADSL subscriptions increased in 2008 primarily due to the 29.4% increase in the number of ADSL subscriptions in 2008 to 2.0 million at December 31, 2008 from 1.5 million at December 31, 2007, as a result of our continued focus on increasing *Oi Velox*'s penetration of our local fixed-line subscriber base. The effects of this increase were partially offset by a 5.8% decline in average revenues per line generated by ADSL subscriptions to R$43.7 in 2008 from R$46.4 in 2007. As of December 31, 2008, *Oi Velox*'s customer base represented 14.1% of our total fixed lines in service as compared to 10.7% as of December 31, 2007.

Gross operating revenue from EILD services increased in 2008 principally due to the increased number of rented circuits as a result of a growth in demand for these services. Of our gross operating revenues from EILD services, 8.7% in 2008 and 10.3% in 2007 represented fees paid by Oi for EILD services and was eliminated in the consolidation of our financial statements.

Gross operating revenues from other data transmission services are primarily generated by our ISP services and equipment rental. Gross operating revenues from other data transmission services increased in 2008 primarily due to (1) an increase of R$35 million in aggregate subscription fees received from subscribers of services provided by "*Oi Internet*," our ISP, as a result of the increase in the number of our broadband services customers, (2) an increase of R$23 million related to rental of Customer Premises Equipment (CPE), which is a service that includes not only the rental of equipment, but also maintenance, installation, software updating and product warranties, (3) an increase of R$16 million in infrastructure rental, and (4) an increase of R$9 million in electronic transactions.

Charges against gross operating revenues

Value-added and other indirect taxes

Value-added and other taxes on our fixed-line services declined by 3.3% in 2008, primarily reflecting the change in revenue mix, as fewer taxes or lower tax rates apply to some of our services.

We are required to contribute to the Universal Telecommunications Service Fund (*Fundo de Universalização dos Serviços de Telecomunicações*), which we refer to as the FUST, and the Fund for the Technological Development of Telecommunications (*Fundo para o Desenvolvimento Tecnológico das Telecomunicações Brasileiras*), which we refer to as the FUNTTEL. We are required to contribute 1.0% of our gross operating revenue from the rendering of telecommunications services, net of PIS, COFINS and ICMS taxes, to the FUST. We are required to contribute 0.5% of our gross operating revenue from the rendering of telecommunications services, net of PIS, COFINS and ICMS taxes, to the FUNTTEL.

Discounts

Discounts offered on our fixed-line services generally consist of rebates on pre-paid public calling cards and rebates on pulse-based revenues as a result of our migration from pulses to minutes. Discounts on our fixed-line services increased by 47.0% in 2008, primarily as a result of higher discounts made available to our costumers under our marketing campaigns.

Net operating revenues

As a result of the foregoing, net operating revenues of the fixed-line services segment increased by 0.8% to R$14,508 million in 2008 from R$14,389 million in 2007.

Operating revenue of our mobile services segment

The following table sets forth the components of the gross and net operating revenues of our mobile services segment, as well as the percentage change from the prior year, for the years ended December 31, 2007 and 2008.

	Year Ended December 31,		
	2007	2008	% Change
	(in millions of R$, except percentages)		
Mobile telephone services:			
Originating calls	1,658	2,692	62.4
Monthly subscription fees	937	1,399	49.3
Additional services	335	555	65.7
Sale of handsets and accessories	243	223	(8.2)
Roaming	114	130	14.0
	3,287	**4,999**	52.1
Data transmission services			
Transmission — EILD	134	144	7.5
Dedicated Line Service — SLD	42	49	16.7
Internet protocol services	37	60	62.2
Switching packs and frame relay	69	62	(10.1)
Other services	76	120	57.9
	358	**435**	21.5
Remuneration for the use of the mobile network:			
Fixed-line to mobile network use	1,001	1,560	55.8
Mobile to mobile network use	914	1,031	12.8
	1,915	**2,591**	35.3
Total gross operating revenue	**5,560**	**8,025**	44.3
Value-added and other indirect taxes	(1,040)	(1,516)	45.8
Discounts and returns	(417)	(892)	113.9
Net operating revenue	**4,103**	**5,617**	36.9

Gross operating revenues of our mobile services segment increased by 44.3% in 2008, primarily due to (1) a 52.1% increase in gross operating revenues from mobile telephone services, and (2) a 35.3% increase in remuneration for the use of our mobile network.

Gross operating revenues from mobile services

Gross operating revenues from mobile services increased by 52.1% in 2008, principally due to:

- a 62.4% increase in gross operating revenue from billed minutes, which are the number of local minutes used by pre-paid customers plus the number of local minutes used by post-paid customers in excess of the monthly allowance under the customer's service plan, primarily as a result of (1) the 52.5% increase in the number of our mobile customers to 24.4 million at December 31, 2008 from 16.0 million at December 31, 2007, and (2) rate increases for our billed minutes that reflected increases in inflation of 3.17% in 2007 and 6.56% in 2008, as measured by the IST;
- a 49.3% increase in gross operating revenue from monthly subscription fees, primarily due to (1) the increase in the number of subscribers to our post-paid plans, and (2) rate increases for our post-paid plans that reflected increases in inflation of 3.17% in 2007 and 6.56% in 2008, as measured by the IST; and
- a 65.7% increase in gross operating revenues from additional services, such as fees for participating in the "*Oi Ligadores*" program, fees for Short Message Services, or SMS, sharing of infrastructure and other value-added services, primarily as a result of (1) a 77.3% increase in gross operating revenue from pre-paid SMS to R$269 million in 2008 from R$152 million in 2007, and (2) a 211.8% increase in gross operating revenues from subscription fees for data packages to R$26 million in 2008 from R$8 million in 2007.

The number of our pre-paid mobile customers increased by 53.6% in 2008 to 20.6 million at December 31, 2008 from 13.4 million at December 31, 2007, primarily as a result of (1) the success of our "*Oi Ligadores*" marketing campaign, which we launched in July 2007, (2) the addition of 1.3 million pre-paid customers to our customer base as a result of our acquisition of Amazônia Celular on April 3, 2008, and (3) the addition of approximately 1.9 million pre-paid customers to our customer base as a result of the launch of our mobile services in the State of São Paulo in October 2008. As of December 31, 2008, pre-paid customers represented 84% of our mobile customer base.

The number of subscribers to our post-paid mobile plans increased by 47.4% in 2008 to 3.8 million at December 31, 2008 from 2.6 million at December 31, 2007, primarily as a result of (1) the success of our strategy of marketing our "*Oi Conta Total*" bundled plans to high-income customers, (2) the addition of approximately 161,000 post-paid customers to our customer base as a result of our acquisition of Amazônia Celular on April 3, 2008, and (3) the addition of approximately 20,000 post-paid customers to our customer base as a result of the launch of our mobile services in the State of São Paulo in October 2008. As of December 31, 2008, post-paid customers represented 16% of our mobile customer base.

Our monthly average revenue per user (calculated based on the total revenue for the year divided by the monthly average customer base for the year divided by 12) increased by 2.9% to R$22.70 in 2008 from R$22.06 in 2007.

Gross operating revenues from remuneration for the use of the mobile network

Gross operating revenues from remuneration for the use of the mobile network increased by 35.3% in 2008 as a result of:

- a 55.8% increase in interconnection fees paid to us for completing calls on our mobile network that were originated on the networks of fixed-line service providers, primarily due to (1) the 52.5% increase in the number of our mobile customers during 2008 resulting in an increase in the number of minutes terminated

on our mobile network, and (2) to a lesser extent, increases in our VU-M rates of 1.97% and 1.89% that were implemented in July 2007 and July 2008, respectively; and

- a 12.8% increase in interconnection fees paid to us for completing calls on our mobile network that were originated on the networks of other mobile service providers, primarily as a result of (1) the 52.5% increase in the number of our mobile customers during 2008 resulting in an increase in the number of minutes terminated on our mobile network, and (2) the increases in our VU-M rates that were implemented in July 2007 and July 2008.

Of the gross operating revenues from remuneration for use of the mobile network, 5.2% in 2008 and 4.6% in 2007 represented interconnection fees paid by Telemar for the use of Oi's mobile network to complete fixed-to-mobile calls and was eliminated in the consolidation of our financial statements.

Charges against gross operating revenues

Value-added and other indirect taxes

Value-added and other taxes on our mobile services increased by 45.8% in 2008, primarily reflecting the growth in the gross operating revenue of our mobile services segment in 2008.

Discounts

Discounts offered on our mobile services generally consist of rebates on pre-paid telephone cards (typically having commissions of approximately 10.0% over the face amount sold), local fixed-line calls, long-distance calls, and intelligent network services (such as caller ID, call forwarding and conference calling). Discounts on our mobile services increased by 113.9% in 2008, primarily as a result of higher rebates of subscription fees on our bundled plans and to our corporate customers and higher rebates on the sale of pre-paid telephone cards.

Net operating revenues

As a result of the foregoing, net operating revenues of the mobile services segment increased by 36.9% to R$5,617 million in 2008 from R$4,103 million in 2007.

Cost of goods sold and services rendered

Cost of goods sold and serviced rendered increased by 3.8% in 2008, principally due to a 23.8% increase in cost of goods sold and services rendered of our mobile services segment and a 3.8% increase in cost of goods sold and services rendered of our fixed-line services segment, as discussed below.

Of the costs of goods sold and services rendered of our fixed-line services segment, 18.0% in 2008 and 13.3% in 2007 represented (1) interconnection fees paid by Telemar for the use of Oi's mobile network to complete fixed-to-mobile calls, (2) fees paid by Telemar for the use of Oi's wireless local loop technology, (3) customer loyalty campaigns, (4) EILD leasing and (5) collection commissions. These costs were eliminated in the consolidation of our financial statements.

Of the costs of goods sold and services rendered of our mobile services segment, 10.1% in 2008 and 7.0% in 2007 represented (1) interconnection fees paid by Oi for the use of Telemar's fixed-line network to complete mobile-to-fixed calls, (2) fees paid by Oi for EILD services, (3) collection commissions, and (4) leasing of infrastructure, towers, circuits and "102" service platform. These costs were eliminated in the consolidation of our financial statements.

The following table sets forth the components of our cost of goods sold and services rendered, as well as the percentage change from the prior year, for the years ended December 31, 2007 and 2008.

	Year Ended December 31,		
	2007	2008	% Change
	(in millions of R$, except percentages)		
Interconnection	3,332	3,371	1.2
Depreciation	2,269	2,470	8.9
Network maintenance	1,363	1,467	7.6
Rental and insurance	653	706	8.1
Third-party services	447	381	(14.8)
Personnel	253	289	14.2
Materials	280	257	(8.2)
Costs of handsets and accessories	262	195	(25.6)
Concession contract renewal fee	96	117	21.9
Other costs of services rendered	293	348	18.8
Total cost of goods sold and services rendered	9,247	9,600	3.8

Cost of goods sold and services rendered of our fixed-line services segment

Cost of goods sold and services rendered of our fixed-line services segment increased by 3.8% in 2008, principally due to:

- a 9.4% increase in network maintenance costs to R$1,403 million in 2008 from R$1,282 million in 2007, primarily due to the growth of our "Oi Velox" services, which resulted in increased costs to set up "Oi Velox" in our customers' homes, as well as maintenance costs relating to the expansion of our network, the effects of which were partially offset by a reduction in maintenance costs as a result of the replacement of outsourced service providers with our own employees for certain maintenance services beginning in June 2007;
- a 3.1% increase in interconnection costs to R$3,271 million in 2008 from R$3,172 million in 2007, primarily as a result of an increase in the total number of minutes used by our fixed-line customers to make calls to customers of mobile providers for which we pay interconnection fees at the VU-M rate, as well as increases in the VU-M rates of these mobile services providers that were implemented in July 2007 and July 2008; and
- a 4.6% increase in depreciation costs to R$1,771 million in 2008 from R$1,693 million in 2007, primarily as a result of the growth in our property, plant and equipment as a result of the expansion of our broadband network and increased investments in our voice and data network in Region I.

The effects of these increases were partially offset by a 27.3% decline in materials costs to R$186 million in 2008 from R$256 million in 2007, primarily as a result of the reduction in the quantity of materials used in maintenance of our fixed-line network and a decrease in the quantity of fuel used in maintenance of our fixed-line network.

The gross profit of our fixed-line services segment declined by 2.4% to R$6,667 million in 2008 from R$6,832 million in 2007. As a percentage of net operating revenue of this segment, gross profit increased to 46.0% in 2008 from 47.5% in 2007.

Cost of goods sold and services rendered of our mobile services segment

Cost of goods sold and services rendered of our mobile services segment increased by 23.8% in 2008, principally due to:

- a 51.4% increase in interconnection costs to R$1,529 million in 2008 from R$1,010 million in 2007, primarily due to the 52.5% increase in the number of our mobile customers which resulted in an increase in the total number of minutes used by our mobile customers to make calls to customers of other mobile providers for which we pay interconnection fees at the VU-M rate, as well as increases in the VU-M rates of these mobile services providers that were implemented in July 2007 and July 2008; and
- a 21.2% increase in depreciation and amortization costs to R$698 million in 2008 from R$576 million in 2007, primarily as a result of (1) the growth in our property, plant and equipment as a result of the expansion of our mobile network, including through the implementation of our mobile network in the State of São Paulo and through our acquisition of Amazônia Celular on April 3, 2008, and (2) increased amortization costs related to our acquisition of 2G radio frequency licenses and 3G radio frequency licenses at the end of 2007 and during 2008.

The effects of these increases were partially offset by a 25.6% decline in the cost of mobile handsets and accessories to R$195 million in 2008 from R$262 million in 2007, primarily due to a 41.8% decline in the number of mobile handsets sold as a result of our strategy of exiting the business of selling mobile handsets and focusing on selling SIM cards independently of mobile handsets to the pre-paid segment in an effort to reduce customer-acquisition costs.

The gross profit of our mobile services segment increased by 63.0% to R$2,225 million in 2008 from R$1,365 million in 2007. As a percentage of net operating revenue of this segment, gross profit increased to 39.6% in 2008 from 33.3% in 2007.

Gross profit

As a result of the foregoing, our consolidated gross profit increased by 8.9% to R$9,065 million in 2008 from R$8,325 million in 2007. As a percentage of net operating revenue, gross profit increased to 48.6% in 2008 from 47.4% in 2007.

Operating expenses

Selling expenses

Selling expenses increased by 31.3% in 2008, principally due to a 60.0% increase in selling expenses of our mobile services segment and a 16.9% increase in operating expenses of our fixed-line segment.

Fixed-line services segment. Selling expenses of our fixed-line services segment increased by 16.9% in 2008, principally due to:

- a 55.1% increase in marketing expenses to R$549 million in 2008 from R$354 million in 2007, primarily due to higher spending on marketing campaigns, production, creation, events, market research and sponsorships; and
- a 9.2% increase in expenses for third-party services to R$1,100 million in 2008 from R$1,007 million in 2007, primarily due to a 21.1% increase in call center expenses to R$345 million in 2008 from R$285 million in 2007 as a result of higher demand for our call center services related to the commencement of our mobile services in the State of São Paulo in October 2008 and an annual adjustment in the cost of these services under our contract with the service provider.

As a percentage of net operating revenues of this segment, selling expenses increased to 24.3% in 2008 from 18.7% in 2007.

Mobile services segment. Selling expenses of our mobile services segment increased by 60.0% in 2008, principally due to:

- a 58.8% increase in expenses for third-party services to R$797 million in 2008 from R$502 million in 2007, principally due to:
  - a 74.4% increase in sales commission to R$504 million in 2008 from R$289 million in 2007, primarily as a result of an increase in mobile handset activations and a 97.6% increase in subscriptions to our "*Oi Conta Total*" bundled plans,
  - a 51.4% increase in call center services to R$162 million in 2008 from R$107 million in 2007, primarily as a result of the growth in the customer base of our mobile services segment, and
  - a 92.6% increase in other third-party services expenses to R$131 million in 2008 from R$68 million in 2007, primarily due to higher costs related to logistics (mainly inventory and distribution costs related to mobile handsets and SIM cards), resulting from the growth in this segment's customer base; and
- a 125.0% increase in marketing expenses to R$270 million in 2008 from R$120 million in 2007, primarily due to higher spending on marketing campaigns, production, creation, events, market research, sponsorships and promotions, all to a large extent related to the launch of our mobile services in the State of São Paulo (Region III) in October 2008.

As a percentage of net operating revenues of this segment, selling expenses increased to 22.7% in 2008 from 19.4% in 2007.

General and administrative expenses

General and administrative expenses increased by 32.7% in 2008, principally due to a 30.1% increase in operating expenses of our fixed-line segment and a 40.3% increase in selling expenses of our mobile services segment.

Fixed-line services segment. General and administrative expenses of our fixed-line services segment increased by 30.1% in 2008, principally due to:

- a 28.6% increase in expenses for third-party services to R$720 million in 2008 from R$560 million in 2007, principally due to (1) a 54.3% increase in consulting and legal expenses to R$284 million in 2008 from R$184 million in 2007, primarily as a result of consulting and legal costs relating to the BrT Transaction, and (2) a 16.0% increase in other third-party expenses to R$436 million in 2008 from R$376 million in 2007, primarily as a result of an increase in data processing expenses as a result of the growth in our broadband customer base;
- a 38.1% increase in depreciation expenses to R$134 million in 2008 from R$97 million in 2007, primarily due to our increased investments in the expansion of our network and data communications infrastructure at the end of 2007; and
- a 14.3% increase in rental and insurance expenses to R$96 million in 2008 from R$84 million in 2007.

Mobile services segment. General and administrative expenses of our mobile services segment increased by 40.3% in 2008, principally due to:

- a 73.3% increase in expenses for third-party services to R$130 million in 2008 from R$75 million in 2007, principally due to (1) a 100.0% increase in consulting and legal expenses to R$48 million in 2008 from R$24 million in 2007, primarily related to the BrT Transaction, and (2) a 60.8% increase in other third-party expenses to R$82 million in 2008 from R$51 million in 2007, primarily as a result of an increase in data processing expenses as a result of the growth in our mobile customer base;

- an increase in rental and insurance expenses to R$28 million in 2008 from R$2 million in 2007; and
- a 21.8% increase in personnel expenses to R$95 million in 2008 from R$78 million in 2007, primarily due to an increase in the number of employees of our mobile services segment as a result of the acquisition of Amazônia Celular on April 3, 2008 and the launch of our mobile services in the State of São Paulo in October 2008.

Other operating expenses, net

Other operating income

Other operating income increased by 28.4% to R$822 million in 2008 from R$640 million in 2007, primarily due to:

- a 169.2% increase in recovered expenses to R$245 million in 2008 from R$91 million in 2007, primarily as a result of recovered tax expenses;
- a 12.8% increase in late-payment charges to R$202 million in 2008 from R$179 million in 2007; and
- a 57.4% increase in gains on disposal of permanent assets to R$74 million in 2008 from R$47 million in 2007, primarily related to the disposal of certain real property.

The effects of these increases were partially offset by a 59.2% decrease in other revenues to R$20 million in 2008 from R$49 million in 2007.

Other operating expenses

Other operating expenses increased by 20.2% from R$1,198 million in 2007 to R$1,440 million in 2008, primarily due to:

- R$315 million that we recorded in 2008 as litigation settlement payments relating to the contribution that we made to the settlement of certain outstanding litigation between the controlling shareholders of Invitel to facilitate our purchase of the shares of Invitel;
- a 397.2% increase in losses on the disposition of permanent assets to R$92 million in 2008 from R$19 million in 2007, primarily relating to the write-off of certain network equipment;
- an 64.3% increase in employees' profit sharing expenses to R$138 million in 2008 from R$84 million in 2007, mainly due to the performance of the company and attainment of company targets; and
- an 8.2% increase in taxes to R$422 million in 2008 from R$390 million in 2007, mainly related to FUST and FUNTTEL.

The effects of these increases were partially offset by:

- the full amortization of the goodwill related to our acquisition of Pegasus in 2007, which resulted in a charge of R$84 million in 2007 as compared to no charge in 2008; and
- a non-recurring net loss caused by fire in the amount of R$53 million that was recorded in 2007.

Operating income

As a result of the foregoing, our consolidated operating income declined by 15.3% to R$3,277 million in 2008 from R$3,868 million in 2007. As a percentage of net operating revenue, operating income declined to 17.6% in 2008 from 22.0% in 2007.

Operating income of our fixed-line services segment

The operating income of our fixed-line services segment declined by 18.2% to R$3,190 million in 2008 from R$3,899 million in 2007. As a percentage of the net operating revenues of this segment, operating income declined to 22.0% in 2008 from 27.1% in 2007.

Operating income of mobile services segment

The operating income of our mobile services segment increased by 34.9% to R$394 million in 2008 from R$292 million in 2007. As a percentage of the net operating revenues of this segment, operating income declined to 7.0% in 2008 from 7.1% in 2007.

Financial expenses, net

Financial income

Financial income increased by 39.6% to R$1,283 million in 2008 from R$920 million in 2007, primarily due to a 73.8% increase in yield on marketable securities to R$758 million in 2008 from R$436 million in 2007 attributable to a 99.4% increase in our average cash and cash equivalent balances in 2008 as compared to 2007 as well as a 3.0% increase in average interest rates in 2008 as compared to 2007. The effects of this increase were partially offset by a 32.4% decline in financial discounts obtained.

Financial expenses

Financial expenses increased by 114.0% to R$2,622 million in 2008 from R$1,225 million in 2007, primarily due to:

- a R$936 million monetary and exchange variation on outstanding loans expense recorded in 2008 compared to R$283 million of monetary and exchange variation on outstanding loans income in 2007 primarily attributable to the 24.2% depreciation of the *real* against the U.S. dollar in 2008 and the 38.6% depreciation of *real* against the Japanese yen in 2008; and
- a 170.0% increase in interest on outstanding loans to R$968 million in 2008 from R$358 million in 2007, primarily as a result of our increased level of indebtedness, primarily attributable to the indebtedness that we incurred in 2008 to finance the BrT Transaction.

The effects of these changes were partially offset by our recording of R$146 million in income from derivatives compared to R$379 million in losses from derivatives in 2007, principally attributable to the impact of the depreciation of the *real* against the relevant currencies in 2008.

Income tax and social contribution

The composite corporate statutory income tax and social contribution rate was 34% in each of 2008 and 2007. Income tax and social contribution was R$518 million in 2008 compared to R$920 million in 2007. The decline in income tax and social contribution in 2008 as compared to 2007 primarily reflected the decline in income before income tax and social contribution in 2008.

Net Income

Our consolidated net income declined by 47.4% to R$1,521 million in 2008 from R$2,889 million in 2007. As a percentage of net operating revenue, net income declined to 8.1% in 2008 from 16.4% in 2007.

Year ended December 31, 2006 compared with year ended December 31, 2007

The following table sets forth the components of our net income, as well as the percentage change from the prior year, for the years ended December 31, 2006 and 2007.

	Year ended December 31,		
	2006	2007	% Change
	(in millions of R$, except percentages)		
Gross operating revenues	24,232	25,138	3.7
Taxes and deductions	(7,360)	(7,566)	2.8
Net operating revenues	16,872	17,572	4.1
Cost of services and goods sold	(9,360)	(9,247)	(1.2)
Gross profit	7,512	8,325	10.8
Operating expenses:			
Selling expenses	(2,589)	(2,689)	3.9
General and administrative expenses	(1,159)	(1,192)	2.8
Other net operating income (expenses)	(829)	(575)	(30.5)
Operating income before net financial expenses	2,935	3,868	31.8
Net financial expenses	(1,103)	(305)	(72.3)
Income before taxes and minority interest	1,832	3,563	94.5
Income and social contribution	(217)	(921)	210.6
Net income	1,615	2,889	78.9

Operating revenues

Gross operating revenues increased by 3.7% in 2007, principally due to a 23.1% increase in gross operating revenues of our mobile services segment, the effects of which were slightly offset by a 1.0% decline in gross operating revenues of our fixed-line services segment, as discussed below.

Net operating revenues increased by 4.1% in 2007, principally due to a 24.3% increase in net operating revenues of our mobile services segment, the effects of which were offset by a 1.1% decline in net operating revenues of our fixed-line services segment.

Operating revenue of our fixed-line services segment

The following table sets forth the components of the gross and net operating revenues of our fixed-line services segment, as well as the percentage change from the prior year, for the years ended December 31, 2006 and 2007.

	Year Ended December 31,		
	2006	2007	% Change
	(in millions of R$, except percentages)		
Local services:			
Monthly subscription fees	6,688	6,980	4.4
Metered services	2,485	1,798	(27.6)
Fixed-line to mobile calls (VC1)	2,659	2,772	4.2
Other revenues	111	107	(3.6)
	11,943	**11,657**	(2.4)
Long-distance services:			
Fixed-line to mobile calls (VC2 and VC3)	705	816	15.7
Intrasectorial	1,759	1,630	(7.3)
Intersectorial	502	436	(13.1)
Interregional	676	629	(7.0)
International	79	76	(3.8)
	3,721	**3,587**	(3.6)
Other fixed-line services:			
Pre-paid calling cards for public telephones	1,117	1,106	(1.0)
Additional services	579	649	12.1
Advanced voice	239	228	(4.6)
	1,935	**1,983**	2.5
Remuneration for the use of the fixed-line network:			
Fixed-line to fixed-line network use	583	519	(11.0)
Mobile to fixed-line network use	214	171	(20.1)
	797	**690**	(13.4)
Data transmission services:			
Asymmetric Digital Subscriber Line (ADSL)	935	1,121	19.9
Transmission — EILD	529	509	(3.8)
Dedicated Line Service — SLD	241	203	(15.8)
Internet protocol services	199	298	49.7
Switching packs and frame relay	209	217	3.8
Other services	221	260	17.6
	2,334	**2,608**	11.7
Total gross operating revenue	**20,730**	**20,525**	(1.0)
Value-added and other indirect taxes	(5,822)	(5,866)	0.8
Discounts and returns	(358)	(270)	(24.6)
Net operating revenue	**14,550**	**14,389**	(1.1)

Gross operating revenues of our fixed-line services segment declined by 1.0% in 2007, principally due to:

- a 2.4% decline in gross operating revenues from local services;
- a 3.6% decline in gross operating revenue from long-distance services; and
- a 13.4% decline in gross operating revenue from remuneration for the use of our fixed-line network.

The effects of these declines were almost entirely offset by:

- an 11.7% increase in gross operating revenues from data transmission services; and
- a 2.5% increase in gross operating revenues from other fixed-line services.

Gross operating revenues from local services

Gross operating revenues from local fixed-line services declined by 2.4% in 2007, primarily due to a 27.6% decline in gross operating revenues from metered services, the effects of which were partially offset by a 4.4% increase in gross operating revenues from monthly subscription fees, and a 4.2% increase in gross operating revenues from local fixed-to-mobile calls.

Monthly subscription fees

Gross operating revenues from monthly subscription fees increased by 4.4% in 2007, primarily as a result of (1) a 154.3% increase in the number of subscriptions to our alternative plans to 5.2 million at December 31, 2007 from 2.0 million at December 31, 2006, and (2) a rate increase for our basic service plans of 1.83% that was implemented in July 2007, and rate increases for our alternative plans that reflected increases in inflation of 3.20% in 2006 and 3.17% in 2007, as measured by the IST. The effects of these increases were partially offset by a 1.2% decline in the number of lines in service to 14.2 million at December 31, 2007 from 14.4 million at December 31, 2006.

Metered services

Gross operating revenues from metered services charges declined by 27.6% in 2007, principally as a result of (1) the migration of our fixed-line customers from our basic service plans to our alternative plans that have higher monthly allowances of minutes, and (2) the migration of local traffic origination to mobile handsets as callers take advantage of mobile plans and promotions under which mobile service providers offer mobile-to-mobile minutes within their networks at rates that are lower than a fixed-to-mobile minute.

Total billed minutes, which are the number of local minutes that exceed the monthly allowance under a customer's service plan, declined by 33.3% in 2007. The effects of this decline were partially offset by a rate increase for billed local minutes of 1.83% that was implemented in July 2007.

Local fixed-to-mobile calls

Gross operating revenues from local fixed-to-mobile calls, which are charged at the VC1 rate, increased by 4.2% in 2007, principally as a result of (1) a 3.2% increase in the total number of local fixed-to-mobile minutes, and (2) an increase in the VC1 rate of 2.88% that was implemented in July 2007.

Gross operating revenues from long-distance services

Gross operating revenues from long-distance services declined by 3.6% in 2007, primarily due to:

- a 7.3% decline in gross operating revenues from intrasectorial long-distance calls;
- a 13.1% decline in gross operating revenues from intersectorial long-distance calls; and
- a 7.0% decline in gross operating revenues from interregional long-distance calls.

The effects of these declines were partially offset by a 15.7% increase in gross operating revenues from fixed-to-mobile long-distance calls.

Fixed-to-mobile long-distance calls

Gross operating revenues from long-distance calls originated on a fixed-line telephone and terminated on a mobile device, which are charged at the VC2 or VC3 rate, increased by 15.7% in 2007, principally as a result of (1) a 6.6% increase in total minutes charged at VC2 rates to 289 billion in 2007 from 271 billion in 2006 and a 12.4% increase in total minutes charged at VC3 rates to 280 billion in 2007 from 249 billion in 2006, and (2) increases in the VC2 and VC3 rates of 7.99% and 2.88% that were implemented in March 2006 and July 2007, respectively.

Other long-distance calls

Gross operating revenues from intrasectorial, intersectorial and interregional long-distance calls declined by 7.3%, 13.1% and 7.0%, respectively, in 2007 principally as a result of:

- a 10.9% decline in the total number of intrasectorial long-distance minutes to 2,952 billion in 2007 from 3,314 billion in 2006;
- a 10.1% decline in the total number of intersectorial long-distance minutes to 1,171 billion in 2007 from 1,303 billion in 2006; and
- a 3.9% decline in the total number of interregional long-distance minutes to 1,044 billion in 2007 from 1,087 billion in 2006.

The effects of these declines were partially offset by an increase in our regulated long-distance rates of 1.83% that was implemented in July 2007.

Gross operating revenue from other fixed-lines services

Gross operating revenues from other fixed-line services increased by 2.5% in 2007, primarily as a result of a 12.1% increase in gross operating revenue from additional services. The effects of this increase were partially offset by (1) a 1.0% decline in gross operating revenue from the sale of pre-paid calling cards for use in public telephones, and (2) a 4.6% decline in gross operating revenue from advanced voice services.

Pre-paid calling cards for use in public telephones

Gross operating revenue from the sale of pre-paid calling cards for use in public telephones declined principally due to the 20.4% decline in the number of public phone credits used to 8.2 billion in 2007 from 10.3 billion in 2006, primarily due to customers substituting usage of mobile handsets for usage of public phones as a result of promotions by mobile service providers to the pre-paid segment, including bonus calls and pre-paid card recharges at reduced rates. This decline was partially offset by a rate increase for public phone usage of 1.83% that was implemented in July 2007.

Additional services

Gross operating revenues from additional services increased by 12.1% in 2007, primarily due to a 19.5% increase in gross operating revenues from call blocking, voicemail and caller identification services to R$546 million in 2007 from R$457 million in 2006.

Advanced voice

Advanced voice services consist of “0300,” “0500,” “0800” and “0900” services for which we are generally paid a fixed monthly fee to provide a corporate customer with a contact number. Calls to these numbers may be charged to the caller or to the company (toll-free numbers). Gross operating revenues from advanced voice services declined by 4.6% in 2007, primarily due to a 15.4% decrease in the amount of traffic generated by these numbers.

Gross operating revenues from remuneration for the use of the fixed-line network

Gross operating revenues from remuneration for the use of the fixed-line network declined by 13.4% in 2007 as a result of:

- an 11.0% decline in interconnection fees paid to us for completing calls on our fixed-line network that were originated on the networks of other fixed-line service providers, primarily as a result of a 20.0% reduction of our TU-RL rates imposed by ANATEL on January 1, 2007, the effects of which were partially offset by an increase in fixed-to-fixed traffic terminating on our network; and
- a 20.1% decline in gross operating revenue from interconnection fees paid to us for completing calls on our fixed-line network that were originated on the networks of mobile service providers, primarily due to (1) a 20.0% reduction in our TU-RL rates imposed by ANATEL on January 1, 2007, and (2) a decline in mobile-to-fixed line traffic terminating on our network.

Of our gross operating revenues from remuneration for the use of the fixed-line network, 14.4% in 2007 and 11.5% in 2006 represented interconnection fees paid by Oi for the use of Telemar's fixed-line network to complete mobile-to-fixed calls and was eliminated in the consolidation of our financial statements.

Gross operating revenues from data transmission services

Gross operating revenues from data transmission services increased by 11.7% in 2007, principally due to (1) a 19.9% increase in gross operating revenue from ADSL subscriptions, (2) a 49.7% increase in gross operating revenue from IP services, and (3) a 17.6% increase in gross operating revenue from other data transmission services. Of our gross operating revenues from EILD services, 9.9% in 2007 and 10.0% in 2006 represented fees paid by Oi for EILD services and was eliminated in the consolidation of our financial statements.

Gross operating revenues from ADSL subscriptions increased in 2007, primarily due to the 36.4% increase in the number of ADSL subscriptions in 2007 to 1.5 million at December 31, 2007 from 1.1 million at December 31, 2006 as a result of our continued focus on increasing *Oi Velox*'s penetration of our local fixed-line subscriber base. The effects of this increase were partially offset by a 15.2% decline in average revenues per line generated by ADSL subscriptions to R$46.4 in 2007 from R$54.7 in 2006. As of December 31, 2007, *Oi Velox*'s customer base represented 10.7% of our total fixed lines in service as compared to 7.8% as of December 31, 2006.

IP services consist of dedicated and dial-up internet access for ISPs, as well as Virtual Private Network, or VPN, services that enable companies to establish intranets and extranets. Gross operating revenues from IP services increased in 2007 primarily due to substantially increased demand for internet access and other services in 2007 related to the Pan-American Games, an event that took place in Rio de Janeiro in July and August 2007.

Gross operating revenues from other data transmission services increased in 2007 primarily due to an increase of R$40.0 million in aggregate subscription fees received from subscribers of services provided by "*Oi Internet*," our ISP, as a result of the increase in the number of our broadband services customers.

Charges against gross operating revenues

Value-added and other indirect taxes

Value-added and other taxes on our fixed-line services increased by 0.8% in 2007, primarily reflecting the change in revenue mix, as fewer taxes or lower tax rates apply to some of our services.

Discounts

Discounts on our fixed-line services declined by 24.6% in 2007, primarily as a result of lower rebates on pre-paid public calling cards.

Net operating revenues

As a result of the foregoing, net operating revenues of the fixed-line services segment declined by 1.1% to R$14,389 million in 2007 from R$14,550 million in 2006.

Operating revenue of our mobile services segment

The following table sets forth the components of the gross and net operating revenues of our mobile services segment, as well as the percentage change from the prior year, for the years ended December 31, 2006 and 2007.

	Year Ended December 31,		
	2006	2007	% Change
	(in millions of R$, except percentages)		
Mobile telephone services:			
Originating calls	1,403	1,658	18.2
Monthly subscription fees	746	937	25.6
Additional services	277	335	20.9
Sale of handsets and accessories	319	243	(23.8)
Roaming	120	114	(5.0)
	2,865	**3,287**	14.7
Data transmission services			
Transmission — EILD	126	134	6.3
Dedicated Line Service — SLD	39	42	7.7
Internet protocol services	34	37	8.8
Switching packs and frame relay	55	69	25.5
Other services	55	76	38.2
	309	**358**	15.9
Remuneration for the use of the mobile network:			
Fixed-line to mobile network use	955	1,001	4.8
Mobile to mobile network use	386	914	136.8
	1,341	**1,915**	42.8
Total gross operating revenue	**4,515**	**5,560**	23.1
Value-added and other indirect taxes	(905)	(1,040)	14.9
Discounts and returns	(308)	(417)	35.4
Net operating revenue	**3,302**	**4,103**	24.3

Gross operating revenues of our mobile services segment increased by 23.1% in 2007, primarily due to (1) a 42.8% increase in remuneration for the use of our mobile network, and (2) a 14.7% increase in gross operating revenues from mobile telephone services.

Gross operating revenues from mobile services

Gross operating revenues from mobile services increased by 14.7% in 2007, principally due to:

- an 18.2% increase in gross operating revenue from billed minutes, primarily as a result of (1) the 22.1% increase in the number of our mobile customers to 16.0 million at December 31, 2007 from 13.1 million at December 31, 2006, and (2) rate increases for our billed minutes that reflected increases of 3.20% in 2006 and 3.17% in 2007, as measured by the IST;
- a 25.6% increase in gross operating revenue from monthly subscription fees, primarily due to (1) the increase in the number of subscribers to our post-paid plans, and (2) rate increases for our post-paid plans that reflected increases in inflation of 3.20% in 2006 and 3.17% in 2007, as measured by the IST; and

- a 20.9% increase in gross operating revenues from additional services, primarily as a result of our receipt of fees charged to pre-paid mobile customers to permit them to participate in our "*Oi Ligadores*" program which we launched in July 2007, the effects of which were partially offset by a 16.5% decline in gross operating revenue from pre-paid SMS to R$152 million in 2007 from R$182 million in 2006.

The effects of these increases were partially offset by a 23.8% decline in gross operating revenue from the sale of handsets and accessories, primarily due to a 41.8% decrease in the number of mobile handsets sold as a result of our strategy of exiting the business of selling mobile handsets and focusing on selling SIM cards independently of mobile handsets to the pre-paid segment in an effort to reduce customer-acquisition costs. The effects of this decline were partially offset by an increase in the sale of SIM cards.

The number of our pre-paid mobile customers increased by 25.2% in 2007 to 13.4 million at December 31, 2007 from 10.7 million at December 31, 2006, primarily as a result of the success of our "*Oi Ligadores*" marketing campaign, which we launched in July 2007. As of December 31, 2007, pre-paid customers represented 84% of our mobile customer base.

The number of subscribers to our post-paid mobile plans increased by 8.3% in 2007 to 2.6 million at December 31, 2007 from 2.4 million at December 31, 2006, primarily as a result of the success of our strategy of marketing our "*Oi Conta Total*" bundled plans to high-income customers. As of December 31, 2007, post-paid customers represented 16% of our mobile customer base.

Our monthly average revenue per user (calculated based on the total revenue for the year divided by the monthly average customer base for the year divided by 12) increased by 10.1% to R$22.06 in 2007 from R$20.04 in 2006.

Gross operating revenues from remuneration for the use of the mobile network

Gross operating revenues from remuneration for the use of the mobile network increased by 42.8% in 2007 as a result of:

- a 136.8% increase in interconnection fees paid to us for completing calls on our mobile network that were originated on the networks of mobile service providers, primarily as a result of (1) the impact of the transition to the "full billing" system for interconnection fees, which was in effect for all of 2007 and only five-and-one-half months in 2006, (2) the 22.2% increase in the number of our mobile customers during 2007 resulting in an increase in the number of minutes terminated on our mobile network, and (3) an increase in our VU-M rates of 1.97% that was implemented in July 2007.
- a 4.8% increase in interconnection fees paid to us for completing calls on our mobile network that were originated on the networks of fixed-line service providers, primarily due to (1) the 22.2% increase in the number of our mobile customers during 2007 resulting in an increase in the number of minutes terminated on our mobile network, and (2) the increase in our VU-M rates that was implemented in July 2007.

Of our gross operating revenues from remuneration for the use of the mobile network, 39.8% in 2007 and 54.6% in 2006 represented interconnection fees paid by Telemar for the use of Oi's fixed line network to complete fixed-to-mobile calls and was eliminated in the consolidation of our financial statements.

Charges against gross operating revenues

Value-added and other indirect taxes

Value-added and other taxes on our mobile services increased by 14.9% in 2007, primarily reflecting the growth in the gross operating revenue of our mobile services segment in 2007.

Discounts

Discounts on our mobile services increased by 35.4% in 2007, primarily as a result of higher rebates on subscription fees to our corporate customers and higher rebates on the sale of pre-paid telephone cards.

Net operating revenues

As a result of the foregoing, net operating revenues of the mobile services segment increased by 24.3% to R$4,103 million in 2007 from R$3,302 million in 2006.

Cost of goods sold and services rendered

Cost of goods sold and services rendered declined by 1.2% in 2007, principally due to a 5.2% decline in cost of goods sold and services rendered of our fixed-line services segment, the effects of which were partially offset by a 12.8% increase in cost of goods sold and serviced rendered of our mobile services segment, as discussed below.

In addition, cost of goods sold and services rendered for 2007 reflects an adjustment of R$5.2 million to rental and insurance expense as a result of the treatment of a lease accounted for as an operating lease in 2006 as a capital lease in 2007 due to the change in accounting policy under Law No. 11,638/07 and *Deliberação* 565/08.

Of the costs of goods sold and services rendered of our fixed-line services segment, 13.3% in 2007 and 11.1% in 2006 represented (1) interconnection fees paid by Telemar for the use of Oi's mobile network to complete fixed-to-mobile calls, (2) fees paid by Telemar for the use of Oi's wireless local loop technology, (3) customer loyalty campaigns, (4) EILD leasing and (5) collection commissions. These costs were eliminated in the consolidation of our financial statements.

Of the costs of goods sold and services rendered of our mobile services segment, 7.0% in 2007 and 9.2% in 2006 represented (1) interconnection fees paid by Oi for the use of Telemar's fixed-line network to complete mobile-to-fixed calls, (2) fees paid by Oi for EILD services, (3) collection commissions and (4) leasing of infrastructure, towers, circuits and "102" service platform. These fees were eliminated in the consolidation of our financial statements.

The following table sets forth the components of our cost of goods sold and services rendered, as well as the percentage change from the prior year, for the years ended December 31, 2006 and 2007.

	Year Ended December 31,		
	2006	2007	% Change
	(in millions of R$, except percentages)		
Interconnection	2,792	3,332	19.3
Depreciation	2,762	2,269	(17.8)
Network maintenance	1,378	1,363	(1.1)
Rental and insurance	599	653	9.0
Third-party services	348	447	28.4
Personnel	192	253	31.8
Materials	288	280	(2.8)
Costs of handsets and accessories	578	262	(54.7)
Concession contract renewal fee	139	96	(30.9)
Other costs of services rendered	284	293	2.8
Total cost of goods sold and services rendered	9,360	9,247	(1.2)

Cost of goods sold and services rendered of our fixed-line services segment

Cost of goods sold and services rendered of our fixed line services segment declined by 5.2% in 2007, principally due to a 24.5% decline in depreciation costs to R$1,693 million in 2007 from R$2,242 million in 2006, primarily due to the increase in the amount of our fixed-line equipment that has been fully depreciated. The effects of this decline were partially offset by:

- a 2.8% increase in interconnection costs to R$3,172 million in 2007 from R$3,086 million in 2006, primarily as a result of an increase in the VU-M rates of mobile services providers that were implemented in July 2007; and
- a 5.1% increase in network maintenance costs to R$1,282 million in 2007 from R$1,220 million in 2006, primarily due to the growth of our "Oi Velox" services, which resulted in increased costs to set up "Oi Velox" in our customers' homes, as well as maintenance costs relating to the expansion of our network, the effects of which were partially offset by a reduction in maintenance costs as a result of the replacement of outsourced service providers with our own employees for certain maintenance services beginning in June 2007.

The gross profit of our fixed-line services segment increased by 3.8% to R$6,832 million in 2007 from R$6,512 million in 2006. As a percentage of net operating revenue of this segment, gross profit increased to 47.4% in 2007 from 45.2% in 2006.

Cost of goods sold and services rendered of our mobile services segment

Cost of goods sold and services rendered of our mobile services segment increased by 12.8% in 2007, principally due to:

- a 94.6% increase in interconnection costs to R$1,010 million in 2007 from R$519 million in 2006, primarily as a result of (1) the impact of the transition to the "full billing" system for interconnection fees, which was in effect for all of 2007 and only five-and-one-half months in 2006, (2) the 22.1% increase in the number of our mobile customers which resulted in an increase in the total number of minutes used by our mobile customers to make calls to customers of other mobile providers for which we pay interconnection fees at the VU-M rate, and (3) an increase in the VU-M rates of mobile services providers that were implemented in July 2007; and
- an 11.0% increase in depreciation and amortization costs to R$576 million in 2007 from R$519 million in 2006, primarily as a result of the growth in our property, plant and equipment as a result of the expansion of our mobile network.

The effects of these increases were partially offset by

- a 54.7% decline in the cost of mobile handsets and accessories to R$262 million in 2007 from R$578 million in 2006, primarily due to a 38.9% decrease in the number of mobile handsets sold as a result of our strategy of exiting the business of selling mobile handsets and focusing on selling SIM cards independently of mobile handsets to the pre-paid segment in an effort to reduce customer-acquisition costs; and
- a 38.9% decline in network maintenance costs to R$96 million in 2007 from R$157 million in 2006, primarily due to our replacement of outsourced service providers with our own network management center, which reduced our maintenance costs but increased our personnel costs.

The gross profit of our mobile services segment increased by 56.3% to R$1,365 million in 2007 from R$875 million in 2006. As a percentage of net operating revenue of this segment, gross profit increased to 33.3% in 2007 from 26.5% in 2006.

Gross profit

As a result of the foregoing, our consolidated gross profit increased by 10.8% to R$8,325 million in 2007 from R$7,512 million in 2006. As a percentage of net operating revenue, gross profit increased to 47.4% in 2007 from 44.5% in 2006.

Operating expenses

Selling expenses

Selling expenses increased by 3.9% in 2008, principally due to a 16.5% increase in selling expenses of our fixed-line segment, offset by a 17.6% decline in operating expenses of our mobile services segment.

Fixed-line services segment. Selling expenses of our fixed-line services segment increased by 16.5% in 2007, principally due to:

- a 40.6% increase in provision for doubtful accounts to R$544 million in 2007 from R$387 million in 2006, primarily due to our implementation of a more flexible credit history and minimum income policy for new clients in our fixed-line business, which resulted in an increase in our provision for doubtful accounts as a percentage of our gross profit to 6.5% in 2007 from 5.2% in 2006;
- a 39.4% increase in marketing expenses to R$354 million in 2007 from R$254 million in 2006, primarily due to our marketing campaigns to consolidate the "Oi" brand and our sponsorship of the Pan-American Games; and
- a 6.8% increase in expenses for third-party services to R$1,007 million in 2007 from R$943 million in 2006, principally due to a 25.4% increase in sales commissions to R$262 million in 2007 from R$209 million in 2006, primarily as a result of an increase in marketing of our "Oi Velox" services.

As a percentage of net operating revenues of this segment, selling expenses increased to 14.5% in 2007 from 12.3% in 2006.

Mobile services segment. Selling expenses of our mobile services segment declined by 17.6% in 2007, principally due to:

- an 11.5% decline in expenses for third-party services to R$502 million in 2007 from R$567 million in 2006, principally due to:
  - a 12.4% decline in other third-party services expenses to R$106 million in 2007 from R$121 million in 2007, primarily due to lower costs related to data processing services provided by third parties, such as the upgrade and development of software and hardware maintenance, and to lower costs related to consulting services; and
  - a 12.4% decline in sales commission to R$289 million in 2007 from R$330 million in 2006, primarily as a result of the 19.8% decline in the number of new subscriber activations under our post-paid mobile plans in 2007; and
- a 43.4% decline in marketing expenses to R$120 million in 2007 from R$212 million in 2006, primarily due to reduced spending on sponsorships and market research.

As a percentage of net operating revenues of this segment, selling expenses declined to 19.4% in 2007 from 29.3% in 2006.

General and administrative expenses

General and administrative expenses increased by 2.8% in 2008, principally due to a 15.7% increase in selling expenses of our mobile services segment.

General and administrative expenses in 2007 reflect an adjustment of R$3.0 million to rental and insurance expense as a result of the treatment of a lease accounted for as an operating lease in 2006 as a capital lease in 2007 due to the change in accounting policy under Law No. 11,638/07 and *Deliberação* 565/08.

Fixed-line services segment. General and administrative expenses of our fixed-line services segment declined by 0.5% in 2007, principally due to a 21.8% decline in depreciation expenses to R$97 million in 2007 from R$124 million in 2006, primarily due to the increased amount of fixed-line equipment that we had fully depreciated. The effects of this decline were partially offset by an 8.5% increase in expenses for third-party services to R$560 million in 2007 from R$516 million in 2006, principally due to a 4.5% increase in consulting and legal expenses to R$184 million in 2007 from R$176 million in 2006.

Mobile services segment. General and administrative expenses of our mobile services segment increased by 15.7% in 2007 to R$236 million from R$204 million in 2006.

Other operating expenses, net

Other operating income

Other operating income increased by 15.3% to R$640 million in 2007 from R$541 million in 2006, primarily due to:

- a 167.6% increase in recovered expenses to R$91 million in 2007 from R$34 million in 2006, mainly due to an increase in certain tax benefits;
- a R$47 million non-recurring gain on disposal of permanent assets in 2007;
- a 7.1% increase in rental of infrastructure to R$211 million in 2007 from R$197 million in 2006, primarily due to the continued expansion of other mobile telephone networks in Region I that rent infrastructure from us; and
- a 5.9% increase in late-payment charges to R$179 million in 2007 from R$169 million in 2006 due to increased collection of such penalties as a result of a campaign to encourage delinquent customers to pay their outstanding past-due accounts at a discount and due to an increased number of notices sent to delinquent customers through letters, call center follow-up and voice messaging.

The effects of these increases were partially offset by an 84.4% decrease in bonuses and discounts to R$10 million in 2007 from R$64 million in 2006, as a result of the decrease in the volume of mobile handsets purchased from suppliers, as we sought to promote direct sales of mobile handsets from suppliers to stores that sell the mobile handsets directly to the public in connection with our strategy of selling SIM cards independently of mobile handsets.

Other operating expenses

Other operating expenses declined by 12.9% to R$1,198 million in 2007 from R$1,376 million in 2006, primarily due to a 50.1% decrease in provisions for contingencies from R$621 million in 2006 to R$310 million in 2007, mainly due to a reversal of provisions for labor contingencies as a result of a change in the method by which we estimate probable losses. See "— Critical accounting policies and estimates — Contingencies — Labor claims."

The effects of this decline was partially offset by:

- a non-recurring net loss caused by fire in the amount of R$53 million that was recorded in 2007;
- R$39 million of share-based compensation recorded in 2007 as a result of a change in accounting policy; and
- a 58.5% increase in employees' profit sharing expenses from R$53 million in 2006 to R$84 million in 2007, mainly due to the performance of our company.

In addition, other operating revenues for 2007 reflect an adjustment of R$30.8 million related to the reclassification of revenues that were recorded as non-operating revenue in 2006 as operating revenue in 2007. Moreover, other operating expenses for 2007 reflect an adjustment of R$39.5 million related to the recording of stock option expenses. Each of these adjustments occurred due to the change in accounting policy under Law No. 11,638/07 and *Deliberação* 565/08.

Operating income

As a result of the foregoing, our consolidated operating income increased by 31.4% to R$3,868 million in 2007 from R$2,935 million in 2006. As a percentage of net operating revenue, operating income increased to 22.0% in 2007 from 17.4% in 2006.

Operating income of our fixed-line services segment

The operating income of our fixed-line services segment increased by 23.2% to R$3,899 million in 2007 from R$3,165 million in 2006. As a percentage of the net operating revenues, operating income of this segment increased to 27.0% in 2007 from 21.8% in 2006.

Operating income (loss) of mobile services segment

The operating income of our fixed-line services segment was R$292 million in 2007 compared to an operating loss of R$215 million in 2006. As a percentage of the net operating revenues, operating income of this segment increased to 7.1% in 2007 from (6.5)% in 2006.

Interest expenses, net

Interest income

Interest income increased by 42.6% to R$920 million in 2007 from R$645 million in 2006, primarily due to:

- a 41.9% increase in yield on marketable securities to R$437 million in 2007 from R$308 million in 2006 attributable to a 41.6% increase in our average cash and cash equivalent balances in 2007 as compared to 2006, offset by the 21.4% decrease in average interest rates in 2007 as compared to 2006;
- a 38.0% increase in interest and monetary variation on other assets as a result of a 160.0% increase in monetary adjustment of judicial deposits; and
- a 45.7% increase in financial discounts obtained as a result of advanced payments to suppliers.

Interest expenses

Interest expenses decreased by 29.9% to R$1,225 million in 2007 from R$1,747 million in 2006, primarily due to:

- a 76.9% decline in monetary adjustment of provisions for contingencies to R$81 million in 2007 from R$350 million in 2006 attributable to the reversal of provisions for labor contingencies as a result of the change in the method by which we estimate probable losses in connection with outstanding labor claims;
- a 21.5% decline in losses from derivatives to R$379 million in 2007 from R$483 million in 2006, principally attributable to a decrease in the notional value of our hedging agreements in 2007 compared to 2006; and
- a 75.2% decline in interest on loans and commissions payable to related parties to R$31 million in 2007 from R$125 million in 2006, primarily as a result of a 21.4% decrease in average interest rates in 2007 as compared to 2006 and our lower level of indebtedness in 2007 as compared to 2006.

In addition, interest expenses for 2007 reflect an adjustment of R$8.5 million relating to: (1) interest expense relating to a lease that was treated as an operating lease in 2006 and a capital lease in 2007, and (2) fair value adjustment of derivatives, in each case due to the change in accounting policy under Law No. 11,638/07 and *Deliberação* 565/08.

Income tax and social contribution

The composite corporate statutory income tax and social contribution rate was 34% in each of 2006 and 2007. Income tax and social contribution was R$921 million in 2007 compared to R$217 million in 2006. The increase in income tax and social contribution in 2007 as compared to 2006 reflected mainly the increase in income before income tax and social contribution in 2007. Our effective tax rate was 25.6% in 2007 as compared to 11.9% in 2006. The higher effective tax rate in 2007 was principally the result of the relatively higher recognition of tax loss carryforwards in 2006 as compared to 2007. In 2006, our mobile services subsidiary, Oi, which commenced operations in 2002 and first generated positive net income in 2006, was able to recognize R$216 million in tax loss carryforwards in that year. It recognized its remaining tax loss carryforwards in the amount of R$97 million in 2007.

In addition, income tax and social contribution for 2007 reflects net positive adjustments of R$197.4 million, mainly attributable to R$246.6 million related to the recognition of certain tax benefits in accordance with Law No. 11,638/07 and *Deliberação* 565/08.

Net Income

Our consolidated net income increased by 79.0% to R$2,889 million in 2007 from R$1,615 million in 2006. As a percentage of net operating revenue, net income increased to 16.4% in 2007 from 9.6% in 2006.

Liquidity and capital resources

Our principal cash requirements consist of the following:

- working capital requirements;
- servicing of our indebtedness;
- capital expenditures related to investments in operations, expansion of our networks and enhancements of the technical capabilities and capacity of our networks;
- funds required for potential acquisitions of equity interests in other telecommunications providers, including funds used for the BrT Transaction and the acquisition of Amazônia Celular, and funds to be used in 2009 to acquire additional common shares of BrT Part and BrT in mandatory tender offers; and
- dividends on our shares, including in the form of interest attributable to shareholders' equity.

Unless our board of directors deems it inconsistent with our financial position, payment of dividends is mandatory under our by-laws and, consequently, may give rise to significant cash requirements in future periods.

Our principal sources of liquidity have traditionally consisted of the following:

- cash flows from operating activities;

- long-term borrowings; and
- sales of debt securities in domestic and international capital markets.

During 2008, cash flow generated by operations was used primarily for investing activities, for working capital requirements and to service our outstanding debt obligations. At December 31, 2008, our consolidated cash and cash equivalents and financial investments amounted to R$9,844 million. At December 31, 2008, we had working capital of R$7,131 million.

Projected sources and uses of cash

We anticipate that we will be required to spend approximately R$8,819.0 million to meet our short-term contractual obligations and commitments and budgeted capital expenditures in 2009, and approximately R$15,823.3 million to meet our long-term contractual obligations and commitments and budgeted capital expenditures in 2010 and 2011. We expect that we will meet these cash requirements through a combination of cash generated from operating activities and cash generated by financing activities, including new debt financings and the refinancing of our existing indebtedness as it becomes due.

Cash flow

Cash flows from operating activities

Our primary source of operating funds is cash flow generated from our operations. Net cash provided by operating activities was R$5,175 million in 2008, R$5,006 million in 2007 and R$5,854 million in 2006. We consider cash flows provided by our operating activities to be sufficient for our expected cash requirements related to operations. However, we generally finance our investments in property, plant and equipment through the use of bank loans, vendor financing, capital markets and other forms of financing.

Cash flows used in investing activities

Investing activities used net cash of R$6,488 million in 2008, R$4,118 million in 2007 and R$2,331 million in 2006.

During 2008, investing activities for which we used cash primarily consisted of (1) investments of R$5,009 million in additions to property, plant and equipment, primarily related to the expansion of our mobile network and systems and the acquisition of and upgrades to data transmission and voice transmission equipment, and (2) net investments of R$3,348 million, primarily related to our acquisition of preferred shares of BrT Part and BrT through open market purchases and tender offers for these shares and our acquisition of Amazônia Celular. During 2008, we also increased our financial investments by R$1,973 million, primarily due to a higher cash position in the period.

During 2007, investing activities for which we used cash primarily consisted of (1) investments of R$1,633 million in additions to property, plant and equipment, primarily related to the expansion of our mobile network and systems and the acquisition of and upgrades to data transmission and voice transmission equipment, and (2) redemptions of R$1,633 million in financial investments, primarily due to a lower cash position in the period.

During 2006, investing activities for which we used cash primarily consisted of investments of R$2,327 million in additions to property, plant and equipment, primarily related to the expansion of our mobile network and systems and the acquisition of and upgrades to data transmission and voice transmission equipment.

Cash flows from financing activities

Financing activities provided net cash of R$7,030 million in 2008, and used net cash of R$419 million in 2007 and R$1,124 million in 2006.

During 2008, our principal sources of borrowed funds consisted of:

- R$4,300 million aggregate principal amount borrowed under an unsecured line of credit in May 2008;
- US$192 million aggregate principal amount borrowed under an export credit facility that we entered into in June 2008;
- US$250 million aggregate principal amount borrowed under a credit facility that we entered into in July 2008;
- R$3,600 million aggregate principal amount of promissory notes issued in August 2008;
- R$2,000 million aggregate principal amount of promissory notes issued in December 2008; and
- R$1,500 million aggregate principal amount of debentures issued in December 2008.

We used cash to pay dividends and interest on shareholders' equity in the aggregate amount of R$1,090 million in April 2008 and an extraordinary dividend in the aggregate amount of R$3,896 million in September 2008. During 2008, we also used cash to repay R$1,325 million of our outstanding long-term indebtedness.

During 2007, our principal sources of borrowed funds consisted of:

- R$700 million aggregate principal amount borrowed under a credit facility with BNDES that we entered into in November 2006;
- R$440 million aggregate principal amount borrowed under a credit facility with BNDES that we entered into in July 2007; and
- US$360 million aggregate principal amount borrowed under a syndicated credit facility with Citibank Tokyo that we entered into in September 2007.

During 2007, we used cash to repay R$1,701 million of our outstanding long-term indebtedness. We also used cash to pay dividends and interest on shareholders' equity in the aggregate amount of R$643 million in 2007.

During 2006, our principal sources of borrowed funds consisted of:

- R$2,160 million aggregate principal amount of nonconvertible debentures issued in March 2006; and
- R$810 million aggregate principal amount borrowed under a credit facility with BNDES that we entered into in November 2006.

During 2006, we used cash to repay R$4,289 million of our outstanding long-term indebtedness. We also used cash to pay dividends and interest on shareholders' equity in the aggregate amount of R$1,000 million in 2006.

Indebtedness and financing strategy

At December 31, 2008, our total outstanding indebtedness on a consolidated basis was R$21,173 million (including swap adjustments of R$313 million), consisting of R$3,702 million of short-term indebtedness, including the current portion of long-term indebtedness (or 17.5% of our total indebtedness), and R$17,472 million of long-term indebtedness (or 82.5% of our total indebtedness). At December 31, 2008, we had R$91 million of indebtedness to related parties on a consolidated basis, representing 0.4% of our total indebtedness.

On a consolidated basis, our *real*-denominated indebtedness at December 31, 2008 was R$17,662 million (excluding swap adjustments of R$313 million), or 83.4% of our total indebtedness, and our foreign currency-denominated indebtedness was R$3,198 million, or 15.1% of our total indebtedness. At December 31, 2008, our *real*-denominated indebtedness (excluding swap adjustments) bore interest at an average rate of 12.5% per annum, and our foreign currency denominated debt bore interest at an average rate of 4.1% per annum for loans denominated in U.S. dollars, 1.5% per annum for loans denominated in Japanese Yen, and 8.9% for loans represented by the foreign currency basket of BNDES. At December 31, 2008, 8.9% of our debt bore interest at floating rates, including the effect of swap adjustments.

Our financing strategy has been to continue to extend the average maturity of our outstanding indebtedness, including by repaying short-term debt with the proceeds of long-term loans and long-term debt securities, to increase our liquidity levels and improve our strategic, financial and operational flexibility. In light of recent market conditions, we have entered into certain short-term debt instruments for the financing of the BrT Transaction. Once market conditions normalize, we plan to return to the strategy of extending the average term of our indebtedness. Our financing strategy over the next several years involves maintaining adequate liquidity and a debt maturity profile that is compatible with our anticipated cash flow generation and anticipated capital expenditures. In addition, we do not expect our capital expenditures to affect adversely our debt leverage ratios or our disciplined approach to capital allocation.

Short-term indebtedness

Our consolidated short-term debt, including the current portion of long-term loans and financings and debentures, was R$3,702 million at December 31, 2008. Under our financing policy, we generally do not incur short-term indebtedness, as we believe that our cash flows from operations generally will be sufficient to service our current liabilities. However, in light of recent market conditions, we have entered into certain short-term debt instruments for the financing of the BrT Transaction. We believe that we will be able to refinance these short-term debt instruments prior to their maturity with the proceeds of long-term debt instruments.

In December 2008, we issued promissory notes in the aggregate amount of R$2,000 million to finance the BrT Transaction. These promissory notes will mature in December 2009. These promissory notes bear interest at the CDI rate plus 3.00% per annum. Interest on these promissory notes is payable at maturity.

Long-term indebtedness

The following table sets forth selected information with respect to our principal outstanding long-term debt instruments at December 31, 2008.

Instrument	Outstanding Principal Amount	Final Maturity
Debentures:		
Debentures due 2011	R$1,620 million	September 2011
Debentures due 2013	R$540 million	March 2013
Debentures due 2013	R$1,500 million	December 2013
BrT Transaction financing:		
Line of credit	R$4,300 million	May 2016
Promissory notes	R$3,600 million	August 2010
BNDES facilities:		
December 2003 credit facility:		
Real-denominated loan	R$86 million	January 2011
Currency-basket-denominated loan	R$16 million	January 2011
September 2004 credit facility	R$271 million	October 2012
November 2006 credit facility	R$1,786 million	June 2014
July 2007 credit facility	R$467 million	January 2015
Credit facilities with export credit agencies:		
FINNVERA 2008 export credit facility	R$448 million	December 2018
Nordic Investment Bank credit facility:		
A Loan	R$234 million	July 2018
B Loan	R$351 million	July 2015
Commercial bank credit facilities:		
ABN credit facility	R$283 million	November 2012
Citibank Tokyo syndicated credit facility	R$1,014 million	September 2017

Some of our debt instruments require that we comply with financial covenants, as follows: (i) the obligation to maintain a total debt to EBITDA ratio of less than or equal to 4.00 to 1.0 at the end of and for each fiscal quarter until maturity; and (ii) the obligation to maintain a consolidated EBITDA to consolidated interest expense ratio of greater than or equal to 1.75 to 1.0 at the end of and for each fiscal quarter until maturity.

Our debt instruments with BNDES contain specific financial covenants, relating to:

(1) equity to total assets;

(2) EBITDA to net operating revenue;

(3) EBITDA to interest expense;

(4) total debt to EBITDA; and

(5) short-term debt minus cash to EBITDA.

Under these debt instruments, BNDES has the right to accelerate the debt if, at the date the financial covenants are tested, we are in breach of:

- either the EBITDA to interest expense ratio or the total debt to EBITDA ratio; or
- a combination of any two of: the equity to total asset ratio, the EBITDA to net operating revenue ratio and the short-term debt minus cash to EBITDA ratio.

At December 31, 2008, we were not in compliance with the minimum equity to total assets ratio and the minimum EBITDA to net operating revenue ratio. In February 2009, BNDES granted us a temporary waiver in respect of the breach of these two financial covenants. We believe that we will not be in compliance with the minimum EBITDA to net operating revenue ratio for the foreseeable future, although we believe that we will be able to comply with the four other financial covenants and, therefore, our breach of such covenant will not, in and of itself, result in the ability of BNDES to accelerate the debt. In addition, we believe that our compliance with the four other financial covenants will not adversely affect our ability to implement our financing plans.

Debentures

In March 2006, we issued non-convertible debentures in two series. The first series of debentures, in an aggregate principal amount of R$1,620 million, will mature in March 2011, and the second series of debentures, in an aggregate principal amount of R$540 million, will mature in March 2013. The first series of debentures bears interest at a rate of 103% of the CDI rate per annum, and the second series of debentures bears interest at a rate of the CDI rate plus 0.55% per annum. Interest on these debentures is payable semi-annually in arrears in March and September of each year.

In December 2008, we issued non-convertible subordinated debentures in an aggregate principal amount of R$1,500 million to our parent, TNL. These debentures will mature in December 2013. These debentures bear interest at a rate of the CDI rate plus 4.0% per annum, payable upon the maturity of these debentures.

Line of credit

In May 2008, we entered into an unsecured line of credit with a Brazilian financial institution in the aggregate amount of R$4,300 million to finance the BrT Transaction. The loans under this line of credit bear interest at the rate of the CDI rate plus 1.30% per annum, payable semi-annually in arrears in May and November of each year. The principal of these loans is payable in seven equal annual installments, commencing in May 2010.

Promissory notes

In August 2008, we issued promissory notes in an aggregate principal amount of R$3,600 million to finance the BrT Transaction. These promissory notes will mature in August 2010. These promissory notes bear interest at the CDI rate plus 1.60% per annum. Interest on these promissory notes is payable annually in arrears August of each year, beginning in August 2009.

BNDES facilities

December 2003 credit facility

In December 2003, we entered into a credit facility with BNDES under which BNDES disbursed two loans in an aggregate principal amount equivalent to R$520 million. The proceeds of this credit facility were used to fund our investment plan for the period from 2002 to 2004 and the expansion of our telecommunications plant (voice, data and video), and to make operational improvements to meet the targets established in the GPUS and the GPQG in effect at that time.

The *real*-denominated loan under this credit facility bears interest at the TJLP rate plus 4.5% per annum. The currency basket-denominated loan under this credit facility bears interest at the UMBNDES rate, which is set by BNDES for its loans in foreign currency, plus 4.5% per annum. Interest on both loans is payable monthly in arrears through maturity. The outstanding principal amount of both loans is payable in 69 equal monthly installments which commenced in May 2005. At December 31, 2008, the outstanding principal amount under the *real*-denominated loan was R$86 million, and the outstanding principal amount under the currency basket-denominated loan was US$16 million.

September 2004 credit facility

In September 2004, we entered into a credit facility with BNDES under which BNDES disbursed a loan in the principal amount of R$663 million. The proceeds of this credit facility were used to fund the implementation of our mobile services network following the grant of our authorization to provide mobile services in Region I.

The loan under this credit facility bears interest at the TJLP rate plus 4.5% per annum, payable monthly in arrears through maturity. The outstanding principal amount of this loan is payable in 78 equal monthly installments which commenced in May 2006. At December 31, 2008, the outstanding principal amount under this loan was R$271 million.

November 2006 credit facility

In November 2006, we entered into a credit facility with BNDES under which BNDES disbursed two loans in the principal amounts of R$1,771 million (the A loan) and R$200 million (the B loan). The proceeds of this credit facility were received in disbursements of R$810 million in November 2006, R$700 million in September 2007 and R$467 million in August 2008, which were used to fund capital expenditures during the period between 2006 and 2008 related to the expansion of and technological enhancements to our fixed-line telecommunications network.

The A loan bears interest at the TJLP rate plus 4.5% per annum and the B loan bears interest at the TJLP rate plus 2.5% per annum. Interest on each of these loans is payable quarterly in arrears through June 2009 and monthly in arrears thereafter through maturity in June 2014. The outstanding principal amount of each of these loans is payable in 60 equal monthly installments commencing in July 2009. At December 31, 2008, the outstanding principal amount under these loans was R$1,786 million.

July 2007 credit facility

In July 2007, we entered into a credit facility with BNDES under which BNDES disbursed two loans in the principal amounts of R$367 million (the A loan) and R$100 million (the B loan). The proceeds of this credit facility were received in disbursements of R$290 million in July 2007, R$150 million in October 2007, R$10 million in October 2008 and R$17 million in November 2008, which were used to fund capital expenditures during the period between 2006 and 2008 related to the expansion of and technological enhancements to our mobile telecommunications network.

The A loan bears interest at the TJLP rate plus 4.5% per annum and the B loan bears interest at the TJLP rate plus 2.5% per annum. Interest on each of these loans is payable quarterly in arrears through January 2010 and monthly in arrears thereafter through maturity in January 2015. The outstanding principal amount of each of these loans is payable in 60 equal monthly installments commencing in February 2010. At December 31, 2008, the outstanding principal amount under these loans was R$467 million.

Credit facilities with export credit agencies

Export credit facility with FINNVERA

In June 2008, we entered into an export credit facility agreement with FINNVERA under which FINNVERA agreed to disburse loans in the aggregate principal amount of up to US$300 million. Disbursements of US$87 million and US$105 million under this export credit facility were received in August 2008 and December 2008, respectively. Additional disbursements under this export credit facility will be made as the investments take place through June 2010. The proceeds of this export credit facility have been and will be used to fund equipment purchases related to our capital expenditures on our fixed-line and mobile telecommunications infrastructure. Loans under this export credit facility bear interest at an average rate of LIBOR plus 1.07% per annum. Interest on each of these loans is payable semi-annually in arrears through maturity in December 2018.

The outstanding principal amount of these loans is payable in 17 equal semi-annual installments commencing in December 2010. At December 31, 2008, the outstanding principal amount under this export credit facility was R$448 million.

Credit facilities with Nordic Investment Bank

In July 2008, we entered into a credit facility with Nordic Investment Bank under which Nordic Investment Bank disbursed loans in the aggregate principal amount of US$250 million. The proceeds of this credit facility have been used to fund equipment purchases related to our infrastructure.

Under this credit facility, loans in the principal amount of US$100 million (the A loan) and US$150 million (the B loan) were disbursed in July 2008. The A loan bears interest at the rate of LIBOR plus 1.18% per annum and the B loan bears interest at the rate of LIBOR plus 0.80% per annum. Interest on each of these loans is payable semi-annually in arrears through maturity. The outstanding principal amount of the A loan is payable in 17 equal semi-annual installments commencing in July 2010, and the outstanding principal amount of the B loan is payable in 11 equal semi-annual installments commencing in July 2010. At December 31, 2008, the outstanding principal amount under these loans was R$585 million.

Credit facilities with commercial banks

In August 2001, we entered into a credit facility with ABN AMRO Bank N.V., or ABN, as administrative agent and lender together with other international banks, under which we received loans in the aggregate principal amount of US$1,400 million. The proceeds of this credit agreement were used to fund capital expenditures and working capital related to the launch of our mobile telecommunications services. In December 2002, US$300 million of this total amount were replaced with debt instruments issued by export credit agencies. Loans under this credit facility bear interest at the rate of LIBOR plus a margin ranging from 0.50% to 1.685% per annum. Interest on each of these loans is payable quarterly in arrears through maturity in August 2010. The outstanding principal amount of these loans is payable in 14 semi-annual installments that commenced in February 2004. At December 31, 2008, the outstanding principal amount under this credit facility was US$283 million.

In September 2007, we entered into a syndicated credit facility with Citibank Tokyo under which Citibank Tokyo disbursed loans in the aggregate principal amount of US$360 million. The proceeds of this credit facility were used to fund the expansion of and technological enhancements to our fixed-line telecommunications network. Loans under this credit facility bear interest at the rate of Yen LIBOR plus 0.48% per annum. Interest on these loans is payable semi-annually in arrears through maturity in September 2017. The outstanding principal amount of these loans is payable in 17 equal semi-annual installments commencing in September 2009. Payments of principal and interest under this credit facility are guaranteed by JBIC. At December 31, 2008, the outstanding principal amount under this credit facility was R$1,014 million.

Off-balance sheet arrangements

We do not currently have any transactions involving off-balance sheet arrangements.

Contractual commitments

The following table summarizes significant contractual obligations and commitments at December 31, 2008:

	Payments Due by Period				
	Less than One Year	One to Three Years	Three to Five Years	More than Five Years	Total
	(in millions of R$)				
Loans and financings(1)	3,603.6	7,614.0	2,961.8	3,190.4	17,370.0
Debentures(2)	98.3	1,620.0	540	1,545.0	3,803.6
Rights of use(3)	31.5	61.9	61.9	141.5	296.8
Capital lease obligations	21.0	5.2	—	—	26.2
Concession fees(4)	234.9	234.9	234.9	1,409.4	2,114.1
Usage rights(5)	150.0	—	109.6	794.5	1,054.1
Operating leases	1,548.6	—	—	—	1,548.6
Pension plan contributions	131.1	287.3	329.7	1,047.3	1,795.3
Total contractual obligations and commitments	5,819.0	9,823.3	4,237.9	8,128.1	28,008.7

(1) Includes estimated future payments of interest on our loans and financings, calculated based on interest rates and foreign exchange rates applicable at December 31, 2008 and assuming that all amortization payments and payments at maturity on our loans and financings will be made on their scheduled payment dates.
(2) Includes estimated future payments of interest on our debentures, calculated based on interest rates applicable at December 31, 2008 and assuming that all amortization payments and payments at maturity on our debentures will be made on their scheduled payment dates.
(3) Consists of lease agreements for ducts and agreements for the right of passage on highways.
(4) Consists of estimated bi-annual fees due to ANATEL under our concession agreements expiring in 2026. These estimated amounts are calculated based on the amounts paid in 2007, the last year in respect of which payment has been made under the terms of the concession agreement.
(5) Consists of payments due to ANATEL for radio frequency licenses.

We are also subject to contingencies with respect to tax, civil, labor and other claims and have made provisions for accrued liability for legal proceedings related to certain tax, civil and labor of R$1,962 million at December 31, 2008. See “Business — Legal Proceedings — Telemar” and note 23 to our consolidated financial statements at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008.

Quantitative and qualitative disclosures about market risk

We are exposed to market risks related to changes in exchange rates and interest rates. The principal market for our products and services is Brazil, and substantially all of our revenues are denominated in *reais*.

Exchange rate risk

We are exposed to foreign exchange risk because a significant portion of our equipment costs, such as costs relating to switching centers and software used for upgrading network capacity, are primarily denominated in foreign currencies or linked to foreign currencies, primarily the U.S. dollar. In 2008, approximately 30% of our capital expenditures were U.S. dollar-denominated or linked to the U.S. dollar. A hypothetical, instantaneous 10.0% depreciation of the *real* against the U.S. dollar as of December 31, 2007 would have resulted in an increase of R$139.1 million in the cost of our capital expenditures in 2008, assuming that we would have incurred all of these capital expenditures notwithstanding the adverse change in the exchange rates.

Our financing cost and the amount of financial liabilities that we record are also exposed to exchange rate risk. As of December 31, 2008, R$3,198 million, or 15.1%, of our total consolidated indebtedness was denominated in foreign currency, not including swap adjustments. At December 31, 2008, we protected 57% of our indebtedness affected by exchange rate variation against significant variations in exchange rates (primarily U.S. dollars) by using foreign currency swaps, foreign exchange options and foreign currency investments. The aggregate notional principal amount of our swap contracts is US$538 million. The maturity of our swap contracts is coupled to the maturity of debt that is hedged by these swap contracts. Our swap contracts cover our exchange rate risks until 2011. At December 31, 2008, the fair value of the swap contracts amounted to R$1,228 million. The aggregate notional principal amount of the forward exchange options is US$100 million, all of which matures in 2009.

In 2008, losses on foreign currency and monetary restatement amounted to R$523 million due to the depreciation of the *real* against the U.S. dollar. At December 31, 2008, a hypothetical, instantaneous and unfavorable 10.0% depreciation of the *real* against the U.S. dollar would result in an increase of R$137 million in our total debt obligations considering the net impact of the increase in our debt obligations and the decrease in our swap position. For further information about our swap agreements and other derivative financial instruments we use, see note 26 to our consolidated financial statements at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008.

Interest rate risk

We are exposed to interest rate risk because a significant portion of our indebtedness bears interest at floating rates. At December 31, 2008, our total outstanding indebtedness on a consolidated basis was R$21,173 million (including swap adjustments of R$313 million), of which R$20,726 million, or 97.9%, bore interest at floating rates, including R$17,833 million of *real*-denominated indebtedness that bore interest at rates based on the CDI rate, TJLP rate of IPCA rate, and R$2,893 million of U.S. dollar-denominated indebtedness that bore interest at rates based on LIBOR. At December 31, 2008, we had interest rate swap agreements under which 30% of our indebtedness exposed to LIBOR was converted into fixed rates. At December 31, 2008, we did not have any outstanding derivative agreements to limit our exposure to variations in the TJLP rate or the CDI rate.

We invest our excess liquidity (R$9,845 million as of December 31, 2008) mainly (1) in short-term instruments denominated in *reais* that generally pay interest at overnight interest rates based on the CDI rate, and, therefore, our exposure to Brazilian interest rate risk is partially mitigated by these investments, and (2) in investment funds created by top Brazilian asset managers exclusively for us. The fund managers are responsible for managing our funds, subject to the direction of our senior management and board of directors. Currently, these funds are comprised mainly of government bonds and other low-risk financial instruments linked to the CDI rate.

The potential loss to us over one year that would have resulted from a hypothetical, instantaneous and unfavorable change of 100 basis points in the interest rates in 2008 would be approximately R$212 million to our financial liabilities, considering both the impact in our debt obligations and swap position, and R$98 million to our financial assets. This sensitivity analysis is based on the assumption of an unfavorable 100 basis points movement of the interest rates applicable to each homogeneous category of financial assets and liabilities and sustained over a period of one year. A homogeneous category is defined according to the currency in which financial assets and liabilities are denominated and assumes the same interest rate movement within each homogeneous category (*e.g.*, *reais*). As a result, our interest rate risk sensitivity model may overstate the impact of interest rate fluctuation for such financial instruments, as consistently unfavorable movements of all interest rates are unlikely.

Hedging policy

We employ financial risk management strategies using cross-currency interest rate swaps. Our financial risk management strategy is designed to protect us against devaluation of the *real* against foreign currencies and

increases in foreign currency interest rates, according to our foreign-currency exposure in connection with our financings. We do not enter into derivatives transactions for speculative or any other purposes.

Brasil Telecom Participações

For purposes of the following discussion, all references to "our company," "we," "our," "ours," "us" or similar terms are to Brasil Telecom Participações S.A. and its consolidated subsidiaries.

The following discussion of our financial condition and results of operations should be read in conjunction with our audited consolidated financial statements which are included in this offering memorandum, as well as with the information presented under the sections entitled "Presentation of Financial and Other Information," "Selected Financial and Other Information" and "Unaudited Pro Forma Combined Financial Information."

The following discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including those set forth in "Forward-Looking Statements" and "Risk Factors."

The following discussion and analysis of our financial condition and results of operations presents the following:

- a brief overview of our company and the principal factors that influence its results of operations, financial condition and liquidity;
- a review of our financial presentation and accounting policies, including our critical accounting policies;
- a discussion of the principal factors that influence our results of operations;
- a discussion of developments since the end of 2008 that may materially affect our results of operations, financial condition and liquidity;
- a discussion of our results of operations for the years ended December 31, 2008, 2007 and 2006;
- a discussion of our liquidity and capital resources, including our working capital at December 31, 2008, our cash flows for the years ended December 31, 2008, 2007 and 2006, and our material short-term and long-term indebtedness at December 31, 2008;
- a discussion of our contractual commitments; and
- a qualitative and quantitative discussion of market risks that we face.

Overview

We are the largest telecommunications service provider in Region II in Brazil, based on revenues and customers as of and for the year ended December 31, 2008, according to information available from ANATEL and other publicly available information. We offer a range of integrated telecommunication services that includes fixed-line and mobile telecommunications services, data transmission services (including broadband access services), ISP services and other services, for residential customers, small, medium and large companies, and governmental agencies. In 2008, we recorded net operating revenue of R$11,297 million and net income of R$782 million.

Our results of operations for the years ended December 31, 2008, 2007 and 2006 have been influenced, and our future results of operations will continue to be influenced, by a variety of factors, including:

- the rate of growth of Brazilian GDP, which grew by an estimated 5.1% in 2008 and by 5.4% in 2007 and 3.8% in 2006, which we believe stimulates demand for our services and, consequently, our operating revenues;

- the number of our fixed lines in service, which increased to 8.1 million at December 31, 2008 from 8.0 million at December 31, 2007, and the percentage of our fixed-line customers that subscribe to our alternative plans, which increased to 51.3% at December 31, 2008 from 44.1% at December 31, 2007;
- the number of our fixed-line customers that subscribe to our broadband services, which increased by 15.2% to 1.8 million at December 31, 2008 from 1.6 million at December 31, 2007;
- the number of our mobile customers, which increased by 31.5% to 5.6 million at December 31, 2008 from 4.3 million at December 31, 2007;
- the increased competition in the Brazilian market for telecommunications services, which affects the amount of the discounts that we offer on our service rates and the quantity of services that we offer at promotional rates, and resulted in a 125.8% increase in the amount that we recorded as discounts and returns against our gross operating revenues to R$1,321 million in 2008 from R$585 million in 2007;
- the commencement of our offering of 3G services in Region II in April 2008, which we anticipate will result in a significant increase in our operating revenues, and has resulted in an increase our depreciation expenses relating to our investment in the network and other equipment required to offer these services;
- inflation rates in Brazil, which were 6.56% in 2008, 3.17% in 2007 and 3.20% in 2006, as measured by the IST, and the resulting adjustments to our regulated rates, as well as the effects of inflation on our *real*-denominated debt that is indexed to take into account the effects of inflation or bears interest at rates that are partially adjusted for inflation;
- changes in regulatory requirements that result in our incurrence of additional capital expenditures, changes in the revenues we generate, or changes in the costs that we incur;
- changes in the *real*/U.S. dollar exchange rate, including the depreciation of the Brazilian *real* against the U.S. dollar by 31.9% in 2008 and the appreciation of the Brazilian *real* against the U.S. dollar by 17.1% in 2007 and 8.7% in 2006, which has affected (1) our net financial expenses as a result of our U.S. dollar-denominated liabilities that require us to make principal and interest payments in U.S. dollars, and (2) the cost in *reais* of a substantial portion of the network equipment that we purchase for our capital expenditure projects, the prices of which are denominated in U.S. dollars or are U.S. dollar-linked; and
- the level of our outstanding indebtedness and fluctuations in benchmark interest rates in Brazil, principally the CDI rate and the TJLP rate, which affects our interest expenses on our *real*-denominated floating rate debt.

Our financial condition and liquidity is influenced by a variety of factors, including:

- our ability to generate cash flows from our operations;
- prevailing Brazilian and international interest rates and movements in exchange rates, which affect our debt service requirements;
- our ability to borrow funds from Brazilian and international financial institutions and to sell our debt securities in the Brazilian and international securities markets, which is influenced by a number of factors discussed below; and
- our capital expenditure requirements, primarily consisting of (1) investments in infrastructure to expand our mobile telecommunications services, including the implementation of 3G technology, and (2) investments in fixed-line telecommunications network equipment, primarily to enhance the technical capabilities of our network in order to enable us to provide value-added services, such as broadband and IP TV services, and to comply with our universal service obligations.

Financial presentation and accounting policies

Presentation of financial statements

We have prepared our consolidated financial statements at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008 in accordance with accounting practices adopted in Brazil, which include the changes introduced by Law No. 11,638/07 and *Deliberação* 565/08 and differ in certain important respects from U.S. GAAP. See "Annex B: Summary of Significant Differences between Accounting Practices Adopted in Brazil and U.S. GAAP — Brasil Telecom Participações."

On December 28, 2007, the Brazilian government enacted Law No. 11,638/07, which became effective on January 1, 2008, amended Law No. 6,404/76, as amended, and changed the accounting practices adopted in Brazil. In December 2008, the CVM issued *Deliberação* 565/08 implementing these changes in accounting practices. In December 2008, the Brazilian government issued Provisional Measure No. 449, which instituted the "*Regime Tributário de Transição — RTT*" (transitory tax-payer regime) for the determination of taxable net income of companies subject to the real profit tax regime as a result of the implementation of these changes in accounting policies and Law No. 6,404/76, as amended.

The principal changes introduced by Law No. 11,638/07, *Deliberação* 565/08 and Provisional Measure No. 449 as they relate to our financial statements are, among others:

- We are no longer required to include a statement of changes in financial position in our financial statements, but are instead required to include a statement of cash flows in our financial statements.
- We are required to record under the caption "property, plant and equipment" in our balance sheet tangible assets that we lease under capital leases if those assets are maintained or used in the operation of our business and to record the related payment obligations as financial liabilities on our balance sheet.
- We are required to periodically review and analyze the recoverability of amounts under the captions "property, plant and equipment," "intangible assets" and "deferred charges" in our balance sheet to ensure that (1) impairment losses are recorded as a result of decisions to discontinue activities related to such assets or when there is evidence that future operating results will not be sufficient to ensure their realization and (2) the criteria used to determine the estimated remaining useful life of such assets for purposes of recording depreciation, amortization and depletion expense are reviewed and adjusted.
- We are required to record investments in financial instruments, including derivatives, at (1) fair value or the equivalent value for securities held for trading or securities available-for-sale, or (2) the lower of historical cost, adjusted for contractual interest and other contractual provisions, and realizable value for other investments.
- We are no longer permitted to record government investment grants (including tax incentives) directly as capital reserves in shareholders' equity. Such items are now required to be recorded as part of earnings in our statement of operations. Donations and government grants (including tax incentives) may be required to be allocated, after being recorded in earnings, to the tax incentive reserve in equity.
- We are required to record under the caption "deferred charges" in our balance sheet pre-operational expenses and certain restructuring costs that will effectively benefit earnings in future periods that do not represent future cost reductions or increases in future operational efficiencies.
- We no longer record non-operating income or expenses. Items which we previously have recorded as non-operating income and expense will be required to be recorded as operating income and expenses.
- We are required to record certain long-term assets and liabilities at present value and, if material, certain short-term assets and liabilities.
- We are required to recognize the fair value of employee and management stock options as an expense.

For additional information with respect to these changes and their effects on our financial statements, see note 2 to our audited consolidated financial statements at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008 included elsewhere in this offering memorandum.

The financial data at December 31, 2006 and for the year ended December 31, 2006, presented in this offering memorandum was derived from the consolidated financial statements at December 31, 2007 and 2006 and for each of the two years ended December 31, 2007, which were prepared in accordance with accounting practices adopted in Brazil in force at the time that such financial statements were issued and do not reflect the changes introduced by Law No. 11,638/07 and *Deliberação* 565/08. As a result, the financial data at December 31, 2006 and for the year ended December 31, 2006 may not be comparable to the financial data at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008.

Business segments and presentation of segment financial data

We have implemented an organizational structure that we believe reflects our business activities and corresponds to the principal services that we provide. We report our results in five segments to reflect this organizational structure:

- *Fixed-Line Services* — This segment includes our local fixed-line services (including public telephones), our long-distance services, our data transmission services and interconnections to our fixed-line network.
- *Mobile Services* — This segment includes our mobile services and interconnections to our mobile network.
- *Internet services* — This segment includes the operations of our internet portal and ISP.
- *Call center* — This segment includes the operations of our call center.
- *Management* — This segment includes the expenses related to the holding companies.

We evaluate and manage business segment performance based on information generated from our statutory accounting records, which are maintained in accordance with accounting practices adopted in Brazil, and, accordingly, the segment data included in this offering memorandum is presented under accounting practices adopted in Brazil. We have included a reconciliation of the operating results of our segments to our consolidated results under "— Results of Operations" below.

Critical accounting policies and estimates

In preparing our consolidated financial statements, we have relied on estimates and assumptions derived from historical experience and various other factors that we deemed reasonable and relevant. "Critical Accounting Policies" are those that are important to the portrayal of our financial condition and results of operations and utilize management's most difficult, subjective or complex judgments, estimates and assumptions. The application of these critical accounting policies often requires judgments made by our management regarding the effects of matters that are inherently uncertain on the carrying value of our assets and liabilities and the results of our operations. Our results of operations and financial condition may differ from those set forth in our consolidated financial statements, if our actual experience differs from management's assumptions and estimates. The following is a discussion of our critical accounting policies, including some of the variables, assumptions and sensitivities underlying the estimates relating to:

- goodwill impairment;
- revenue recognition;
- allowance for doubtful accounts;
- depreciation of property, plant and equipment;

- valuation of property, plant and equipment;
- provisions for contingencies;
- deferred income taxes; and
- provision for post-retirement benefits.

Goodwill Impairment

Under accounting practices adopted in Brazil, at each balance sheet date, we are required to review the carrying amounts of our tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, we estimate the recoverable amount of the cash-generating unit to which the asset belongs. Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss.

Under the terms of our operating concessions granted by the Federal Government, we are obliged to provide a certain minimum level of services over the entire area covered by our fixed-line operating licenses. Also, we do not possess discrete financial information that could allow a determination of assets and liabilities (and goodwill) allocation at a level below the entire fixed-line business segment, nor do we manage different areas of the concession as if they were separate businesses. Thus the entire fixed-line business is considered to be one cash-generating unit. In viewing all of our fixed-line assets and liabilities as one cash-generating unit and performing an initial assessment on this cash-generating unit including such assumptions and estimates as we considered appropriate, we were not required to recognize any impairment loss under accounting practices adopted in Brazil. For the Internet segment we apply separate assessments for each cash-generating unit. We were not required to recognize an impairment loss under accounting practices adopted in Brazil for any of the periods presented.

Determination of the recoverable amount and the value in use of our cash-generating units (fixed-telephone, data transmission and Internet) requires management to make certain assumptions and estimates with respect to projected cash inflows and outflows related to future revenues and expenditures and expenses. These assumptions and estimates can be influenced by different external and internal factors, such as economic tendencies, industry trends, and interest rates, changes in our business strategies and changes in the type of services we offer to the market. The use of different assumptions and estimates could significantly change our financial statements. For example, if we had used more conservative assumptions and estimates, the expected future net cash flow could have led us to recognize impairment charges on goodwill, which would have decreased our results of operations and shareholders' equity.

Revenue recognition

Under accounting practices adopted in Brazil, revenues are generally recognized on an accrual basis. Revenues from customer calls are based on time used, according to Brazilian law, and are recognized when services are provided (fixed and mobile telephony). Services provided and not billed at the end of each month are estimated and recorded on accrual basis. Considering their high turnover and short average life, revenues from phone cards for public telephones are recorded as the cards are sold. Revenues from sales of mobile phones and accessories are recorded when the goods are delivered and accepted by the subscriber. Revenues from pre-paid mobile services are recognized based on the use of the respective credits. Revenues from activation and

installation fees are recognized upon the activation of customer services. Revenue is not accounted for if there is an uncertainty as to its realization.

Under accounting practices adopted in Brazil, revenues from activation and installation fees are recognized upon activation of customer services.

Under accounting practices adopted in Brazil revenues from public telephone phone cards are recognized when the cards are sold.

We consider revenue recognition to be a critical accounting policy, because of the uncertainties caused by different factors such as the complex information technology required, high volume of transactions, fraud and piracy, accounting regulations, management's determination of collectibility and uncertainties regarding our right to receive certain revenues (mainly revenues for use of our network). Significant changes in these factors could cause us to fail to recognize revenues or to recognize revenues that we may not be able to realize in the future, despite our internal controls and procedures. We have not identified any significant need to change our revenue recognition policy.

Allowance for doubtful accounts

Under accounting practices adopted in Brazil, we provide an allowance for doubtful accounts for accounts receivables for which recoverability is considered doubtful. We base our estimates on our historical collection experience and a review of the current status of all trade accounts receivable. This estimate considers the ratio of historical losses applied to the different categories of all outstanding amounts receivable from our customers. Additional allowance may be required in case the value of our estimated allowance for doubtful accounts differs from the amounts not actually collected due to deterioration in the financial condition of our customers or otherwise.

Depreciation of property, plant and equipment

Under accounting practices adopted in Brazil, depreciation of property, plant and equipment is provided using the straight-line method based on the estimated useful lives of the underlying assets. The principal depreciation rates are shown in note 27 to our consolidated financial statements at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008. Given the complex nature of our property, plant and equipment, the estimates of useful lives require considerable judgment and are inherently uncertain, due to rapidly changing technology and industry practices, which could cause early obsolescence of our property, plant and equipment. If we materially change our assumptions of useful lives and if external market conditions require us to determine the possible obsolescence of our property, plant and equipment, our depreciation expense, obsolescence write-off and consequently net book value of our property, plant and equipment could be materially different.

Valuation of property, plant and equipment

The preparation of our financial statements in accordance with accounting practices adopted in Brazil involves certain assumptions and estimates, which are based upon historical experience and various other factors that we deem reasonable and relevant. A determination of the fair value of an asset requires management to make certain assumptions and estimates with respect to projected cash inflows and outflows related to future revenues and expenditures and expenses. These assumptions and estimates can be influenced by different external and internal factors, such as economic tendencies, industry trends, interest rates and changes in the marketplace. The use of different assumptions and estimates could significantly change our financial statements. For example, if we had used more conservative assumptions and estimates, the expected future net cash flow may have led us to recognize impairment charges on our property, plant and equipment, which would have decreased our results of operations and shareholders' equity. No impairment losses have been recognized for any of the periods presented.

Provisions for contingencies

Under accounting practices adopted in Brazil, provisions for contingencies are recognized for the amounts of probable losses based on legal advice from our in-house and external legal counsel and management's opinion of the outstanding contingent matters at the balance sheet date. We continually evaluate the provisions for contingencies based on changes in relevant facts, circumstances and events, such as judicial decisions, that may impact the estimates, which could have a material impact on our results of operations and shareholders' equity. While management believes that the current provision for contingencies is adequate, there can be no assurance that these factors will not change in the future.

Deferred income taxes

We compute and pay income taxes based on results of operations under accounting practices adopted in Brazil. Under accounting practices adopted in Brazil, we recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. We regularly review the deferred tax assets for recoverability and establish a valuation allowance if it is more likely than not that the deferred tax assets will not be realized, based on historical taxable income, projected future taxable income, and the expected timing of the reversals of existing temporary differences. When performing such reviews, we are required to make significant estimates and assumptions about future taxable income. In order to determine future taxable income, we need to estimate future taxable revenues and deductible expenses, which are subject to different external and internal factors, such as economic tendencies, industry trends, interest rates, changes in our business strategies and changes in the type of services we offer to the market. The use of different assumptions and estimates could significantly change our financial statements. For example, if we had used more conservative assumptions and estimates with respect to our expected future taxable income, we would be required to recognize valuation allowance charges on deferred income tax assets, which would decrease our results of operations and shareholders' equity. If we operate at a loss or are unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates, the time period within which the underlying temporary differences become taxable or deductible, or any change in our future projections, we could be required to establish a valuation allowance against all or a significant portion of our deferred tax assets resulting in a substantial increase of our effective tax rate and a material adverse impact on our operating results.

Provision for post-retirement benefits

We are required to make assumptions and estimates regarding interest rates, investment returns, levels of inflation for future periods, mortality rates and projected employment levels relating to post-retirement benefit liabilities. The accuracy of these assumptions and estimates will determine whether we have created sufficient reserves for accrued pension and medical health care costs and the amount we are required to provide each year as our post-retirement benefit costs. These assumptions and estimates are subject to significant fluctuations due to different external and internal factors, such as economic trends, social indicators, our capacity to create new jobs and our ability to retain our employees. If these assumptions and estimates are not accurate, we may be required to review our provisions for post-retirement benefits, which could materially reduce our results of operations and shareholders' equity.

Principal factors affecting our financial condition and results of operations

Rate of growth of Brazil's gross domestic product and demand for telecommunications services

As a Brazilian company with substantially all of our operations in Brazil, we are affected by economic conditions in Brazil. GDP in Brazil grew at an estimated compound average annual rate of 3.3% from 1999 through 2008. While we believe that growth in Brazil's GDP stimulates demand for telecommunications services, we believe that demand for telecommunications services is relatively inelastic in periods of economic stagnation and that the effect on our revenues of low growth or a recession in Brazil as a result of the current

international economic downturn would not be material under foreseeable scenarios. However, a substantial and prolonged deterioration of economic conditions in Brazil could have a material adverse effect on the number of subscribers to our services and the volume of usage of our services by our subscribers and, as a result, our operating revenues.

Based on data available from ANATEL, (1) the number of fixed lines in service in Brazil increased from 20.0 million in July 1998 to 41.3 million as of December 31, 2008, and the number of mobile subscribers in Brazil increased from 7.4 million as of December 31, 1998 to 150.6 million as of December 31, 2008. Although the demand for telecommunications services has increased substantially during the past ten years, the tastes and preferences of Brazilian consumers of these services have shifted. During the three years ended December 31, 2008, the number of mobile subscribers in Brazil has grown at an average rate of 20.4% per year while the number of fixed lines in service in Brazil has declined by an average rate of 1.2% per year. As the incumbent provider of fixed-line services and a provider of mobile services in Region II, we are both a principal target and a beneficiary of this trend. During the three years ended December 31, 2008, the number of our mobile subscribers has grown at an average rate of 36.5% per year from 2.2 million at December 31, 2005 to 5.6 million at December 31, 2008, while the number of our fixed lines in service has declined by an average rate of 5.6% per year from 9.6 million at December 31, 2005 to 8.0 million at December 31, 2008.

Demand for our telecommunications services

Demand for our local fixed-line services

Brazil's fixed-line penetration level is now similar to that of other countries with similar per capita income, and, as has happened in such other countries, the fixed-line telecommunications customer base has remained stable. Demand for our local fixed-line services has reached a plateau in recent years. In addition, the new fixed lines activated during the past three years generally represent customers that have changed addresses or low-income customers from whom we generate revenues at a rate below our average revenue per customer. The number of our fixed lines in service declined by 93.1 million during the period.

We have sought to combat the general trend in the Brazilian telecommunications industry of substitution of mobile services for local fixed-line services by (1) offering value-added services to our fixed-line customers, primarily subscriptions for broadband services, and (2) promoting convergence of our telecommunications services through offerings of bundled packages of local fixed-line, long-distance, mobile and broadband services. As a result of these service offerings, we expect that the number of our fixed lines in service will remain stable or decrease slightly in the near future. As of December 31, 2008, 22.2% of our fixed lines in service also subscribed for ADSL service.

We are required under ANATEL regulations and our concession contracts to offer a basic service plan to our fixed-line residential customers that permits 200 minutes of usage of our fixed-line network to make local calls. A basic plan customer pays a monthly fee for this service, and when the customer makes local calls in excess of this limit, we charge the customer for the excess minutes on a per-minute basis. We offer alternative local fixed-line plans that include significantly larger numbers of minutes and charge higher monthly fees for these plans, although these monthly fees represent a discount from the amount that the customer would be charged under our basic plan if the customer used the number of minutes included in the alternative plan. As the number of our customers selecting these alternative plans has grown in response to our marketing and promotional efforts, we have recorded increased revenues for monthly subscription fees, offset by corresponding declines in revenues for the use of excess minutes. Subscribers to our alternative fixed-line plans, which we began offering in the second quarter of 2006, represented 51.3% of our fixed lines in service at December 31, 2008. We believe that our alternative local fixed-line plans contribute to a net increase in our local fixed-line revenue as many subscribers of our alternative fixed-line plans do not use their full monthly allocations of local minutes.

The substantial increase in the number of mobile service users in Brazil has also negatively impacted the use of our public telephones. As the incumbent local fixed-line service provider in Region II, we are required under ANATEL regulations and our concession contracts to meet specified targets with respect to the availability of public telephones throughout our concession area. However, as a larger portion of the population of Region II uses mobile handsets to make calls when not in proximity to a fixed-line telephone, use of our public telephones has declined by 20.6% from 2005 to 2008.

Demand for our mobile services

We believe that the primary reason that our customer base for mobile services in Region II has grown from 2.2 million at December 31, 2005 to 5.6 million at December 31, 2008 has been the success of our marketing and promotion campaigns.

The market for mobile services is extremely competitive in each of the regions that we serve. During 2008, our average monthly churn rate in the mobile services segment, representing the number of subscribers whose service is disconnected during each month, whether voluntarily or involuntarily, divided by the number of subscribers at the beginning of such month, was 4.1% per month. As a result, (1) we incur selling expenses in connection with marketing and sales efforts designed to retain existing mobile customers and attract new mobile customers, and (2) from time to time the discounts that we offer in connection with our promotional activities lead to charges against our gross operating revenues from mobile services. In addition, competitive pressures have in the past required us to introduce service plans under which the monthly and per-minute rates that we charge our mobile customers are lowered, reducing our average revenue per customer.

We expect our overall mobile services business to continue to grow in terms of its customer base, traffic volumes and revenues from value-added services. However, due to market saturation, we expect future growth in our mobile services business in Region II to occur at lower rates than we have historically achieved.

Demand for our data transmission services

Our broadband services customer base in Region II has grown from 1.0 million at December 31, 2005 to 1.8 million at December 31, 2008. We believe that this growth has resulted from (1) our marketing and promotional campaigns, (2) the growth in the number of households in Region II that own personal computers, and (3) a shift in consumer preferences that has led an increasing number of our fixed-line customers to value the data transmission speeds available through our broadband services. We expect the number of our fixed-line customers that subscribe to our broadband services to continue to increase in the near term. However, if the current international economic downturn leads to low growth or a recession in Brazil, the rate of growth of computer ownership in Brazil may decline and, consequently, the rate of growth of our broadband services customer base may be adversely affected.

Effects of competition on the rates that we realize and the discounts we record

The Brazilian telecommunications industry is highly competitive. The competitive environment is significantly affected by key trends, including the following:

- *Technological and service convergence*: The convergence of technology and services enables telecommunications service providers that were previously limited to providing a single service to provide services in other industry segments, such as in the case of broadband services provided by cable TV service providers and by mobile service providers (using 3G technology) and in the case of traditional fixed-voice services transmitted by mobile telecommunications service providers.
- *Consolidation*: Consolidation has taken place in the telecommunications industry throughout Latin America, including Brazil. This consolidation has led to the formation of large conglomerates that benefit

both from economies of scale and the ability to undertake coordinated action across different industry segments, which provides them with competitive advantages in an environment that is also characterized by the convergence of media and telecommunications services.

- *Bundled service offerings*: Telecommunications service providers have begun to offer bundled service packages that they are unable to offer independently. For example, in 2005 Embratel, our principal competitor in fixed-line services, and Net, our principal competitor in broadband services, each of which is controlled by Telmex, entered into an agreement pursuant to which they began to offer jointly to the Brazilian residential market an integrated voice, broadband and subscription television service package.

In response to these competitive pressures, (1) we may offer our services at rates below the rate caps established by ANATEL, and (2) from time to time we offer our services with promotional discounts or offer additional complimentary services with the purchase of some of our services. We record the services sold at the rates established under our service plans or at rates approved by ANATEL and record the amount of these services represented by the promotional discounts or delivered on a complimentary basis as discounts and returns in our income statement.

Launch of 3G services

In December 2007, we acquired the authorizations and radio frequency licenses necessary for us to commence the offering of 3G services throughout Region II. During 2008, we commenced capital expenditure projects to acquire and install the network equipment necessary to offer these services. In addition, we engaged in marketing and promotional campaigns in connection with the launch of these services in April 2008.

During the fourth quarter of 2008, we activated approximately 100,900 accounts for 3G services in Region II. We expect that these services will generate significant additions to our mobile customer base and lead to long-term increases in our revenues and operating income.

The cost of these authorizations and radio frequency licenses was R$448.2 million, which we will pay to ANATEL in installments through 2015. During 2008, we invested R$287.8 million in the network equipment necessary to offer these services, which contributed to an increase in our depreciation expenses for 2008 and will continue to do so during the next several years. We financed the purchase and installation of this network equipment through vendor financing, which has contributed to the increase of our net financial expenses during 2008.

Under our 3G radio frequency licenses, we are required to meet certain service expansion obligations that will require capital expenditures through 2015. If we are unable to fund these capital expenditures through our operating cash flows, we may incur additional indebtedness or vendor financing obligations, which would increase our outstanding indebtedness and net financial expenses.

Effects of adjustments to our regulated rates and inflation

Telecommunications services rates are subject to comprehensive regulation by ANATEL. Our rates for local fixed-line services, domestic long-distance services, mobile services, interconnection to our fixed-line network, and EILD and SLD services are subject to regulation by ANATEL. We are required to obtain ANATEL approval prior to offering new alternative fixed-line or mobile plans. The rates established or approved by ANATEL for our services act as caps on the prices that we charge for these services, and we are permitted to offer these services at a discount from the rates approved by ANATEL. After ANATEL establishes or approves rate caps for these services, these rate caps are subject to annual adjustment based on the rate of inflation, as measured by the IST. Rate caps for local fixed-line plans are adjusted by inflation, as measured by the IST, less an amount that serves as a proxy for productivity gains achieved by our company and the local fixed-line services industry as a whole.

Because substantially all of our cost of services and operating expenses are incurred in *reais* in Brazil, these rate increases act as a natural hedge against inflation and, as a result, our operating margins are not materially affected by inflation. However, because these rate adjustments are only made on an annual basis, in periods of severe inflation, we may not be able to pass our increased costs through to our customers as incurred.

A significant portion of our *real*-denominated debt bears interest at the TJLP or the CDI rate, which are partially adjusted for inflation, and, as a result, inflation results in increases in our financial expenses and debt service obligations.

Effects of changes in regulatory requirements

Compliance with new regulations applicable to the telecommunications industry that are adopted by ANATEL from time to time and compliance with the obligations included in our concession contracts that were entered into in 2006 have required us to make capital expenditures, affected the revenues that we generate and imposed additional costs of service on our company. For example:

- In January 2006 and January 2007, ANATEL reduced the interconnection rates available to fixed-line service providers for interconnection to their networks and capped these rates at a percentage of the rate applicable to a fixed-to-fixed local call. This reduction in the interconnection rates reduced the interconnection revenue generated by our fixed-line and data transmission services segment, while reducing the interconnection costs recorded by our mobile services segment.
- In July 2006, changes to ANATEL's regulations governing interconnection with the networks of mobile service providers became effective. Under the regulations previously in force, mobile service providers charged for interconnection to their networks under the "bill and keep" system; under the new regulations, mobile service providers charge for interconnection to their networks under the "full billing" system. These changes resulted in significant increases in interconnection revenues of our mobile services segment, as well as significant increases in the interconnection costs of our fixed-line and mobile segments. For additional information on the "full billing" and the "bill and keep" systems, see "Business — Regulation of the Brazilian telecommunications industry — Interconnection regulations — Transition from "bill and keep" system to "full billing" system.
- Our concession agreements that became effective at the beginning of 2006 required us to convert our system of billing local fixed-line usage from a system based on the usage of pulses to a system based on the usage of minutes by July 2007. We were required to make capital expenditures to implement the systems necessary to comply with these amendments. In addition, as a result of the conversion of local fixed-line traffic from pulses to minutes, we are not able to accurately compare the volume of local fixed-line traffic between the years ended December 31, 2008, 2007 and 2006.
- In March 2007, ANATEL adopted number portability regulations requiring us to permit our mobile and fixed-line customers to maintain their telephone numbers if they change service providers. Implementation of the systems necessary to comply with this regulation required us to make capital expenditures in the aggregate amount of R$221.2 million. Implementation of these systems was completed in March 2009. We are not currently able to assess the effects of the implementation of number portability by all service providers in Brazil, but believe that in general, number portability will have an adverse effect on the revenue of our fixed-line and data transmission services segment that will be offset by a positive effect on the revenue of our mobile services segment.

Effects of fluctuations in exchange rates between the real and the U.S. dollar or Japanese Yen

Substantially all of our cost of services and operating expenses are incurred in *reais* in Brazil. As a result, the appreciation or depreciation of the *real* against the U.S. dollar does not have a material effect on our operating margins. However, the costs of a substantial portion of the network equipment that we purchase for our

capital expenditure projects are denominated in U.S. dollars or are U.S. dollar-linked. This network equipment is recorded on our balance sheet at its cost in *reais* based on the applicable exchange rate on the date of purchase. As a result, appreciation of the *real* against the U.S. dollar results in this network equipment being less costly in *reais* and leads to lower depreciation expenses. Conversely, depreciation of the *real* against the U.S. dollar results in this network equipment being more costly in *reais* and leads to greater depreciation expenses.

Our consolidated U.S. dollar-denominated and Japanese Yen-denominated indebtedness represented 10.9% and 6.0%, respectively, of our outstanding indebtedness at December 31, 2008. As a result, when the *real* depreciates against the U.S. dollar or the Japanese Yen:

- the interest costs on our U.S. dollar- or Japanese Yen-denominated indebtedness increase in *reais*, which negatively affects our results of operations in *reais*;
- the amount of our U.S. dollar- or Japanese Yen-denominated indebtedness increases in *reais*, and our total liabilities and debt service obligations in *reais* increase; and
- our net financial expenses tend to increase as a result of foreign exchange gains that we must record.

An appreciation of the *real* against the U.S. dollar has the converse effects.

In order to mitigate the effects of foreign exchange variations, we have established a hedging policy. At December 31, 2008, we had entered into hedging transactions in respect of 54.2% of our indebtedness affected by exchange rate variations. The purpose of these hedging transactions is to seek to "match" the currency of our debt with that of our revenues to mitigate foreign exchange risk.

Effect of level of indebtedness and interest rates

At December 31, 2008, our total outstanding indebtedness on a consolidated basis was R$4,886 million. The level of our indebtedness results in significant financial expenses that are reflected in our statement of operations. Financial expenses consist of interest expense, exchange variations of U.S. dollar- and other foreign currency-denominated debt, foreign exchange losses or gains, and other items as set forth in note 15 to our consolidated financial statements at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008. In 2008, we recorded total interest expenses of R$634 million, of which R$402 million consisted of interest expense, and R$232 million consisted of monetary and foreign exchange variation on financing. The interest rates that we pay depend on a variety of factors, including prevailing Brazilian and international interest rates and risk assessments of our company, our industry and the Brazilian economy made by potential lenders to our company, potential purchasers of our debt securities and the rating agencies that assess our company and its debt securities.

Standard & Poor's and Fitch maintain ratings of our company and our debt securities and Moody's maintains ratings of Brasil Telecom. Any ratings downgrades in the future would likely result in increased interest and other financial expenses relating to borrowings and debt securities and could adversely affect our ability to obtain such financing on satisfactory terms or in amounts required by us.

Seasonality

Our telecommunications services are generally not affected by major seasonal variations of the market, except for the first quarter of the year, when economic activity is generally reduced in Brazil.

Recent developments

Amendment of debentures

In December 2008, a general meeting of holders of our non-convertible debentures approved an amendment to the indenture governing the debentures to change our mandatory purchase terms and conditions and increase the rate of interest on these debentures to the CDI rate plus 3.5% per annum. In January 2009, we notified the debenture holders that we accepted the terms of this amendment.

Disbursement under BNDES credit facility

In March 2009, BNDES funded R$148 million of the third tranche under a credit facility with BNDES that we entered into in November 2006, consisting of a loan in the principal amount of R$123 million bearing interest at the TJLP rate plus 4.3% per annum and a loan in the principal amount of R$25 million bearing interest at the TJLP rate plus 2.3% per annum. For more information regarding this credit facility, see "— Indebtedness and financing strategy — Long-term indebtedness — BNDES facilities."

Results of operations

The following discussion of our results of operations is based on our consolidated financial statements prepared in accordance with accounting practices adopted in Brazil. Financial information for the year ended December 31, 2006 is derived from financial statements prepared under accounting practices adopted in Brazil in force at the time that such financial statements were issued and accordingly may not be comparable to financial information for each of the two years ended December 31, 2008, which has been derived from financial statements prepared under the accounting practices adopted in Brazil that include the changes introduced by Law No. 11,638/07 and *Deliberação* 565/08.

The following tables set forth the operating results of each of our segments and the reconciliation of these results of our segments to our consolidated results of operations. This segment information was prepared on the same basis as the information that our senior management uses to allocate resources among segments and evaluate their performance. We evaluate and manage the performance of our segments based on information generated from our statutory accounting records maintained in accordance with accounting practices adopted in Brazil and reflected in our consolidated financial statements.

	Year Ended December 31, 2008						
	Fixed-Line and Data Transmission Services	Mobile Services	Internet Services	Call Center	Management	Eliminations	Consolidated
	(in millions of R$)						
Gross operating revenues	14,845	2,561	454	246	—	(1,099)	17,007
Taxes and deductions	(4,958)	(679)	(62)	(15)	—	4	(5,710)
Net operating revenues	9,887	1,882	392	231	—	(1,095)	11,297
Cost of goods sold and services rendered	(5,187)	(1,512)	(54)	(212)	—	756	(6,209)
Gross profit	4,700	370	338	19	—	(339)	5,088
Selling expenses	(952)	(525)	(264)	(8)	—	385	(1,364)
General and administrative expenses	(1,210)	(136)	(76)	(18)	(27)	39	(1,428)
Other operating income (expenses), net	(384)	43	(41)	(2)	37	(85)	(432)
Operating income (loss)	2,154	(248)	(43)	(9)	10	0	1,864

	Year Ended December 31, 2007						
	Fixed-Line and Data Transmission Services	Mobile Services	Internet Services	Call Center	Management	Eliminations	Consolidated
	(in millions of R$)						
Gross operating revenues	13,911	2,446	446	22	—	(828)	15,997
Taxes and deductions	(4,178)	(700)	(66)	(1)	—	7	(4,938)
Net operating revenues	9,733	1,746	380	21	—	(821)	11,059
Cost of goods sold and services rendered	(5,488)	(1,532)	(55)	(21)	—	713	(6,383)
Gross profit	4,245	214	325	0	—	(108)	4,676
Selling expenses	(898)	(454)	(274)	—	—	141	(1,485)
General and administrative expenses	(1,173)	(90)	(70)	(10)	(18)	24	(1,337)
Other operating income (expenses), net	(427)	34	(55)	—	(6)	(56)	(510)
Operating income (loss)	1,747	(296)	(74)	(10)	(24)	1	1,344

	Year Ended December 31, 2006					
	Fixed-Line and Data Transmission Services	Mobile Services	Internet Services	Management	Eliminations	Consolidated
	(in millions of R$)					
Gross operating revenues	13,653	1,789	342	—	(673)	15,111
Taxes and deductions	(4,234)	(542)	(43)	—	4	(4,815)
Net operating revenues	9,419	1,247	299	—	(669)	10,296
Cost of goods sold and services rendered	(5,769)	(1,176)	(146)	—	631	(6,460)
Gross profit	3,650	71	153	—	(38)	3,836
Selling expenses	(987)	(432)	(136)	—	84	(1,471)
General and administrative expenses	(1,124)	(126)	(76)	(15)	19	(1,322)
Management compensation	(8)	—	(0)	(1)	—	(9)
Other operating income (expenses), net	(209)	10	(2)	(2)	(60)	(263)
Operating income (loss)	1,322	(477)	(61)	(18)	5	771

In the following discussion, references to increases or decreases in any period are made by comparison with the corresponding prior period, except as the context otherwise indicates.

Year ended December 31, 2008 compared with year ended December 31, 2007

The following table sets forth the components of our net income, as well as the percentage change from the prior year, for the years ended December 31, 2007 and 2008.

	Year ended December 31,		
	2007	2008	% Change
	(in millions of R$, except percentages)		
Gross operating revenues	15,997	17,007	6.3
Taxes and deductions	(4,938)	(5,710)	15.6
Net operating revenues	11,059	11,297	2.2
Cost of goods sold and services rendered	(6,383)	(6,209)	(2.7)
Gross profit	4,676	5,088	8.8
Operating expenses			
Selling expenses	(1,485)	(1,364)	(8.1)
General and administrative expenses	(1,337)	(1,428)	6.8
Other operating income (expenses), net	(510)	(432)	(15.3)
Operating income before net financial expenses	1,344	1,864	38.7
Net financial expenses(1)	(50)	(154)	207.0
Income before taxes and minority interest(1)	1,294	1,710	32.2
Income tax and social contribution	(359)	(591)	64.6
Minority interest	(262)	(337)	28.6
Net income	673	782	16.2

(1) Excludes the effect of interest on shareholders' equity of R$371 million in 2008 and R$451 million in 2007.

Operating revenues

The composition of gross operating revenues by category of service before deduction of value-added and other indirect taxes and discounts is presented in our financial statements and discussed below. We do not determine net operating revenues for each category of service as we do not believe such information to be useful to investors.

Gross operating revenues increased by 6.3% in 2008, principally due to a 6.7% increase in gross operating revenues of our fixed-line and data transmission services segment, a 1,012.3% increase in gross operating revenues of our call center segment and a 4.7% increase in gross operating revenues of our mobile services segment, as discussed below. Gross operating revenues generated by intersegment sales, which are eliminated in the consolidation of our financial statements, increased by 32.7% in 2008.

Net operating revenues increased by 2.2% in 2008, principally due to a 1,003.4% increase in net operating revenues of our call center segment, a 1.6% increase in net operating revenues of our fixed-line and data transmission services segment, and a 7.8% increase in net operating revenues of our mobile services segment. Net operating revenues generated by intersegment sales, which are eliminated in the consolidation of our financial statements, increased by 33.4% in 2008.

Operating revenue of our fixed-line and data transmission services segment

The following table sets forth the components of the gross and net operating revenues of our fixed-line and data transmission services segment, as well as the percentage change from the prior year, for the years ended December 31, 2007 and 2008.

	Year Ended December 31,		
	2007	2008	% Change
	(in millions of R$, except percentages)		
Local services:			
Monthly subscription fees	3,536	3,676	4.0
Metered services	1,106	922	(16.6)
Fixed-line to mobile calls (VC1)	1,882	1,926	2.3
Other revenues	47	29	(40.0)
	6,571	**6,555**	(0.3)
Long-distance services:			
Fixed-line to mobile calls (VC2 and VC3)	1,544	1,502	(2.7)
Intrasectorial	864	835	(3.4)
Intersectorial	264	247	(6.5)
Interregional	241	232	(3.7)
International	44	43	(2.6)
	2,957	**2,859**	(3.3)
Other fixed-line services:			
Pre-paid calling cards for public telephones	546	475	(13.1)
Additional services, intelligent network and advanced voice	396	420	6.1
Other	38	32	(15.3)
	980	**927**	(5.4)
Remuneration for the use of the fixed-line network:			
Fixed-line to fixed-line network use	243	210	(13.6)
Mobile to fixed-line network use	178	226	26.8
	422	**436**	3.5
Data transmission services:			
Asymmetric Digital Subscriber Line (ADSL)	1,278	2,127	66.4
Internet services	55	72	31.2
Transmission — EILD	462	538	16.3
Dedicated Line Service — SLD	397	481	21.1
Internet protocol services	482	570	18.4
Switching packs and frame relay	202	186	(7.9)
Other services	105	96	(8.6)
	2,981	**4,070**	36.5
Total gross operating revenue	**13,911**	**14,845**	6.7
Value-added and other indirect taxes	(3,898)	(3,889)	(0.2)
Discounts and returns	(280)	(1,069)	281.6
Net operating revenue	**9,733**	**9,887**	1.6

Gross operating revenues of our fixed-line and data transmission services segment increased by 6.7% in 2008, principally due to:

- a 36.5% increase in gross operating revenues from data transmission services; and
- to a lesser extent, a 3.5% increase in gross operating revenue from remuneration for the use of our fixed-line network.

The effects of these increases were partially offset by:

- a 3.3% decline in gross operating revenue from long-distance services;
- a 5.4% decline in gross operating revenues from other fixed-line services, principally sales of pre-paid calling cards for use in public telephones; and
- a 0.3% decline in gross operating revenues from local services.

Gross operating revenues from local services

Gross operating revenues from local fixed-line services declined by 0.3% in 2008, primarily due to a 16.6% decline in gross operating revenues from metered services, the effects of which were partially offset by a 4.0% increase in gross operating revenues from monthly subscription fees and a 2.3% increase in gross operating revenue from local fixed-to-mobile traffic.

Monthly subscription fees

Gross operating revenues from monthly subscription fees increased by 4.0% in 2008, primarily as a result of (1) rate increases for our basic service plans of 2.14% and 3.01% that were implemented in July 2007 and July 2008, respectively, and rate increases for our alternative plans that reflected increases in inflation of 2.14% in 2007 and 3.01% in 2008, as measured by the IST, (2) a 1.2% increase in the number of lines in service to 8.1 million at December 31, 2008 from 8.0 million at December 31, 2007, and (3) a 17.6% increase in the number of subscriptions to our alternative plans to 4.2 million at December 31, 2008 from 3.5 million at December 31, 2007.

Metered services

Gross operating revenues from metered services charges declined by 16.6% in 2008, principally as a result of (1) the migration of our fixed-line customers from our basic service plans to our alternative plans that have higher monthly allowances of minutes, and (2) the migration of local traffic origination to mobile handsets as callers take advantage of mobile plans and promotions under which mobile service providers offer mobile-to-mobile minutes within their networks at rates that are lower than a fixed-to-mobile minute.

As a result of the conversion from pulses to minutes in July 2007, the volume of metered services is not comparable between 2008 and 2007. Total billed minutes, which are the number of local minutes that exceed the monthly allowance under a customer's service plan, were 11.2 billion in 2008. Total billed minutes were 5.4 billion during the last five months of 2007 and total billed pulses were 3.0 billion during the first seven months of 2007. Based on our usage profile, pulses under our basic residential, non-residential and alternative plans represented approximately 1.7, 1.5 and 4.0 minutes of call time, respectively. We implemented rate increases for metered services of 2.14% and 3.01% in July 2007 and July 2008, respectively.

Local fixed-to-mobile calls

Gross operating revenues from local fixed-to-mobile calls, which are charged at the VC1 rate, increased by 2.3% in 2008, principally as a result of increases in the VC1 rate of 3.29% and 3.01% that were implemented in July 2007 and July 2008, respectively. The effects of these increases were partially offset by a 0.2% decline in the total number of local fixed-to-mobile minutes in 2008 as our fixed-line customers opted to take advantage of mobile service plans under which the charge for a mobile-to-mobile minute is less than the charge for a fixed-to-mobile minute. The average number of monthly local fixed-to-mobile minutes for our fixed lines in services increased by 0.6% in 2008.

Gross operating revenues from long-distance services

Gross operating revenues from long-distance services declined by 3.3% in 2008, primarily due to (1) a 2.7% decline in gross operating revenues from fixed-to-mobile long-distance calls, (2) a 3.4% decline in gross operating revenue from fixed-to-fixed intrasectorial long-distance calls and (3) a 6.5% decline in gross operating revenue from fixed-to-fixed intersectorial long-distance calls. Intrasectorial calls are those in which callers are located in the same sector, but in different local areas. A sector is a set of local areas, as established by ANATEL, that generally corresponds to a Brazilian state. Intersectorial calls involve callers in different sectors within the same service region.

Fixed-to-mobile long distance calls

Gross operating revenues from fixed-to-mobile long-distance calls, which are charged at the VC2 or VC3 rate, declined by 2.7% in 2008, principally as a result of:

- a 2.3% decline in the total number of long-distance minutes that were charged at the VC2 rate to 677.3 million in 2008 from 693.2 million in 2007, principally due to lower use of value-added services, which historically has contributed to this traffic; and
- a 9.0% decline in the total number of long-distance minutes that were charged at the VC3 rate to 501.4 million in 2008 from 550.9 million in 2007, principally due to lower use of value-added services.

The effects of these declines were partially offset by (1) increases in the VC2 and VC3 rates of 3.29% and 3.01% that were implemented in July 2007 and July 2008, respectively.

Other long-distance calls

Gross operating revenues from intrasectorial and intersectorial calls, which are charged at long-distance rates regulated in accordance with the distance separating callers, declined by 3.4% and 6.5%, respectively, in 2008, principally as a result of:

- a 4.1% decline in the total number of intrasectorial long-distance minutes to 2.66 billion in 2008 from 2.78 billion in 2007; and
- a 4.2% decline in the total number of intersectorial long-distance minutes to 693 million in 2008 from 724 million in 2007.

These reductions in traffic are mainly due to the migration of our fixed-line customers to our alternative long-distance plans that include higher monthly allowances of long-distance minutes. The effects of these declines were partially offset by increases in our regulated long-distance rates of 2.14% and 3.01% that were implemented in July 2007 and July 2008, respectively.

Gross operating revenue from other fixed-lines services

Gross operating revenues from other fixed-line services declined by 5.4% in 2008, primarily as a result of the 13.1% decline in gross operating revenue from the sale of pre-paid calling cards for use in public telephones, the effects of which were partially offset by a 6.1% increase in gross operating revenues from additional services, intelligent network service and advanced voice services.

Gross operating revenue from the sale of pre-paid calling cards for use in public telephones declined principally due to the 15.7% decline in the number of public phone credits used to 4.3 billion in 2008 from 5.1 billion in 2007, primarily due to customers substituting usage of mobile handsets for usage of public phones as a result of promotions by mobile service providers to the pre-paid segment, including bonus calls and pre-paid card recharges at promotional reduced rates. This decline was partially offset by rate increases for public phone usage of 2.14% and 2.53% that were implemented in July 2007 and July 2008, respectively.

Gross operating revenue from additional services, intelligent network service and advanced voice services increased principally as a result of our promotional offers and customer retention programs.

Gross operating revenues from remuneration for the use of the fixed-line network

Gross operating revenues from remuneration for the use of the fixed-line network increased by 3.5% in 2008, principally as a result of a 26.8% increase in gross operating revenues from interconnection fees paid to us for completing calls on our fixed-line network that were originated on the networks of mobile service providers, primarily due to (1) an increase in traffic as a result of callers taking advantage of mobile plans and promotions under which mobile service providers offer discounts on mobile-to-fixed minutes and (2) to a lesser extent, increases in the TU-RL and TU-RIU rates of 3.01% and 4.9%, respectively, that were implemented in July 2008.

The effects of this increase were partially offset by a 13.6% decline in interconnection fees paid to us for completing calls on our fixed-line network that were originated on the networks of other fixed-line service providers, primarily as a result of the increased penetration of the local services market by our competitors which has reduced the volume of calls terminated on our fixed-line network, the effects of which were partially offset by the increases in the TU-RL and TU-RIU rates.

Of our gross operating revenues from remuneration for the use of the fixed-line network, 14.3% in 2008 and 15.2% in 2007 represented interconnection fees paid by Brasil Telecom Mobile for the use of our fixed-line network to complete mobile-to-fixed calls and was eliminated in the consolidation of our financial statements.

Gross operating revenues from data transmission services

Gross operating revenues from data transmission services increased by 36.5% in 2008, principally due to a 66.4% increase in gross operating revenue from ADSL subscriptions and a 16.3% increase in gross operating revenues from EILD services.

Gross operating revenues from ADSL subscriptions increased in 2008, primarily due to the 15.2% increase in the number of ADSL subscriptions in 2008 to 1.8 million at December 31, 2008 from 1.6 million at December 31, 2007, as a result of our continued focus on increasing the penetration of our ADSL services in our local fixed-line subscriber base. The effects of this increase were partially offset by a 1.7% decline in average gross revenues per line generated by ADSL subscriptions to R$70.47 in 2008 from R$71.70 in 2007. As of December 31, 2008, our ADSL customer base represented 22.2% of our total fixed lines in service as compared to 19.5% as of December 31, 2007.

Gross operating revenue from EILD services increased in 2008, principally due to the increased number of rented circuits as a result of the increase in the demand by other service providers that require additional backbone to increase their penetration of the relevant market. Of our gross operating revenues from EILD services, 2.1% in 2008 and 3.5% in 2007 represented fees paid by Brasil Telecom Mobile for EILD services and was eliminated in the consolidation of our financial statements.

Charges against gross operating revenues

Value-added and other indirect taxes

Value-added and other taxes on our fixed-line and data transmission services declined by 0.2% in 2008, primarily reflecting the decline in the gross operating revenue of our fixed-line and data transmission services segment in 2008 and the change in revenue mix, as fewer taxes or lower tax rates apply to some of our services, such as interconnection services.

We are required to contribute to the Universal Telecommunications Service Fund (*Fundo de Universalização dos Serviços de Telecomunicações*), which we refer to as the FUST, and the Fund for the

Technological Development of Telecommunications (*Fundo para o Desenvolvimento Tecnológico das Telecomunicações Brasileiras*), which we refer to as the FUNTTEL. We are required to contribute 1.0% of our gross operating revenue from the rendering of telecommunications services, net of PIS, COFINS and ICMS taxes, to the FUST. We are required to contribute 0.5% of our gross operating revenue from the rendering of telecommunications services, net of PIS, COFINS and ICMS taxes, to the FUNTTEL.

Discounts

Discounts offered on our fixed-line services generally consist of local fixed-line calls, long-distance calls, and intelligent network services (such as caller ID, call forwarding and conference calling). Discounts on our fixed-line and data transmission services increased by 281.6% in 2008, primarily as a result of an increase in the discounts that we offered on our ADSL services.

Net operating revenues

As a result of the foregoing, net operating revenues of our fixed-line and data transmission services segment increased by 1.6% to R$9,887 million in 2008 from R$9,733 million in 2007.

Operating revenue of our mobile services segment

The following table sets forth the components of the gross and net operating revenues of our mobile services segment, as well as the percentage change from the prior year, for the years ended December 31, 2007 and 2008.

	Year Ended December 31,		
	2007	2008	% Change
	(in millions of R$, except percentages)		
Mobile telephone services:			
Monthly subscription fees	434	402	(7.3)
Utilization	562	646	15.1
Value-added services	104	154	47.9
Sale of handsets and accessories	271	226	(16.6)
Roaming	16	16	2.2
Other	27	17	(36.4)
	1,414	**1,462**	3.4
Remuneration for the use of the mobile network	**1,032**	**1,099**	6.4
Total gross operating revenue	**2,446**	**2,561**	4.7
Value-added and other indirect taxes	(392)	(429)	9.5
Discounts and returns	(308)	(250)	(18.8)
Net operating revenue	**1,746**	**1,882**	7.8

Gross operating revenues of our mobile services segment increased by 4.7% in 2008, due to a 6.4% increase in remuneration for the use of our mobile network and a 3.4% increase in gross operating revenues from mobile telephone services.

Gross operating revenues from mobile services

Gross operating revenues from mobile telephone services increased by 3.4% in 2008, principally due to:

- a 15.1% increase in gross operating revenue from billed minutes, which are the number of local minutes used by pre-paid customers plus the number of local minutes used by post-paid customers in excess of the monthly allowance under the customer's service plan, primarily as a result of (1) the 31.5% increase in the

number of our mobile customers to 5.6 million at December 31, 2008 from 4.3 million at December 31, 2007, and (2) rate increases for our billed minutes that reflected increases in inflation of 3.17% in 2007 and 6.56% in 2008, as measured by the IST; and

- a 47.9% increase in gross operating revenues from value-added services, primarily as a result of the increase in the size of our mobile services customer base and an increase in the volume of SMS and GPRS services provided.

The effects of these increases were partially offset by (1) a 16.6% decline in gross operating revenue from the sale of mobile handsets and accessories, due to the decline in demand for our mobile handsets as a result of the increase in the sales price of these handsets following our decision to reduce the subsidies offered on the sale of these handsets, and (2) a 7.3% decline in gross operating revenue from monthly subscription fees, primarily as a result of the migration of our post-paid mobile customers to plans with lower prices, the effects of which were partially offset by rate increases for our post-paid plans that reflected increases in inflation of 3.17% in 2007 and 6.56% in 2008, as measured by the IST.

The number of our pre-paid mobile customers increased by 35.8% to 4.6 million at December 31, 2008 from 3.4 million at December 31, 2007, primarily as a result of (1) the success of our *"Volta do Pula-Pula"* campaign in April 2008, (2) the strategy of reinforcing our retail promotion efforts and intensifying our advertising campaigns and (3) the development of a marketing channel focused on SIM card sales and the unblocking of handsets. As of December 31, 2008, pre-paid customers represented 83% of our mobile customer base. The number of subscribers to our post-paid mobile plans increased by 14.4% in 2008 to approximately 978,900 at December 31, 2008 from approximately 855,800 at December 31, 2007, primarily as a result of (1) subscriptions to our 3G plans, especially the 3GMais broadband service, (2) subscriptions to our *Pluri* bundled plans and (3) the reduction of the migration from our hybrid plans to our pre-paid plan. Under our hybrid plans, a post-paid customer purchases a fixed number of minutes per month and, following the use of these minutes, may purchase additional minutes in the same manner as our pre-paid customers. As of December 31, 2008, post-paid customers represented 17% of our mobile customer base. Our monthly average revenue per user (calculated based on the total revenue for the year divided by the monthly average customer base for the year divided by 12) increased by 17% to R$28.60 in 2008 from R$34.60 in 2007.

Gross operating revenues from remuneration for the use of the mobile network

Gross operating revenues from remuneration for the use of the mobile network increased by 6.4% in 2008 as a result of (1) the 31.5% increase in the number of our mobile customers during 2008, resulting in an increase in the number of minutes terminated on our mobile network, and (2) increases in our VU-M rates of 2.25% and 2.06% that were implemented in July 2007 and July 2008, respectively.

Of the gross operating revenues from remuneration for the use of the mobile network, 39.7% in 2008 and 39.5% in 2007 represented interconnection fees paid by Brasil Telecom for the use of Brasil Telecom Mobile's network to complete fixed-to-mobile calls and was eliminated in the consolidation of our financial statements.

Charges against gross operating revenues

Value-added and other indirect taxes

Value-added and other taxes on our mobile services increased by 9.5% in 2008, primarily reflecting the growth in the gross operating revenue of our mobile services segment in 2008.

Discounts

Discounts offered on our mobile services generally consist of rebates on pre-paid telephone cards (typically having commissions of approximately 10.0% over the face amount sold), local fixed-line calls, long-distance

calls, and intelligent network services (such as caller ID, call forwarding and conference calling). Discounts on our mobile services declined by 18.8% in 2008, primarily as a result of the decrease in monthly subscription fees for post-paid mobile customers and a decrease in subsidies to pre-paid customers.

Net operating revenues

As a result of the foregoing, net operating revenues of the mobile services segment increased by 7.8% to R$1,882 million in 2008 from R$1,746 million in 2007.

Gross operating revenue of our internet services segment

The following table sets forth the components of the gross and net operating revenues of our internet services segment, as well as the percentage change from the prior year, for the years ended December 31, 2007 and 2008.

	Year Ended December 31,		
	2007	2008	% Change
	(in millions of R$, except percentages)		
Gross operating revenues	446	454	1.8
Value-added and other indirect taxes	(62)	(56)	(11.4)
Discounts and returns	(4)	(6)	64.7
Net operating revenue	**380**	**392**	3.3

Gross operating revenues of our internet services segment increased by 1.8% in 2008, primarily due to (1) an increase in the number of monthly subscriptions for content and (2) an increase in marketing and advertising revenues. Value-added and other taxes on our internet services declined by 11.4% in 2008. Discounts offered on our internet services increased by 64.7% in 2008, primarily as a result of promotions designed to attract new subscribers. As a result of the foregoing, net operating revenues of the internet services segment increased by 3.3% to R$392 million in 2008 from R$380 million in 2007.

Operating revenue of our call center

The following table sets forth the components of the gross and net operating revenues of our call center segment, as well as the percentage change from the prior year, for the years ended December 31, 2007 and 2008.

	Year Ended December 31,		
	2007	2008	% Change
	(in millions of R$, except percentages)		
Gross operating revenues	22	246	1,012.3
Value-added and other indirect taxes	(1)	(15)	1,161.2
Net operating revenue	**21**	**231**	1,003.4

Gross operating revenues of our call center segment increased by 1,012.3% in 2008 as a result of our recording the gross operating revenue of this segment for the full year of 2008 as compared to approximately one month in 2007. Value-added and other taxes on our call center segment increased by 1,161.2% in 2008. As all of our call center services are for internal use, we do not offer discounts on these services. As a result of the foregoing, net operating revenues of our call center segment increased by 1,003.4% to R$231 million in 2008 from R$21 million in 2007.

Cost of goods sold and services rendered

Cost of goods sold and serviced rendered declined by 2.7% in 2008, principally due to a 5.5% decline in cost of goods sold and services rendered of our fixed-line and data transmission services segment and, to a lesser extent, a 1.3% decline in cost of goods sold and services rendered of our mobile services segment, the effects of which were partially offset by a 931.2% increase in cost of goods sold and services rendered of our call center segment, as discussed below.

Of the costs of goods sold and services rendered of our fixed-line and data transmission services segment, 8.4% in 2008 and 7.4% in 2007 represented interconnection fees paid by Brasil Telecom for the use of Brasil Telecom Mobile's mobile network to complete fixed-to-mobile calls. These fees were eliminated in the consolidation of our financial statements.

Of the costs of goods sold and services rendered of our mobile services segment, 9.9% in 2008 and 11.0% in 2007 represented (1) interconnection fees paid by Brasil Telecom Mobile for the use of Brasil Telecom's fixed-line network to complete mobile-to-fixed calls, and (2) fees paid by Brasil Telecom Mobile for EILD services. These fees were eliminated in the consolidation of our financial statements.

The following table sets forth the components of our cost of goods sold and services rendered, as well as the percentage change from the prior year, for the years ended December 31, 2007 and 2008.

	Year Ended December 31,		
	2007	2008	% Change
	(in millions of R$, except percentages)		
Interconnection	2,319	2,203	(5.0)
Depreciation	2,033	1,683	(17.2)
Network maintenance	677	712	5.2
Rental and insurance	314	395	25.8
Third-party services	257	259	0.6
Personnel	183	368	100.4
Materials	70	64	(8.4)
Costs of handsets and accessories	255	237	(7.4)
Concession contract renewal fee	69	66	(5.5)
Other costs of services rendered	204	224	9.8
Total cost of goods sold and services rendered	6,382	6,209	(2.7)

Cost of goods sold and services rendered of our fixed-line and data transmission services segment

Cost of goods sold and services rendered of our fixed-line and data transmission services segment declined by 5.5% in 2008, principally due to:

- a 22.7% decline in depreciation costs to R$1,316 million in 2008 from R$1,702 million in 2007, primarily as a result of the increase in the amount of the property, plant and equipment of this segment that has been fully depreciated; and
- a 2.2% decline in interconnection costs to R$2,152 million in 2008 from R$2,199 million in 2007, primarily as a result of a decrease in the total number of minutes used by our fixed-line customers to make calls to customers of other fixed or mobile providers for which we pay interconnection fees, the effects of which were partially offset by increases in the VU-M, TU-RL and TU-RIU rates of these service providers that were implemented in July 2007 and July 2008.

The effects of these declines were partially offset by:

- a 6.8% increase in network maintenance costs to R$650 million in 2008 from R$609 million in 2007, primarily as a result of the growth of our ADSL services, which resulted in increased costs to set up ADSL in our customers' homes, as well as maintenance costs relating to the expansion of our network;
- a 27.1% increase in rental and insurance costs to R$320 million in 2008 from R$252 million in 2007, primarily as a result of the expansion of our broadband subscriber base and our internet network, which involved increased circuit rentals from third parties; and
- an 18.8% increase in connection means costs, which are costs that we incur to rent or lease network infrastructure from third parties, to R$265 million in 2008 from R$223 million in 2007, primarily as a result of increased costs for EILD services.

The gross profit of our fixed-line services and data transmission segment increased by 10.7% to R$4,700 million in 2008 from R$4,245 million in 2007. As a percentage of net operating revenue of this segment, gross profit increased to 47.5% in 2008 from 43.6% in 2007.

Cost of goods sold and services rendered of our mobile services segment

Cost of goods sold and services rendered of our mobile services segment declined by 1.3% in 2008, principally due to:

- a 7.0% decline in interconnection costs to R$550 million in 2008 from R$591 million in 2007, primarily due to the decline in the volume of traffic originated by our mobile customers that terminated on the networks of other service providers as a result of the increase in the size of our mobile customer base;
- a 7.4% decline in the cost of mobile handsets and accessories to R$237 million in 2008 from R$255 million in 2007, primarily due to a the decline in the number of mobile handsets sold as a result of our strategy of reducing subsidies offered on the sale of our mobile handsets and focusing on selling SIM cards independently of mobile handsets to the pre-paid segment in an effort to reduce customer-acquisition costs; and
- a 16.3% decline in connection means costs to R$90 million in 2008 from R$107 million in 2007, primarily due to the decline in our use of third-party network infrastructure as a result of the expansion of our own network.

The effects of these increases were partially offset by:

- a 13.6% increase in depreciation and amortization costs to R$364 million in 2008 from R$321 million in 2007, primarily as a result of (1) the growth in our property, plant and equipment as a result of the expansion of our mobile network and (2) increased amortization costs related to our acquisition of 3G radio frequency licenses during 2008; and
- a 25.5% increase in *Taxa de Fiscalização de Telecomunicações*, or FISTEL, fees, which are imposed by ANATEL on providers of telecommunications services for the inspection of switching stations and mobile terminals, to R$59 million in 2008 from R$47 million in 2007, primarily as a result of the increase in the size of our mobile customer base and the number of switching stations in our network in 2008.

The gross profit of our mobile services segment increased by 72.9% to R$370 million in 2008 from R$214 million in 2007. As a percentage of net operating revenue of this segment, gross profit increased to 19.7% in 2008 from 12.3% in 2007.

Cost of goods sold and services rendered of our internet segment

Cost of goods sold and services rendered of our internet segment declined by 1.8% in 2008. The gross profit of our internet segment increased by 4.0% to R$338 million in 2008 from R$325 million in 2007. As a percentage of net operating revenue of this segment, gross profit increased to 86.2% in 2008 from 85.5% in 2007.

Cost of goods sold and services rendered of our call center segment

Cost of goods sold and services rendered of our call center segment increased by 931.2% in 2008, principally due to our recording the cost of goods sold and services rendered of this segment for the full year of 2008 as compared to approximately one month in 2007. The gross profit of our call center segment increased to R$19 million in 2008 from R$0.3 million in 2007. As a percentage of net operating revenue of this segment, gross profit increased to 8.3% in 2008 from 1.8% in 2007.

Gross profit

As a result of the foregoing, our consolidated gross profit increased by 8.8% to R$5,088 million in 2008 from R$4,676 million in 2007. As a percentage of net operating revenue, gross profit increased to 45.0% in 2008 from 42.3% in 2007.

Operating expenses

Selling expenses

Fixed-line and data transmission services segment. Selling expenses of our fixed-line and data transmission services segment increased by 6.0% in 2008, principally due to:

- a 14.8% increase in provision for doubtful accounts to R$309 million in 2008 from R$269 million in 2007, primarily as a result of (1) the increase in the percentage of our accounts receivable that we record as a provision based on an increase in the rate of delinquency of our fixed-line customers in the second half of 2008, and (2) the decrease in the recovery of written-off accounts receivable during our end of year collection campaign in 2008 as compared to 2007, which resulted in an increase in our provision for doubtful accounts as a percentage of gross revenue of this segment to 2.1% in 2008 from 1.9% in 2007;
- an 8.3% increase in personnel expenses to R$187 million in 2008 from R$172 million in 2007, primarily as a result of an increase in employee profit sharing expenses as a result of our improved results and increases in wages and benefits payable under our collective bargaining agreements; and
- a 13.2% increase in call center expenses to R$180 million in 2008 from R$159 million in 2007, primarily as a result of an increase in the number of workstations in order to comply with new Brazilian legal requirements that became effective at the end of 2008.

As a percentage of net operating revenues of this segment, selling expenses increased to 9.6% in 2008 from 9.2% in 2007.

Mobile services segment. Selling expenses of our mobile services segment increased by 15.7% in 2008, principally due to:

- a 165.3% increase in materials expenses to R$87 million in 2008 from R$33 million in 2007, primarily as a result of an increase in materials expenses related to the launch of our 3G services;
- a 45.9% increase in marketing expenses to R$76 million in 2008 from R$52 million in 2007, primarily due to expenses relating to advertising campaigns featuring our *3GMais* and *Pluri* services; and
- a 20.4% increase in sales commission to R$103 million in 2008 from R$86 million in 2007, primarily to incentivize retailers to promote sales of our SIM cards following our adoption of a strategy to reduce

subsidies offered on the sale of our mobile handsets and focus on selling SIM cards independently of mobile handsets.

The effects of these increases were partially offset by a 27.3% decline in provision for doubtful accounts to R$47 million from R$65 million, primarily as a result of the decline in the percentage of our accounts receivable that we record as a provision based on the improved payment history of our post-paid mobile customer base.

As a percentage of net operating revenues of this segment, selling expenses increased to 27.9% in 2008 from 26.0% in 2007.

Internet services segment. Selling expenses of our internet services segment declined by 3.4% in 2008, principally due to a 24.0% decrease in marketing costs to R$34 million in 2008 from R$45 million in 2007 as a result of a reduction of the promotional campaigns and advertising conducted by this segment. As a percentage of net operating revenues of this segment, selling expenses declined to 67.5% in 2008 from 72.3% in 2007.

Call center segment. Selling expenses of our call center segment were R$8 million in 2008. This segment did not incur selling expenses in 2007. As a percentage of net operating revenues of this segment, selling expenses represented 3.3% in 2008.

General and administrative expenses

Fixed-line and data transmission services segment. General and administrative expenses of our fixed-line and data transmission services segment increased by 3.1% in 2008, principally due to:

- a 4.8% increase in expenses for third-party services to R$514 million in 2008 from R$490 million in 2007, principally due to (1) a R$18.7 million increase in collection services expenses, (2) a R$15.0 million increase in printing expenses and (3) a R$9.1 million increase in expenses for co-billing of our customers, the effects of which were partially offset by a R$29.9 million decline in call center expenses.
- a 14.3% increase in consulting and legal expenses to R$219 million in 2008 from R$192 million in 2007, primarily as a result of expenses incurred in relation to the settlement of several legal disputes related to the acquisition of our control by Telemar; and
- a 28.1% increase in personnel expenses to R$229 million in 2008 from R$179 million in 2007, primarily due to an increase in employee profit sharing expenses as a result of our improved results and increases in wages and benefits payable under our collective bargaining agreements.

The effects of these increases were partially offset by a 15.6% decline in depreciation expenses to R$221 million in 2008 from R$261 million in 2007, primarily due to the increase in the amount of the property, plant and equipment of this segment that has been fully depreciated.

As a percentage of net operating revenues of this segment, general and administrative expenses increased to 12.2% in 2008 from 12.1% in 2007.

Mobile services segment. General and administrative expenses of our mobile services segment increased by 50.8% in 2008, primarily due to (1) a 237.0% increase in depreciation expenses to R$58 million in 2008 from R$17 million in 2007, principally due to the increase in the property, plant and equipment of this segment as a result of the expansion of our mobile network and the launch of our 3G services, and (2) a 177.8% increase in personnel expenses to R$22 million in 2008 from R$8 million in 2007, principally due to an increase in employee profit sharing expenses as a result of our improved results and increases in wages and benefits payable under our collective bargaining agreements.

As a percentage of net operating revenues of this segment, general and administrative expenses increased to 7.2% in 2008 from 5.2% in 2007.

Internet services segment. General and administrative expenses of our internet services segment increased by 10.0% in 2008, principally due to a 33.6% increase in third-party services costs to R$30 million in 2008 from R$23 million in 2007 as a result of the acquisition of new services from our content providers. As a percentage of net operating revenues of this segment, general and administrative expenses increased to 19.4% in 2008 from 18.2% in 2007.

Call center segment. General and administrative expenses of our call center segment increased by 78.6% in 2008, principally as a result of our recording of general and administrative expenses of this segment for the full year of 2008 as compared to approximately one month in 2007. As a percentage of net operating revenues of this segment, general and administrative expenses declined to 7.9% in 2008 from 48.8% in 2007.

Other operating expenses, net

Other operating expenses, net declined by 15.5% in 2008, primarily due to:

- R$175 million that we recorded in 2008 as receivables from settlement of litigation relating to payments made to us in connection with the settlement of outstanding litigation with our former controlling shareholders;
- a 51.5% increase in recoverable taxes and expenses to R$145 million in 2008 from R$96 million in 2007, primarily as a result of the reversal of a provision relating to ICMS tax on value-added internet access services; and
- a 32.4% increase in income from penalties, net to R$103 million in 2008 from R$78 million in 2007, primarily as a result of a decrease of R$28 million in penalties paid by us relating to the termination of contracts in 2008 compared to 2007.

The effects of these factors were partially offset by:

- a 9.2% increase in provision for contingencies, net of reversals, to R$711 million in 2008 from R$651 million in 2007, primarily as a result of an increase in provisions related to labor, tax and civil contingencies;
- a 67.7% increase in taxes (other than taxes on gross revenues, IRPJ and CSLL) to R$146 million in 2008 from R$87 million in 2007, primarily due to PIS and COFINS taxes of R$16.2 million on our settlement award relating to the settlement of outstanding litigation with our former controlling shareholders and R$37.5 million of non-recoverable ICMS taxes;
- R$43 million of losses on investments in 2008 relating to shareholdings in subsidiaries, as compared to R$1 million in losses on investments in 2007; and
- R$58 million of allowance for investment losses in 2008, as compared to R$26 million in reversal of allowance for investment losses in 2007.

Operating income

As a result of the foregoing, our consolidated operating income increased by 38.7% to R$1,864 million in 2008 from R$1,344 million in 2007. As a percentage of net operating revenue, operating income increased to 16.5% in 2008 from 12.2% in 2007.

Fixed-line and data transmission services segment. The operating income of our fixed-line and data transmission services segment increased by 23.3% to R$2,154 million in 2008 from R$1,747 million in 2007. As a percentage of the net operating revenues of this segment, operating income increased to 21.8% in 2008 from 18.0% in 2007.

Mobile services segment. The operating loss of our mobile services segment declined by 16.0% to R$248 million in 2008 from R$296 million in 2007. As a percentage of the net operating revenues of this segment, operating loss declined to 13.2% in 2008 from 16.9% in 2007.

Internet services segment. The operating loss of our internet services segment declined by 40.1% to R$43 million in 2008 from R$74 million in 2007. As a percentage of the net operating revenues of this segment, operating loss declined to 11.3% in 2008 from 19.5% in 2007.

Call center segment. The operating loss of our call center segment declined by 12.9% to R$9 million in 2008 from R$10 million in 2007. As a percentage of the net operating revenues of this segment, operating loss declined to 3.7% in 2008 from 47.0% in 2007.

Financial expenses, net

Financial income

Financial income increased by 14.7% to R$888 million in 2008 from R$774 million in 2007, primarily due to an increase of R$123 million in interest and monetary exchange on other assets principally as a result of the increase in legal deposits.

Financial expenses

Financial expenses, without giving effect to interest on shareholders' equity, increased by 26.4% to R$1,041 million in 2008 from R$824 million in 2007, primarily due to the effects of exchange rate variations on our indebtedness. In 2008, the *real* depreciated by 31.9% against the U.S. dollar and by 63.0% against the Japanese Yen, which resulted in a R$177 million increase in our interest expenses.

Income tax and social contribution

The composite corporate statutory income tax and social contribution rate was 34% in each of 2007 and 2008. Income tax and social contribution expense increased by 64.6% in 2008, principally as a result of a 58.9% increase in income before taxes and minority interest to R$1,339 million in 2008 from R$843 million in 2007. Our effective tax rate was 44.1% in 2008 as compared to 42.6% in 2007. The higher effective tax rate in 2008 was principally the result of permanent additions, including (1) an increase in non-deductible fines to R$59 million in 2008 from R$3 million in 2007, (2) an increase in ownership of subsidiaries to R$15 million in 2008 from R$0.3 million in 2007 and (3) losses on investments of R$14 million recorded in 2008.

Minority interest

Minority interest increased by 28.9% in 2008, primarily as a result of minority shareholders' interest in the increased results of operations of BrT in 2008.

Net income

Our consolidated net income increased by 16.2% to R$782 million in 2008 from R$673 million in 2007. As a percentage of net operating revenue, net income increased to 6.9% in 2008 from 6.1% in 2007.

Year ended December 31, 2006 compared with year ended December 31, 2007

The following table sets forth the components of our net income, as well as the percentage change from the prior year, for the years ended December 31, 2006 and 2007.

	Year ended December 31,		
	2006	2007	% Change
	(millions of R$, except percentages)		
Gross operating revenues	15,111	15,997	5.9
Taxes and deductions	(4,815)	(4,938)	2.6
Net operating revenues	10,296	11,059	7.4
Cost of goods sold and services rendered	(6,460)	(6,383)	(1.2)
Gross profit	3,836	4,676	21.9
Operating expenses			
Selling expenses	(1,471)	(1,485)	1.0
General and administrative expenses	(1,322)	(1,337)	1.1
Other operating income (expenses), net	(272)	(510)(1)	86.6
Operating income before net financial expenses	771	1,344	74.4
Net financial expenses(2)	(82)	(50)	(39.3)
Non-operating income (expenses)	30	—(1)	NM
Income before taxes and minority interest(2)	719	1,294	79.9
Income tax and social contribution	(108)	(359)	213.9
Minority interest	(141)	(262)	85.4
Net income	470	673	43.1

NM=Not Meaningful

(1) Reflects an adjustment of R$3 million related to the reclassification of revenues that were recorded as non-operating revenues in 2006 and as operating revenue in 2007 under Law No. 11,638/07 and *Deliberação* 565/08.

(2) Excludes the effect of interest on shareholders' equity of R$451 million in 2007 and R$528 million in 2006.

Operating revenues

Gross operating revenues increased by 5.9% in 2007, due to a 36.7% increase in gross operating revenues of our mobile services segment, a 1.9% increase in gross operating revenues of our fixed-line and data transmission services segment and a 30.3% increase in gross operating revenues of our internet segment, as discussed below. Gross operating revenues generated by intersegment sales, which are eliminated in the consolidation of our financial statements, increased by 23.0% in 2008.

Net operating revenues increased by 7.4% in 2007, due to a 40.0% increase in net operating revenues of our mobile services segment, a 3.3% increase in net operating revenues of our fixed-line and data transmission services segment and a 26.7% increase in net operating revenues of our internet services segment.

Operating revenue of our fixed-line and data transmission services segment

The following table sets forth the components of the gross and net operating revenues of our fixed-line and data transmission services segment, as well as the percentage change from the prior year, for the years ended December 31, 2006 and 2007.

	Year Ended December 31,		
	2006	2007	% Change
	(in millions of R$, except percentages)		
Local services:			
Monthly subscription fees	3,517	3,536	0.5
Metered services	1,386	1,106	(20.2)
Fixed-line to mobile calls (VC1)	1,964	1,882	(4.2)
Other revenues	74	47	(36.2)
	6,941	**6,571**	**(5.3)**
Long-distance services:			
Fixed-line to mobile calls (VC2 and VC3)	1,290	1,544	19.7
Intrasectorial	879	864	(1.8)
Intersectorial	303	264	(12.6)
Interregional	260	241	(7.4)
International	45	44	(3.1)
	2,777	**2,957**	**6.5**
Other fixed-line services:			
Pre-paid calling cards for public telephones	541	546	1.0
Additional services, intelligent network and advanced voice	368	396	7.5
Other	45	38	(16.0)
	954	**980**	**2.7**
Remuneration for the use of the fixed-line network:			
Fixed-line to fixed-line network use	298	243	(18.4)
Mobile to fixed-line network use	192	178	(7.2)
	491	**422**	**(14.0)**
Data transmission services:			
Asymmetric Digital Subscriber Line (ADSL)	1,033	1,278	23.7
Internet services	21	55	164.4
Transmission — EILD	422	462	9.5
Dedicated Line Service — SLD	293	397	35.6
Internet protocol services	319	482	50.8
Switching packs and frame relay	201	202	0.1
Other services	201	105	(47.3)
	2,490	**2,981**	**19.7**
Total gross operating revenue	**13,653**	**13,911**	**1.9**
Value-added and other indirect taxes	(3,927)	(3,898)	(0.7)
Discounts and returns	(307)	(280)	(8.9)
Net operating revenue	**9,419**	**9,733**	**3.3**

Gross operating revenues of our fixed-line and data transmission services segment increased by 1.9% in 2007, principally due to:

- a 19.7% increase in gross operating revenues from data transmission services;
- a 6.5% increase in gross operating revenue from long-distance services; and
- a 2.7% increase in gross operating revenues from other fixed-line services.

The effects of these increases were offset by:

- a 5.3% decline in gross operating revenues from local services; and
- a 14.0% decline in gross operating revenue from remuneration for the use of our fixed-line network.

Gross operating revenues from local services

Gross operating revenues from local fixed-line services declined by 5.3% in 2007, primarily due to a 20.2% decline in gross operating revenues from metered services and a 4.2% decline in gross operating revenues from local fixed-to-mobile calls.

Metered services

Gross operating revenues from metered services charges declined by 20.2% in 2007, principally as a result of (1) the migration of local traffic origination to mobile handsets as callers take advantage of mobile plans and promotions under which mobile service providers offer mobile-to-mobile minutes within their networks at rates that are lower than a fixed-to-mobile minute, and (2) the decline in usage of our local fixed-line services to establish internet connections as our fixed-line customers migrated from dial-up connections to the use of our broadband service.

As a result of the conversion from pulses to minutes in July 2007, the volume of metered services is not comparable between 2007 and 2006. Total billed minutes, which are the number of local minutes that exceed the monthly allowance under a customer's service plan, were 5.4 billion during the last five months of 2007 and total billed pulses were 3.0 billion during the first seven months of 2007. Total billed pulses were 8.8 billion in 2006. Based on our usage profile, pulses under our basic residential, non-residential and alternative plans represented approximately 1.7, 1.5 and 4.0 minutes of call time, respectively. We implemented a rate increase for billed pulses of 2.14% in July 2007.

Local fixed-to-mobile calls

Gross operating revenues from local fixed-to-mobile calls, which are charged at the VC1 rate, declined by 4.2% in 2007, principally due to a 3.9% decline in the total number of local fixed-to-mobile minutes to 2.8 billion in 2007 from 2.9 billion in 2006, as our fixed-line customers opted to take advantage of mobile service plans offered by mobile services providers under which the charge for a mobile-to-mobile minute is less than the charge for a fixed-to-mobile minute. The effects of this decline were partially offset by an increase in the VC1 rate of 3.29% that was implemented in July 2007. The average number of monthly local fixed-to-mobile minutes for our fixed lines in services increased by 7.2% in 2007.

Gross operating revenues from long-distance services

Gross operating revenues from long-distance services increased by 6.5% in 2007, primarily due to a 19.7% increase in gross operating revenues from fixed-to-mobile long-distance calls. The effects of this increase were partially offset by (1) a 12.6% decline in gross operating revenues from fixed-to-fixed intersectorial long-distance calls, and (2) a 7.4% decline in gross operating revenues from fixed-to-fixed interregional long-distance calls.

Fixed-to-mobile long-distance calls

Gross operating revenues from fixed-to-mobile long-distance calls, which are charged at the VC2 or VC3 rate, increased by 19.7% in 2007, principally as a result of:

- a 10.6% increase in the total number of long-distance minutes that were charged at the VC2 rate to 693.2 million in 2007 from 626.7 million in 2006, principally due to increased use of value-added services;

- a 31.6% increase in the total number of long-distance minutes that were charged at the VC3 rate to 550.9 million in 2007 from 418.4 million in 2006, principally due to increased use of value-added services; and
- increases in the VC2 and VC3 rates of 7.99% and 2.88% that were implemented in March 2006 and July 2007, respectively.

Other long-distance calls

Gross operating revenues from intersectorial and interregional long-distance calls, which are charged at long-distance rates regulated in accordance with the distance separating callers, declined by 12.6% and 7.4%, respectively, in 2007 principally as a result of a 4.8% increase in the number of subscribers to alternative long-distance plans in 2008. The total number of intersectorial long-distance minutes declined 5.8% to 2.8 billion in 2007 from 2.9 billion in 2006, and the total number of interregional long-distance minutes increased 3.0% to 724 million in 2007 from 703 million in 2006.

The effects of the foregoing were partially offset by an increase in our regulated long-distance rates of 3.29% that was implemented in July 2007.

Gross operating revenue from other fixed-lines services

Gross operating revenues from other fixed-line services increased by 2.7% in 2007, primarily as a result of (1) a 7.5% increase in gross operating revenue from additional services, intelligent network services and advanced voice services, and (2) a 1.0% increase in gross operating revenue from the sale of pre-paid calling cards for use in public telephones.

Gross operating revenues from additional services, intelligent network services and advanced voice services increased principally as a result of our promotional offers and customer retention programs.

Gross operating revenue from the sale of pre-paid calling cards for use in public telephones increased principally due to a rate increase for public phone usage of 2.14% that was implemented in July 2007. The effects of this increase were partially offset by a 2.2% decline in the number of public phone credits used to 5.2 billion in 2007 from 5.3 billion in 2006, primarily due to customers substituting usage of mobile handsets for usage of public phones as a result of promotions by mobile service providers to the pre-paid segment, including bonus calls and pre-paid card recharges at reduced rates.

Gross operating revenues from remuneration for the use of the fixed-line network

Gross operating revenues from remuneration for the use of the fixed-line network declined by 14.0% in 2007 as a result of:

- an 18.4% decline in interconnection fees paid to us for completing calls on our fixed-line network that were originated on the networks of other fixed-line service providers, primarily as a result of a 20.0% reduction of our TU-RL and TU-RIU rates imposed by ANATEL that became effective on January 1, 2007.
- a 7.2% decline in revenue from interconnection fees paid to us for completing calls on our fixed-line network that were originated on the networks of mobile service providers, primarily due to the reduction of our TU-RL and TU-RIU rates.

Of our gross operating revenues from remuneration for the use of the fixed-line network, 15.2% in 2007 and 9.9% in 2006 represented interconnection fees paid by Brasil Telecom Mobile for the use of Brasil Telecom's fixed-line network to complete mobile-to-fixed calls and was eliminated in the consolidation of our financial statements.

Gross operating revenues from data transmission services

Gross operating revenues from data transmission services increased by 19.7% in 2007, principally due to (1) a 23.7% increase in gross operating revenue from ADSL subscriptions and (2) a 50.8% increase in gross operating revenue from IP services. Of our gross operating revenues from EILD services, 3.5% in 2007 and 3.7% in 2006 represented fees paid by Brasil Telecom Mobile for EILD services and was eliminated in the consolidation of our financial statements.

Gross operating revenues from ADSL subscriptions increased in 2007 primarily due to (1) the 19.0% increase in the number of ADSL subscriptions to 1.6 million at December 31, 2007 from 1.3 million at December 31, 2006 as a result of our continued focus on increasing penetration of our ADSL services in our local fixed-line subscriber base and (2) the 6.6% increase in average gross revenues per line generated by ADSL subscriptions to R$71.70 in 2007 from R$67.10 in 2006. As of December 31, 2007, our ADSL customer base represented 19.5% of our total fixed lines in service as compared to 15.7% as of December 31, 2006.

IP services consist of dedicated and dial-up internet access for ISPs, as well as VPN services that enable companies to establish intranets and extranets. Gross operating revenues from IP services increased in 2007 primarily due to the increased demand for these services from our new corporate customers.

Charges against gross operating revenues

Value-added and other indirect taxes

Value-added and other taxes on our fixed-line and data transmission services declined by 0.7% in 2007, primarily reflecting the decline in the gross operating revenue of our fixed-line and data transmission services segment in 2008 and the change in revenue mix, as fewer taxes or lower tax rates apply to some of our services, such as interconnection services.

Discounts

Discounts on our fixed-line and data transmission services decreased by 8.9% in 2007, primarily as a result of a decrease in discounts to our ADSL subscribers that had subscribed to our services for longer than a specified period of time.

Net operating revenues

As a result of the foregoing, net operating revenues of the fixed-line and data transmission services segment increased by 3.3% to R$9,733 million in 2007 from R$9,419 million in 2006.

Operating revenue of our mobile services segment

The following table sets forth the components of the gross and net operating revenues of our mobile services segment, as well as the percentage change from the prior year, for the years ended December 31, 2006 and 2007.

	Year Ended December 31,		
	2006	2007	% Change
	(in millions of R$, except percentages)		
Mobile telephone services:			
Monthly subscription fees	305	434	42.0
Utilization	418	562	34.5
Value-added services	103	104	1.4
Sale of handsets and accessories	286	271	(5.5)
Roaming	13	16	20.7
Other	30	27	(8.7)
	1,156	**1,414**	22.3
Remuneration for the use of the mobile network	**633**	**1,032**	62.9
Total gross operating revenue	**1,789**	**2,446**	36.7
Value-added and other indirect taxes	(317)	(392)	23.7
Discounts and returns	(225)	(308)	37.0
Net operating revenue	**1,247**	**1,746**	40.0

Gross operating revenues of our mobile services segment increased by 40.0% in 2007, due to a 62.9% increase in remuneration for the use of our mobile network and a 22.3% increase in gross operating revenues from mobile telephone services.

Gross operating revenues from mobile services

Gross operating revenues from mobile services increased by 22.3% in 2007, principally due to:

- a 34.5% increase in gross operating revenue from billed minutes, primarily as a result of (1) the 26.2% increase in the number of our mobile customers to 4.3 million at December 31, 2007 from 3.4 million at December 31, 2006 and (2) rate increases for our billed minutes that reflected increases in inflation of 3.20% in 2006 and 3.17% in 2007, as measured by the IST; and
- a 42.0% increase in gross operating revenue from monthly subscription fees, primarily due to (1) the increase in the number of subscribers to our post-paid plans, and (2) rate increases for our post-paid plans that reflected increases in inflation of 3.20% in 2006 and 3.17% in 2007, as measured by the IST.

The number of our pre-paid mobile customers increased by 43.0% in 2007 to 3.4 million at December 31, 2007 from 2.4 million at December 31, 2006, primarily as a result of the success of our marketing campaigns designed to attract pre-paid customers and to encourage the migration of mobile subscribers of our hybrid plans to our pre-paid plans. As of December 31, 2007, pre-paid customers represented 79.9% of our mobile customer base. The number of subscribers to our post-paid mobile plans declined by 13.9% in 2007 to approximately 855,800 at December 31, 2007 from approximately 993,800 at December 31, 2006, primarily as a result of the migration of mobile subscribers of our hybrid plans, which were classified as post-paid customers, to our pre-paid plans. As of December 31, 2007, post-paid customers represented 20.1% of our mobile customer base. Our monthly average revenue per user (calculated based on the total revenue for the year divided by the monthly average customer base for the year divided by 12) decreased by 6.4% to R$34.60 in 2007 from R$37.00 in 2006.

Gross operating revenues from remuneration for the use of the mobile network

Gross operating revenues from remuneration for the use of the mobile network increased by 62.9% in 2007 as a result of (1) the impact of the transition to the "full billing" system for interconnection fees, which was in effect for all of 2007 and only five-and-one-half months in 2006, (2) the 26.2% increase in the number of our mobile customers during 2007 resulting in an increase in the number of minutes terminated on our mobile network, and (3) an increase in our VU-M rates of 1.97% that was implemented in July 2007.

Of our gross operating revenues from remuneration for the use of the mobile network, 39.5% in 2007 and 52.6% in 2006 represented interconnection fees paid by Brasil Telecom for the use of Brasil Telecom Mobile's fixed-line network to complete fixed-to-mobile calls and was eliminated in the consolidation of our financial statements.

Charges against gross operating revenues

Value-added and other indirect taxes

Value-added and other taxes on our mobile services increased by 23.7% in 2007, primarily reflecting the growth in the gross operating revenue of our mobile services segment in 2007.

Discounts

Discounts on our mobile services increased by 37.0% in 2007, primarily as a result of the 43.0% increase in our pre-paid customer base and our crediting these customers with minutes of network usage under a promotional program in which we offered free minutes of network usage based on the volume of incoming calls received by a pre-paid customer.

Net operating revenues

As a result of the foregoing, net operating revenues of the mobile services segment increased by 40.0% to R$1,746 million in 2007 from R$1,247 million in 2006.

Operating revenue of our internet services segment

The following table sets forth the components of the gross and net operating revenues of our internet services segment, as well as the percentage change from the prior year, for the years ended December 31, 2006 and 2007.

	Year Ended December 31,		
	2006	2007	% Change
	(in millions of R$, except percentages)		
Gross operating revenues	342	446	30.3
Value-added and other indirect taxes	(43)	(62)	47.1
Discounts and returns	—	(4)	
Net operating revenue	**300**	**380**	26.7

Gross operating revenues of our internet services segment increased by 26.7% in 2007, due to (1) an increase in the number of monthly subscriptions for content, and (2) an increase in marketing and advertising revenues. Value-added and other taxes on our internet services increased by 47.1% in 2007. Discounts offered on our internet services were R$4 million in 2007; we did not offer discounts on these services in 2006.

Cost of goods sold and services rendered

Cost of goods sold and services rendered declined by 1.2% in 2007, principally due to a 4.9% decline in cost of goods sold and serviced rendered of our fixed-line and data transmission services segment and a 62.1% decline in cost of goods sold and serviced rendered of our internet services segment, the effects of which were partially offset by a 30.2% increase in cost of goods sold and services rendered of our mobile services segment, as discussed below.

Of the costs of goods sold and services rendered of our fixed-line and data transmission services segment, 7.4% in 2007 and 5.8% in 2006 represented interconnection fees paid by Brasil Telecom for the use of Brasil Telecom Mobile's mobile network to complete fixed-to-mobile calls. These fees were eliminated in the consolidation of our financial statements.

Of the costs of goods sold and services rendered of our mobile services segment, 11.0% in 2007 and 9.3% in 2006 represented (1) interconnection fees paid by Brasil Telecom Mobile for the use of Brasil Telecom's fixed-line network to complete mobile-to-fixed calls and (2) fees paid by Brasil Telecom Mobile for EILD services. These fees were eliminated in the consolidation of our financial statements.

The following table sets forth the components of our cost of goods sold and services rendered, as well as the percentage change from the prior year, for the years ended December 31, 2006 and 2007.

	Year Ended December 31,		
	2006	2007	% Change
	(in millions of R$, except percentages)		
Interconnection	2,115	2,319	9.6
Depreciation	2,301	2,033	(11.7)
Network maintenance	672	677	0.7
Rental and insurance	348	314	(9.9)
Third-party services	239	257	7.5
Personnel	192	183	(4.3)
Materials	72	70	(3.4)
Costs of handsets and accessories	295	255	(13.3)
Concession contract renewal fee	67	69	3.0
Other costs of services rendered	158	204	29.0
Total cost of goods sold and services rendered	6,460	6,382	(1.2)

Cost of goods sold and services rendered of our fixed-line and data transmission services segment

Cost of goods sold and services rendered of our fixed-line and data transmission services segment declined by 4.9% in 2007, principally due to a 15.4% decline in depreciation costs to R$1,702 million in 2007 from R$2,011 million in 2006, primarily as a result of the increase in the amount of the property, plant and equipment of this segment that has been fully depreciated. The effects of this decline were partially offset by a 24.9% increase in connection means costs to R$223 million in 2007 from R$178 million in 2006, primarily as a result of increased costs for EILD services.

The gross profit of our fixed-line services segment increased by 16.3% to R$4,245 million in 2007 from R$3,650 million in 2006. As a percentage of net operating revenue of this segment, gross profit increased to 43.6% in 2007 from 38.7% in 2006.

Cost of goods sold and services rendered of our mobile services segment

Cost of goods sold and services rendered of our mobile services segment increased by 30.2% in 2007, principally due to:

- a 105.5% increase in interconnection costs to R$591 million in 2007 from R$288 million in 2006, primarily as a result of (1) the impact of the transition to the "full billing" system for interconnection fees, which was in effect for all of 2007 and only five-and-one-half months in 2006, and (2) the 26.2% increase in the number of our mobile customers which resulted in an increase in the total number of minutes used by our mobile customers to make calls to customers of other mobile providers for which we pay interconnection fees at the VU-M rate and (3) an increase in the VU-M rates of these mobile services providers that were implemented in July 2007; and
- a 15.1% increase in depreciation and amortization costs to R$321 million in 2007 from R$278 million in 2006, primarily as a result of the growth in our property, plant and equipment as a result of the expansion of our mobile network.

The effects of these increases were partially offset by a 13.3% decline in the cost of mobile handsets and accessories to R$255 million in 2007 from R$295 million in 2006, primarily due to the appreciation of the *real* against the U.S. dollar and the Japanese yen, the principal currencies in which we pay for our mobile handsets, the effects of which were partially offset by an increase in the number of handsets sold.

The gross profit of our mobile services segment increased by 200.5% to R$214 million in 2007 from R$71 million in 2006. As a percentage of net operating revenue of this segment, gross profit increased to 12.3% in 2007 from 5.7% in 2006.

Cost of goods sold and services rendered of our internet segment

Cost of goods sold and services rendered of our internet segment declined by 62.1% in 2007, principally as a result of the reclassification of rental and insurance expenses that were previously recorded in costs of goods sold and services rendered to selling expenses. The gross profit of our internet segment increased by 110.6% to R$324 million in 2007 from R$154 million in 2006. As a percentage of net operating revenue of this segment, gross profit increased to 85.5% in 2007 from 51.4% in 2006.

Gross profit

As a result of the foregoing, our consolidated gross profit increased by 21.9% to R$4,676 million in 2007 from R$3,837 million in 2006. As a percentage of net operating revenue, gross profit increased to 42.3% in 2007 from 37.3% in 2006.

Operating expenses

Selling expenses

Fixed-line and data transmission services segment. Selling expenses of our fixed-line and data transmission services segment declined by 9.0% in 2007, principally due to:

- a 17.3% decline in provision for doubtful accounts to R$269 million in 2007 from R$325 million in 2006, primarily as a result of our continued focus on measures to control bad debt, such as the introduction of alternative plans to mitigate credit risk, which resulted in a decrease in our provision for doubtful accounts as a percentage of gross revenues of this segment to 1.9% in 2007 from 2.4% in 2006;
- a 24.9% decline in call center expenses to R$159 million in 2007 from R$211 million in 2006, primarily due to the consolidation of our call center structure by merging our 30 pre-existing sites into five sites (Goiânia, Campo Grande, Florianópolis, Brasília and Curitiba);

- a 29.7% decline in sales commissions to R$53 million in 2007 from R$76 million in 2006, primarily due to the decline in the number of new customers of this segment in 2007; and
- a 10.2% decline in personnel expenses to R$172 million in 2007 from R$192 million in 2006, primarily due to the reduction in the size of the workforce in this segment which we announced in February 2006 and which resulted in non-recurring severance expenses in 2006.

As a percentage of net operating revenues of this segment, selling expenses declined to 9.2% in 2007 from 10.5% in 2006.

Mobile services segment. Selling expenses of our mobile services segment increased by 5.0% in 2007, principally due to:

- a 50.1% increase in provision for doubtful accounts to R$65 million in 2007 from R$43 million in 2006, primarily as a result of the increased rate of delinquency of subscribers to our hybrid plans which led to an increase in the percentage of our accounts receivable that we record as a provision;
- a 58.6% increase in materials expenses to R$33 million in 2007 from R$21 million in 2006, primarily as a result of an increase in materials expenses related to promotional activities; and
- a 19.7% increase in personnel expenses to R$61 million in 2007 from R$51 million in 2006, primarily as a result of an increase in employee profit sharing expenses as a result of our improved results and increases in wages and benefits payable under our collective bargaining agreements.

The effects of these increases was partially offset by (1) a 16.3% decline in call center expenses to R$44 million in 2007 from R$53 million in 2006, primarily as a result of the consolidation of our call center structure by merging our 30 pre-existing sites into five sites, and (2) an 8.9% decline in sales commissions to R$86 million in 2007 from R$94 million in 2006, primarily as a result of the change in the mix of services subscribed to by our new customers towards pre-paid services under which we incur lower sales commissions. As a percentage of net operating revenues of this segment, selling expenses declined to 26.0% in 2007 from 34.7% in 2006.

Internet services segment. Selling expenses of our internet services segment increased by 85.2% in 2007, principally due to the reclassification of rental and insurance expenses that were previously recorded in costs of goods sold and services rendered. As a percentage of net operating revenues of this segment, selling expenses increased to 72.3% in 2007 from 45.3% in 2006.

General and administrative expenses

Fixed-line and data transmission services segment. General and administrative expenses of our fixed line and data transmission services segment increased by 4.4% in 2007, primarily due to (1) a 5.2% increase in expenses for third-party services to R$490 million in 2007 from R$466 million in 2006, principally due an increase in expenses under information technology contracts, and (2) a 2.4% increase in personnel expenses to R$179 million in 2007 from R$175 million in 2006, principally due to an increase in employee profit sharing expenses as a result of our improved results and increases in wages and benefits payable under our collective bargaining agreements. As a percentage of net operating revenues of this segment, general and administrative expenses increased to 12.1% in 2007 from 11.9% in 2006.

Mobile services segment. General and administrative expenses of our mobile services segment declined by 28.5% in 2007, primarily as a result of a 433.3% increase in consulting and legal services expenses to R$16 million in 2007 from R$3 million in 2006, principally due to an increase in expenses under information technology contracts. The effects of this increase were partially offset by a 55.1% decline in personnel expenses to R$8 million in 2007 from R$17 million in 2006, primarily as a result of synergies achieved through the integration of the management of our fixed-line and data transmission services segment and our mobile services segment. As a percentage of net operating revenues of this segment, general and administrative expenses declined to 5.2% in 2007 from 10.1% in 2006.

Internet services segment. General and administrative expenses of our internet services segment declined by 9.8% in 2007, principally due to non-recurring expenses recorded in 2006. As a percentage of net operating revenues of this segment, general and administrative expenses declined to 18.2% in 2007 from 25.6% in 2006.

Other operating expenses, net

Other operating expenses, net increased by 86.6% in 2007, primarily due to:

- a 33.4% increase in provision for contingencies, net of reversals, to R$651 million in 2007 from R$488 million in 2006, primarily as a result of reassessments of our tax, civil and labor contingencies in 2007;
- a 52.1% decline in recoverable taxes and expenses to R$96 million in 2007 from R$200 million in 2006, primarily as a result of the effects of a non-recurring recovery of R$129.9 million in 2006 related to ICMS, PIS and COFINS;
- a 212.4% increase in pension fund reserve contributions to R$90 million in 2007 from R$29 million in 2006, primarily as a result of lower returns on investment of the BrTPrev plan;
- a 69.1% decline in settlement payments in connection with our litigation with telecommunications companies to R$17 million in 2007 from R$54 million in 2006;
- a R$26 million in reversal of allowance for investment losses in 2007, as compared to R$8 million of allowance for investment losses in 2006; and
- a 60.4% decline in reversal of allowances for losses on property, plant and equipment to R$20 million in 2007 from R$52 million in 2006, primarily as a result of a non-recurring reversal of allowances for losses on property, plant and equipment in 2006 relating to submarine cables.

The effects of these factors were partially offset by R$81 million recorded in 2007 as pension fund expenses receivable – surplus, as a result of over-funding of contributions to pension plans, which surplus amounts will be used to make future contributions under pension plan obligations.

Operating income (loss)

As a result of the foregoing, our consolidated operating income increased by 74.4% to R$1,344 million in 2007 from R$771 million in 2006. As a percentage of net operating revenue, operating income increased to 12.2% in 2007 from 7.5% in 2006.

Fixed-line and data transmission services segment. The operating income of our fixed-line and data transmission services segment increased by 32.2% to R$1,747 million in 2007 from R$1,322 million in 2006. As a percentage of the net operating revenues of this segment, operating income increased to 18.0% in 2007 from 14.0% in 2006.

Mobile services segment. The operating loss of our mobile services segment declined by 38.0% to R$296 million in 2007 from R$477 million in 2006. As a percentage of the net operating revenues of this segment, operating loss declined to 16.9% in 2007 from 38.3% in 2006.

Internet services segment. The operating loss of our internet services segment increased by 21.3% to R$74 million in 2007 from R$61 million in 2006. As a percentage of the net operating revenues of this segment, operating loss declined to 19.5% in 2007 from 20.4% in 2006.

Financial expenses, net

Financial income

Financial income declined by 3.7% to R$774 million in 2007 from R$803 million in 2006, primarily due to a 7.9% decline in yield on marketable securities to R$380 million in 2007 from R$413 million in 2006,

principally as a result of a decline in the average CDI rate to 11.8% per annum in 2007 compared 15.0% per annum in 2006.

Financial expenses

Financial expenses, without giving effect to interest on shareholders' equity, declined by 7.0% to R$824 million in 2007 from R$886 million in 2006, primarily due to a decline in the average CDI rate to 11.8% per annum in 2007 compared 15.0% per annum in 2006, and a decline in the average TJLP rate to 6.4% per annum in 2007 compared 7.9% per annum in 2006.

Income tax and social contribution

The composite corporate statutory income tax and social contribution rate was 34% in each of 2006 and 2007. Income tax and social contribution expense increased by 232.5% in 2007, principally as a result of a 339.3% increase in income before taxes and minority interest to R$843 million in 2007 from R$192 million in 2006. Our effective tax rate was 42.6% in 2007 as compared to 56.3% in 2006. The lower effective tax rate in 2007 was principally the result of an 80.6% decline in income of subsidiaries not subject to Brazilian income taxes and social contribution to R$12 million in 2007 from R$63 million in 2006.

Minority interest

Minority interest increased by 85.4% in 2007, primarily as a result of minority shareholders' interest in the increased results of operations of BrT in 2008.

Net income

Our consolidated net income increased by 43.1% to R$673 million in 2007 from R$470 million in 2006. As a percentage of net operating revenue, net income increased to 6.1% in 2007 from 4.6% in 2006.

Liquidity and capital resources

Our principal cash requirements consist of the following:

- working capital requirements;
- the servicing of our indebtedness;
- capital expenditures related to investments in operations, expansion of our networks and enhancements of the technical capabilities and capacity of our networks;
- dividends on our shares, including in the form of interest attributable to shareholders' equity.

Unless our board of directors deems it inconsistent with our financial position, payment of dividends is mandatory under our by-laws and, consequently, may give rise to significant cash requirements in future periods.

Our principal sources of liquidity have traditionally consisted of the following:

- cash flows from operating activities;
- short-term and long-term borrowings; and
- sales of debt securities in domestic and international capital markets.

During 2008, cash flow generated by operations was used primarily for investing activities, for working capital requirements and to service our outstanding debt obligations. At December 31, 2008, our consolidated

cash and cash equivalents and other investments amounted to R$2,710 million. At December 31, 2008, we had working capital of R$2,620 million.

Projected sources and uses of cash

We anticipate that we will be required to spend approximately R$3,328 million to meet our short-term contractual obligations and commitments and budgeted capital expenditures in 2009, and approximately R$7,353 million to meet our long-term contractual obligations and commitments and budgeted capital expenditures in 2010 and 2011. We expect that we will meet these cash requirements through a combination of cash generated from operating activities and cash generated by financing activities, including new debt financings and the refinancing of our existing indebtedness as it becomes due.

Cash flow

Cash flows from operating activities

Our primary source of operating funds is cash flow generated from our operations. Net cash provided by operating activities was R$3,193 million in 2008, R$3,307 million in 2007 and R$2,662 million in 2006. We consider cash flows provided by our operating activities to be sufficient for our expected cash requirements related to operations. However, we generally finance our investments in property, plant and equipment through the use of bank loans, vendor financing, capital markets and other forms of financing.

Cash flows used in investing activities

Investing activities used net cash of R$729 million in 2008, R$1,665 million in 2007 and R$1,755 million in 2006.

During 2008, investing activities for which we used cash primarily consisted of (1) escrow deposits of R$1,756 million, primarily related to provisions for labor, taxes and civil contingencies, and (2) investments of R$1,438 million in additions to property, plant and equipment, primarily related to the expansion of our data communications network and the implementation of regulatory projects to meet ANATEL's requirements. In 2008, cash from investing activities reflected the reclassification of R$2,126 million of financial investments to cash and cash equivalents according to Brazilian Law 11,638/07.

During 2007, investing activities for which we used cash primarily consisted of (1) investments of R$1,318 million in additions to property, plant and equipment, primarily related to the expansion of our data communications network and the implementation of regulatory projects to meet ANATEL's requirements, and (2) escrow deposits of R$872 million, primarily related to provisions for labor, taxes and civil contingencies. In 2007, cash from investing activities reflected the reclassification of R$120 million of financial investments according to Brazilian Law 11,638/07.

During 2006, investing activities for which we used cash primarily consisted of (1) investments of R$1,505 million in additions to property, plant and equipment, primarily related to expansion of our data communications network and the implementation of regulatory projects to meet ANATEL's requirements, and (2) escrow deposits of R$278 million, primarily related to provisions for labor, taxes and civil contingencies.

Cash flows from financing activities

Financing activities used net cash of R$484 million in 2008 and R$1,335 million in 2007, and provided net cash of R$454 million in 2006.

During 2008, our principal sources of borrowed funds consisted of:

- R$400 million aggregate principal amount borrowed under a credit facility with BNDES that we entered into in November 2006;

- R$259 million aggregate principal amount borrowed under a credit facility with BNDES that we entered into in February 2008; and
- R$75 million aggregate principal amount borrowed under a financing agreement that we entered into in July 2008.

During 2008, we used cash (1) to pay dividends and interest on shareholders' equity in the aggregate amount of R$862 million, and (2) to repay R$336 million of our outstanding long-term indebtedness.

During 2007, our principal sources of borrowed funds consisted of R$600 million aggregate principal amount borrowed under a credit facility with BNDES that we entered into in November 2006. During 2007, we used cash (1) to repay R$1,417 million of our outstanding long-term indebtedness, including R$500 million aggregate principal amount of our third issue of debentures, and (2) to pay dividends and interest on shareholders' equity in the aggregate amount of R$493 million.

During 2006, our principal sources of borrowed funds consisted of R$1,096 million aggregate principal amount of nonconvertible debentures issued in June 2006 and R$800 million aggregate principal amount borrowed under a credit facility with BNDES that we entered into in November 2006. During 2006, we used cash (1) to repay R$1,063 million of our outstanding long-term indebtedness, and (2) to pay dividends and interest on shareholders' equity in the aggregate amount of R$400 million.

Indebtedness and financing strategy

At December 31, 2008, our total outstanding indebtedness on a consolidated basis, excluding swap adjustments, was R$4,664 million, consisting of R$670 million of short-term indebtedness, all of which represented current portion of long-term indebtedness (or 14.4% of our total indebtedness), and R$3,993 million of long-term indebtedness (or 85.6% of our total indebtedness). At December 31, 2008, we had no indebtedness to related parties.

On a consolidated basis, excluding swap adjustments, our *real*-denominated indebtedness at December 31, 2008 was R$3,887 million (83.4% of our total indebtedness), and our foreign currency-denominated indebtedness was R$791 million (17.0% of our total indebtedness). At December 31, 2008, our *real*-denominated indebtedness bore interest at an average rate of 11.6% per annum, and our foreign currency denominated indebtedness bore interest at an average rate of 9.1% per annum for loans denominated in U.S. dollars, 2.9% per annum for loans denominated in Japanese Yen, and 13.4% for loans represented by the foreign currency basket of BNDES. At December 31, 2008, 87.5% of our debt bore interest at floating rates, including the effect of swap operations.

Our financing strategy has been to continue to extend the average maturity of our outstanding indebtedness, including by repaying short-term debt with the proceeds of long-term loans and long-term debt securities, to increase our liquidity levels and improve our strategic, financial and operational flexibility. Our financing strategy over the next several years involves maintaining adequate liquidity and a debt maturity profile that is compatible with our anticipated cash flow generation and anticipated capital expenditures. In addition, we do not expect our capital expenditures to affect adversely our debt leverage ratios or our disciplined approach to capital allocation.

Short-term indebtedness

Our consolidated short-term debt, consisting of the current portion of long-term loans and financings and debentures, was R$670 million at December 31, 2008. Under our financing policy, we generally do not incur short-term indebtedness, as we believe that our cash flows from operations generally will be sufficient to service our current liabilities.

Long-term indebtedness

The following table sets forth selected information with respect to our principal outstanding long-term debt instruments at December 31, 2008.

Instrument	Outstanding Principal Amount	Final Maturity
Debentures	R$1,080 million	June 2011
9.375% notes due 2014	US$200 million	February 2014
BNDES credit facilities:		
August 2004 credit facility:		
TJLP loans	R$473 million	February 2011
Cesta de Moedas loans	R$91 million	April 2011
November 2006 agreement	R$1,807 million	May 2014
February 2008 loan agreement	R$260 million	September 2017
Syndicated loan	¥10.8 billion	March 2011
Financing agreement	R$92 million	August 2014

Some of our debt instruments require that we comply with financial covenants, the most restrictive of which are as follows:

- Total debt to EBITDA less than or equal to 3.25 to 1.0 at the end of and for each fiscal quarter until maturity;
- Consolidated EBITDA to consolidated interest expense greater than or equal to 2.25 to 1.0 at the end of and for each fiscal quarter until maturity; and
- Total debt to total debt plus shareholders' equity less than or equal to 0.60 to 1.0 at the end of and for each fiscal quarter until maturity.

We were in compliance with these financial covenants at December 31, 2008, and we believe that we will be able to comply with these financial covenants for the foreseeable future. In addition, we believe that our compliance with these financial covenants will not adversely affect our ability to implement our financing plans.

In addition, the instruments governing a substantial portion of our indebtedness contain cross-default or cross-acceleration clauses, such that 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.

At December 31, 2008, R$2,654 million of our indebtedness to BNDES was secured by pledges of certain of our accounts receivable.

The following discussion briefly describes certain of our significant financing transactions.

Debentures

In June 2006, we issued non-convertible debentures in the aggregate principal amount of R$1,080 million. The outstanding principal amount of these debentures is payable in three equal annual installments commencing in June 2011. These debentures bear interest at 104% of the CDI rate per annum, payable semi-annually in arrears in June and December of each year.

In December 2008, a general meeting of the holders of the non-convertible debentures approved an amendment to the indenture governing the debentures to change our mandatory purchase terms and conditions

and increase the rate of interest on these debentures to the capitalized DI rate plus 3.5% per annum. In January 2009, we notified the debenture holders that we accepted the terms of this amendment.

Indenture

In February 2004, we issued and sold US$200 million aggregate principal amount of our 9.375% notes due 2014. Interest on these notes is payable semiannually in arrears in February and August of each year. We may, at our option, redeem these bonds, in whole but not in part, at a premium over their principal amount plus accrued interest and additional amounts, if any.

BNDES facilities

August 2004 credit facility

In August 2004, we entered into a credit facility with BNDES under which BNDES agreed to disburse loans in multiple tranches in an aggregate principal amount of up to R$1,268 million. The proceeds of these loans were used to fund investments in our fixed-line network and in operational improvements to meet the targets established in the GPUS and in the GPQG during the period of July 2003 to December 2006.

Each tranche disbursed under this credit facility consists of (1) a loan that matures in February 2011 and bears interest at the TJLP rate plus 5.5% per annum, which is currently payable monthly in arrears, and (2) a loan that matures in April 2011 and bears interest at the *Cesta de Moedas* rate plus 5.5% per annum, which is currently payable monthly in arrears. The outstanding principal amount of each of these loans is payable in 60 equal monthly installments ending on their respective maturity dates.

The first tranche under this credit facility in the amount of R$400 million was disbursed in August 2004, consisting of a loan in the principal amount of R$320 million bearing interest based on the TJLP rate and a loan in the principal amount of R$80 million bearing interest based on the *Cesta de Moedas* rate.

The second tranche under this credit facility in the amount of R$342 million was disbursed in October 2004, consisting of a loan in the principal amount of R$283 million bearing interest based on the TJLP rate and a loan in the principal amount of R$60 million bearing interest based on the *Cesta de Moedas* rate.

The third tranche under this credit facility in the amount of R$252 million was disbursed in July 2005, consisting of a loan in the principal amount of R$214 million bearing interest based on the TJLP rate and a loan in the principal amount of R$38 million bearing interest based on the *Cesta de Moedas* rate.

The fourth tranche under this credit facility in the amount of R$252 million was disbursed in November 2005, consisting of a loan in the principal amount of R$216 million bearing interest based on the TJLP rate and a loan in the principal amount of R$36 million bearing interest based on the *Cesta de Moedas* rate.

As of December 31, 2008, the aggregate principal amount outstanding under the loans bearing interest based on the TJLP rate was R$473 million and the aggregate principal amount outstanding under the loans bearing interest based on the *Cesta de Moedas* rate was R$91 million.

November 2006 loan agreement

In November 2006, we entered into a credit facility with BNDES under which BNDES and several financial institutions agreed to disburse loans in multiple tranches in an aggregate principal amount of up to R$2,104 million. The proceeds of these loans were used to fund investments in our fixed-line network and in operational improvements to meet the targets established in the GPUS and in the GPQG.

Each tranche disbursed under this credit facility consists of (1) a loan that bears interest at the TJLP rate plus 4.3% per annum, payable quarterly in arrears through May 2009 and monthly in arrears thereafter, and (2) a loan that bears interest at the TJLP rate plus 2.3% per annum, payable quarterly in arrears through May 2009 and monthly in arrears thereafter. The outstanding principal amount of each of these loans is payable in 60 equal monthly installments commencing in June 2009.

The first tranche under this credit facility in the amount of R$800 million was disbursed in November 2006, consisting of a loan in the principal amount of R$770 million bearing interest at the TJLP rate plus 4.3% per annum and a loan in the principal amount of R$30 million bearing interest at the TJLP rate plus 2.3% per annum.

The second tranche under this credit facility in the amount of R$600 million was disbursed in October and November 2007, consisting of a loan bearing interest at the TJLP rate plus 4.3%.

As of December 31, 2008, the aggregate principal amount outstanding under these loans was R$1,807 million.

February 2008 loan agreement

In February 2008, we entered into a loan agreement with BNDES under which BNDES disbursed a loan in the principal amount of R$260 million. The proceeds of this loan agreement were used to fund our investment in the expansion and modernization of our wireless network.

This loan agreement, together with certain other agreements between BrT Part and BNDES, is secured by an assignment and restriction of receivables linked to the revenues of Brasil Telecom. This loan bears interest at the TJLP rate plus 3.52% per annum, payable quarterly in arrears through September 2010 and monthly in arrears thereafter. The principal amount of this loan is payable in 84 equal monthly installments commencing in October 2010. At December 31, 2008, the outstanding principal amount under this loan was R$260 million.

Syndicated credit facility

In March 2004, we entered into a syndicated credit facility under which we were permitted to borrow up to ¥27.5 billion. We borrowed an aggregate amount of ¥21.6 billion under this facility in April 2004. The proceeds of this loan were used to fund our for capital expenditure program for 2003.

The Japan Bank of International Cooperation, or JBIC, has guaranteed the repayment of 97.5% of the principal amount of and interest due on this loan. JBIC receives a fee in the amount of 1.25% per annum of 97.5% of the aggregate principal amount of the loan outstanding from time to time for this guarantee.

The loan under this credit facility bears interest at a rate equal to LIBOR Yen plus 1.92% per annum, payable semiannually in arrears in March and September of each year. The principal amount of this loan is payable in ten equal semi-annual installments commencing in March 2011. At December 31, 2008, the outstanding principal amount under this loan was ¥10.8 billion.

Mid-West (FCO)

In July 2008, we entered into a financing agreement with a Brazilian financial institution under which the Mid-West Financing Constitutional Fund (FCO) agreed to disburse two loans in the aggregate principal amount of R$75 million. The proceeds of these loans were used to expand our voice and data networks in the States of Goiás, Mato Grosso, Mato Grosso do Sul and the Federal District.

The loans under this financing agreement bear interest at a rate of 10% per annum, payable quarterly in arrears until August 2009 and monthly in arrears thereafter, with a 15% discount available for timely payment of the interest payments under these loans. The principal amount of these loans are payable in 60 equal monthly installments commencing in September 2009. At December 31, 2008, the outstanding principal amount under this loan was R$75 million.

Off-balance sheet arrangements

We do not currently have any transactions involving off-balance sheet arrangements.

Contractual commitments

The following table summarizes significant contractual obligations and commitments at December 31, 2008:

	Payments Due by Period				
	Less than One Year	One to Three Years	Three to Five Years	More than Five Years	Total
	(in millions of R$)				
Loans and financings(1)	659	1,704	1,077	133	3,572
Debentures(1)	11	719	361	—	1,091
Swap adjustments(1)	90	132	—	—	222
Concession fees(2)	137	274	137	684	1,232
Usage rights(3)	160	191	179	254	784
Purchase obligations(4)	151	—	—	—	151
Pension plan contributions	107	322	215	114	758
Other long-term liabilities	13	11	—	—	24
Total contractual obligations and commitments	1,328	3,353	1,969	1,185	7,834

(1) Includes accrued and unpaid interest as of December 31, 2008.

(2) Consists of estimated bi-annual fees due to ANATEL under our concession agreements equal to 2.0% of the net operating revenues of Brasil Telecom that are derived from the provision of local fixed-line services (excluding taxes and social contributions) during the immediately preceding year. These estimated amounts are calculated based on our results for the year ended December 31, 2008.

(3) Consists of payments due to ANATEL for radio frequency licenses. Includes accrued and unpaid interest as of December 31, 2008.

(4) Consists of purchase commitments for network equipment and electric power pursuant to binding obligations which include all significant terms, including fixed or minimum quantities to be purchased; fixed, minimum or variable price provisions; and the approximate timing of the transaction. Based upon the applicable purchase prices at December 31, 2008.

We are also subject to contingencies with respect to tax, civil, labor and other claims and have made provisions for accrued liability for legal proceedings related to certain tax, civil, labor and other claims of R$1,453 million at December 31, 2008. See “Business — Legal Proceedings — BrT Part” and note 8 to our consolidated financial statements at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008.

Quantitative and qualitative disclosures about market risk

We are exposed to market risks related to changes in exchange rates and interest rates. The principal market for our products and services is Brazil, and substantially all of our revenues are denominated in *reais*.

Exchange rate risk

We are exposed to foreign exchange risk because a significant portion of our equipment costs, such as costs relating to switching centers and software used for upgrading network capacity, are primarily denominated in foreign currencies or linked to foreign currencies, primarily the U.S. dollar. In 2008, approximately half of our capital expenditures were U.S. dollar-denominated or linked to the U.S. dollar.

Our financing cost and the amount of financial liabilities that we record are also exposed to exchange rate risk. As of December 31, 2008, R$791 million, or 17.0%, of our total consolidated indebtedness was denominated in foreign currency, not including swap adjustments. At December 31, 2008, we protected 60.5% of our indebtedness affected by exchange rate variation against significant variations in exchange rates (primarily U.S. dollars, Japanese Yen and *Cesta de Moedas*) by using foreign currency swaps, foreign exchange options and foreign currency investments. The aggregate notional principal amount of our swap contracts is approximately US$120 million, of which approximately US$49 million matures within one year and approximately US$71 million matures in one to three years. At December 31, 2008, the fair value of the swap contracts amounted to approximately R$222 million. The aggregate notional principal amount of the forward exchange options is approximately US$144 million, all of which matures in 2009.

In 2008, losses on foreign currency and monetary restatement amounted to approximately R$231.5 million due to the depreciation of the *real* against the U.S. dollar. At December 31, 2008, a hypothetical, instantaneous and unfavorable 10.0% depreciation of the *real* against other relevant currencies would result in an increase of R$59 million in our total debt obligations considering the net impact of the increase in our debt obligations and the decrease in our swap position. For further information about our swap agreements and other derivative financial instruments we use, see note 35 to our audited annual consolidated financial statements at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008.

Interest rate risk

We are exposed to interest rate risk because a significant portion of our indebtedness bears interest at floating rates. At December 31, 2008, our total outstanding indebtedness on a consolidated basis, excluding swap adjustments, was R$4,664 million, of which R$4,058 million, or 87.5%, bore interest at floating rates, including R$3,667 million of *real*-denominated indebtedness that bore interest at rates based on the CDI rate or the TJLP rate, and R$330 million of U.S. dollar- and Japanese Yen-denominated indebtedness that bore interest at rates based on U.S. dollar and Japanese Yen LIBOR. At December 31, 2008, we did not have any outstanding derivative agreements to limit our exposure to variations in the TJLP rate or the CDI rate.

We invest our excess liquidity (R$3,485 million as of December 31, 2008) mainly in certificates of deposit issued by financial institutions with AAA rating from international rating agencies and in investment funds created by top Brazilian asset managers exclusively for us. The fund managers are responsible for managing our funds, subject to the direction of our senior management and board of directors. Currently, these funds are comprised mainly of government bonds and other low-risk financial instruments linked to the CDI rate. We believe that our exposure to fluctuations in Brazilian interest rates is partially mitigated by these investments.

The potential loss to us over one year that would have resulted from a hypothetical, instantaneous and unfavorable change of 100 basis points in the interest rates in 2008 would be approximately R$51 million to our financial liabilities, considering both the impact in our debt obligations and swap position, and R$35 million to our financial assets. This sensitivity analysis is based on the assumption of an unfavorable 100 basis points movement of the interest rates applicable to each homogeneous category of financial assets and liabilities and sustained over a period of one year. A homogeneous category is defined according to the currency in which financial assets and liabilities are denominated and assumes the same interest rate movement within each

homogeneous category (*e.g.*, *reais*). As a result, our interest rate risk sensitivity model may overstate the impact of interest rate fluctuation for such financial instruments, as consistently unfavorable movements of all interest rates are unlikely.

Hedging policy

We employ financial risk management strategies using cross-currency interest rate swaps. Our financial risk management strategy is designed to protect us against devaluation of the *real* against foreign currencies and increases in foreign currency interest rates, according to our foreign-currency exposure in connection with our financings. We do not enter into derivatives transactions for speculative or any other purposes.

BUSINESS

Overview

We are the largest telecommunications service provider in Brazil. We are the largest telecommunications provider in Region I in Brazil, based on revenues and customers as of and for the year ended December 31, 2008, according to information available from ANATEL and other publicly available information. As a result of our acquisition of control of BrT on January 8, 2009, we are also the largest telecommunications service provider in Region II in Brazil, based on revenues and customers as of and for the year ended December 31, 2008, according to information available from ANATEL and other publicly available information. We commenced offering mobile telecommunications services in Region III in October 2008. We offer a range of integrated telecommunications services that includes fixed-line and mobile telecommunications services, data transmission services (including broadband access services), internet service provider, or ISP, services and other services, for residential customers, small, medium and large companies, and governmental agencies. We operate under the brand name "Oi", which we adopted in February 2007 as the sole brand for all of our products. We expect to use the "Oi" brand name for the marketing of BrT's services as we integrate its operations. In the year ended December 31, 2008, fixed-line telecommunications services and data transmission services generated approximately 76.4% of our total consolidated gross operating revenue, and mobile telecommunications services generated 23.6% of our total consolidated gross operating revenue.

According to the Brazilian Institute for Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística*), or IBGE:

- Region I (which consists of 16 states of Brazil located in the northeastern and part of the northern and southeastern regions of Brazil) had a population of approximately 100.8 million as of April 1, 2007, representing 54.8% of the total Brazilian population, and represented approximately 40.0% of Brazil's total gross domestic product, or GDP, for 2006 (the most recent period for which such information is currently available).
- Region II (which consists of the Federal District of Brazil and nine states of Brazil located in the western, central and southern regions of Brazil) had a population of approximately 43.5 million as of April 1, 2007, representing 23.6% of the total Brazilian population, and represented approximately 26.2% of Brazil's total GDP for 2006.
- Region III (comprising the state of São Paulo) had a population of approximately 39.8 million as of April 1, 2007, representing 21.6% of the total Brazilian population, and represented approximately 33.9% of Brazil's total GDP for 2006.

On January 8, 2009, we acquired control of BrT, which provides fixed-line telecommunications services, as well as broadband services, mobile telecommunications services and a variety of data transmission services, primarily in Region II. See "— Our history and development — Acquisition of BrT." We intend to integrate the operations of Telemar and BrT as soon as possible. See "Risk Factors — Risks relating to the BrT Transaction." In the year ended December 31, 2008, BrT Part generated gross operating revenues from fixed-line and data transmission services, mobile telecommunications services and internet services of R$14,845 million, R$2,561 million and R$454 million, respectively.

Fixed-line telecommunications 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 believe we were one of the largest fixed-line telecommunications companies in South America in terms of total number of lines in service as of December 31, 2008. Based on our 13.9 million fixed lines in service as of December 31, 2008, we were the principal fixed-line telecommunications

service provider in Region I, with an estimated market share of 83.9% of the total fixed lines in service in this region as of December 31, 2008, according to our internal estimates. As a result of our acquisition of control of BrT on January 8, 2009, we are now also the principal fixed-line telecommunications services provider in Region II. BrT had 8.1 million fixed lines in service in Region II as of December 31, 2008 and an estimated market share of 85.0% of the total fixed lines in service in this region as of December 31, 2008, according to our internal estimates. For the year ended December 31, 2008, our highly mature fixed-line business segment generated R$17.3 billion in gross operating revenue, which represented a decrease of 2.8% compared to the year ended December 31, 2007.

Mobile telecommunications services

We offer mobile telecommunications services throughout Brazil. Based on our 24.4 million mobile subscribers in Region I as of December 31, 2008, we believe that we are one of the principal mobile telecommunications service providers in Region I, with an estimated market share of 30.4% of the total number of mobile subscribers in this region as of December 31, 2008, according to information available from ANATEL. Our position in the mobile telecommunications services market in Region I has been enhanced by our acquisition on April 3, 2008, of control of Amazônia Celular, which operated in five states in the northern section of Region I. As of March 31, 2008, Amazônia Celular had 1.5 million mobile subscribers. We commenced offering mobile telecommunications services in Region III in October 2008 and had 2.0 million mobile subscribers as of December 31, 2008 and an estimated market share of 5.3% of the total number of mobile subscribers in this region as of December 31, 2008, according to information available from ANATEL. As a result of our acquisition of control of BrT on January 8, 2009, we believe that we are one of the principal mobile telecommunications services providers in Region II. BrT had 5.6 million mobile subscribers as of December 31, 2008 and an estimated market share of 14.4% of the total number of mobile subscribers in this region as of December 31, 2008, according to information available from ANATEL. For the year ended December 31, 2008, our mobile services business generated R$6.4 billion in gross operating revenue, which represented an increase of 42.2% compared to the year ended December 31, 2007.

Data transmission services

We offer a variety of high-speed data transmission services. Our broadband services, primarily utilizing ADSL, technology, are marketed in Region I under the brand name “Oi Velox.” As of December 31, 2008, we had 2.0 million ADSL subscribers, representing 14.1% of our fixed lines in service at that date. As a result of our acquisition of control of BrT on January 8, 2009, we now also offer broadband services, primarily utilizing ADSL technology, in Region II under the brand name “Turbo.” As of December 31, 2008, BrT had 1.8 million ADSL subscribers, representing 22.2% of BrT’s fixed lines in service at that date. We also provide voice and data services to corporate clients throughout Brazil. For the year ended December 31, 2008, our data transmission services business generated R$3.4 billion in gross operating revenue, which represented an increase of 18.0% compared to the year ended December 31, 2007.

Other services

Following our acquisition of control of BrT on January 8, 2009, we operate a fiber optic cable system that connects the United States, Bermuda, Brazil and Venezuela, and we operate an internet portal under the brand name “iG” that was the second largest internet portal in Brazil in terms of the number of unique visitors in 2008, according to Ibope/NetRatings.

In September 2008, ANATEL authorized us to provide subscription television services throughout Brazil, using direct-to-home, or DTH, satellite technology. We currently plan to launch these services in mid-2009.

Our strengths

Our competitive strengths include:

Strong market share in broad and highly populated market

Based on information available from ANATEL and other publicly available information, we were the largest telecommunications service provider in Region I, the most highly populated telecommunications service region in Brazil, in terms of revenues and customers as of and for the year ended December 31, 2008. According to IBGE, the 16 Brazilian states that comprise Region I had a combined population of approximately 100.8 million as of April 1, 2007, representing 54.8% of the total Brazilian population at that date, and represented approximately 40.0% of Brazil's total GDP for 2006. In addition, we recently launched our mobile telecommunications services in Region III, which, according to IBGE, had the highest per capita income in Brazil in 2006, and represented 33.9% of Brazil's total GDP for 2006 and 21.6% of its total population as of April 1, 2007. As a result of our acquisition of control of BrT on January 8, 2009, we offer fixed-line, mobile and data transmission services in Region II, which, according to IBGE, represented 26.2% of Brazil's total GDP for 2006 and 23.6% of its total population as of April 1, 2007.

Strong brand recognition

We operate under the brand name "Oi", which we adopted in February 2007 as the sole brand for all of our products. We expect to use the "Oi" brand name for marketing of BrT's services as we integrate its operations. We believe that consolidating our operations under the brand name "Oi" has helped increase customer recognition of our products and will help to increase our market share across our services, which we offer in integrated, or "bundled," packages. We believe our strong brand recognition throughout Brazil will also help us in connection with the expansion of our mobile telecommunications services into Region III.

Expansion as a result of the recent acquisition of control of BrT

The telecommunications market in Brazil has experienced significant consolidation in recent years, resulting in the creation of four conglomerates. We believe that our recent acquisition of control of BrT will provide us with the size, national coverage and operational and financial strength to compete more effectively in the Brazilian telecommunications market by taking advantage of economies of scale to lower our costs, as well as by further expanding and integrating our service offerings.

Integrated service offerings

We provide our fixed-line telecommunications, mobile telecommunications and broadband services in integrated service packages, taking advantage of our "Oi" brand. We believe the offering of integrated service packages results in greater customer loyalty and, consequently, a decrease in churn rates. Excluding Amazônia Celular, of which we acquired control in April 2008 and for which we do not calculate churn rates, our churn rate was 2.4% per month for the year ended December 31, 2008 compared to 3.0% per month for the year ended December 31, 2007.

Use of advanced technology

We have made, and continue to make, significant investments to modernize our network, including replacing analog switches with digital switches, in an effort to increase the supply and quality of services provided to our customers, as well as reducing our maintenance costs. We have been at the forefront of adopting new technologies in our markets. For example, we believe that we were one of the first telecommunications service providers in Latin America to implement Metro Ethernet technology for high-speed internet access, which is one of the latest technologies in the data transmission industry.

Highly experienced management team with proven track record

Our business is run by a group of seasoned professionals in the telecommunications industry. Our senior management team has helped us to maintain our position as the leading telecommunications service provider in Region I. In addition, our senior management team has enhanced our service offerings through internal growth and strategic acquisitions, such as the acquisition of control of BrT, to enable us to compete more effectively and to continue to grow and expand our business.

Our strategy

The principal components of our strategy are:

Maintain our focus on convergence

The convergence of media and telecommunications services is a general trend in the telecommunications market. We were a pioneer in the Brazilian market in the convergence of fixed-line and mobile telecommunications services. We focus on our customers by offering integrated service packages designed to meet their needs, integrating fixed-line, mobile, broadband and other services. In addition to potential synergies, which can lead to reductions in operating costs and investments, we believe our convergence strategy allows us to increase our sales through a cross-selling approach, contributing to increases in average revenue per customer and decreases in customer-acquisition costs. We believe the offering of integrated service packages also results in greater customer loyalty and, consequently, a decrease in churn rates.

Expand our integrated service offerings

Having received authorization from ANATEL in September 2008 to provide subscription television services throughout Brazil using DTH satellite technology, we currently plan to launch these services in mid-2009. We believe that becoming a "quadruple play" provider is essential for our strategy of offering integrated service packages, thereby expanding the benefits to our customers and helping us to maintain our ability to compete effectively with other integrated service packages in the market, particularly those offered by cable television service providers. We intend to continue assessing potential strategic partnerships and acquisitions in the subscription television market.

Increase the growth opportunities of our mobile telecommunications services business, focusing on profitability

We began providing mobile telecommunications services in June 2002 with a marketing strategy focused on innovative offers and subsidies for mobile handsets. In 2005, we adopted a different strategy which focuses on the profitability of our customer base. The large number of unblocked mobile handsets in Brazil that can be used with different mobile telecommunications service providers has enabled us to adopt a strategy of eliminating mobile handset subsidies, particularly in the pre-paid segment, since a new customer may use our SIM card in any unblocked mobile handset. We intend to continue to pursue a strategy of selling SIM cards independently of mobile handsets to the pre-paid segment and of offering integrated service packages, focusing on profitability and differentiating ourselves in the market through varied service offerings.

We believe the mobile telecommunications services market in Brazil still presents several growth opportunities that we intend to pursue in the future, including the expansion of our mobile telecommunications services in Region III which we commenced in October 2008. By offering mobile telecommunications services in Region III, we are able to provide our customers in Region I with roaming services within our own network in the State of São Paulo at competitive costs. We believe the São Paulo market is an attractive market. We will also continue to seek to benefit from the advantages offered by our mobile payment platform, which we acquired through our acquisition of Paggo in December 2007. Moreover, we believe our recent acquisition of 3G licenses

will enable us to improve existing data services, such as mobile television, which we launched in 2007, and to offer new services, such as mobile broadband.

Participate in the consolidation processes

Consolidation in the Brazilian telecommunications industry has taken place through the consolidation of regional mobile telecommunications services companies and companies in other segments of the telecommunications industry, resulting in the creation of four conglomerates, including those controlled by Telefónica S.A., or Telefónica, and América Móvil S.A.B. de C.V., or América Móvil. Due to the anticipated decrease in growth rates in the mobile and broadband services markets, which are expected to result in lower levels of organic growth, in order to maintain our competitive position, we plan to continue to take part in the consolidation of the Brazilian telecommunications industry, in an effort to achieve economies of scale, to create synergies among our business segments and to enhance our provision of integrated service packages, such as through our recent acquisition of control of BrT. We continue to evaluate opportunities to participate further in the consolidation process. Any other mergers, acquisitions or joint ventures we pursue will focus on increasing our market share, expanding our products and services portfolio and obtaining access to new markets.

Expand our broadband services

We began offering broadband services in 2001, and, as of the date of this offering memorandum, offer these services in more than 200 municipalities in Region I. At December 31, 2008, we had 2.0 million ADSL subscribers, representing an increase of 29.4% in the number of subscribers compared to December 31, 2007. We believe that currently low market penetration in terms of the number of households in Region I that subscribe to broadband services suggests that the broadband market still has growth potential in the short- and medium-term. We intend to continue expanding the coverage and availability of our ADSL network, both in municipalities in which we already provide coverage and in new ones, because we regard it as both a way to leverage our growth and an essential element in our offering of integrated services.

We also intend to continue investing in the improvement of our network to increase the speed of our broadband services. We are upgrading our network to ADSL technology in selected areas as part of our strategy to offer video-on-demand and, subject to changes in current Brazilian regulation, subscription television in the future. In order to maximize the availability of broadband services, we are continuing to study the use of new technologies, such as WiMAX and FTTH/GPON. Additionally, our acquisition in April 2008 of frequency authorizations for 3G services allows us to offer this technology to our broadband customers.

Increase efficiency and control costs

We intend to continue pursuing initiatives to increase the efficiency of our internal processes in order to control our costs and improve the quality of our services. We plan to continue improving our method of allocating funds among our business segments with a view to reducing our costs through the achievement of additional economies of scale. Our focus in this area will include efforts to standardize processes, optimize outsourced services and manage contingencies. For example, we recently contracted with Huawei and Nokia to improve Brasil Telecom Mobile's coverage area and to upgrade its core mobile network to facilitate the integration of BrT's mobile network with Oi's mobile network, which we expect to conclude by the end of 2009. Improving the quality of services provided and customer service will continue to be an important part of our strategy of focusing on our customers.

Our history and development

Prior to the formation in 1972 of Telecomunicações Brasileiras S.A., or 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 telecommunications 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 de Telecomunicações*), together with the regulations, decrees, orders and plans on telecommunications issued by Brazil's executive branch, collectively the Telecommunications Regulatory Framework, which 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 the 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 corporate 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 telecommunications 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 systems);
- three regional holding companies, including us, 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 one of the New Holding Companies in the fixed-line telecommunications business. In the restructuring and privatization of Telebrás, we were allocated all of the share capital held by Telebrás in the operating subsidiaries that provided fixed-line telecommunications service in Region I.

In August 1998, the Brazilian government privatized Telebrás by selling all of the voting shares that it held in the New Holding Companies, including us, to private-sector buyers. The Brazilian government's shares in our corporate capital, which amounted to approximately 52% of our voting shares, were purchased by Consortium Telemar, a consortium comprised of Construtora Andrade Gutierrez S.A., Inepar S.A Indústria e Construções, Macal Investimentos e Participações Ltda., Fiago Participações S.A., Brasil Veículos Companhia de Seguros and Companhia de Seguros Aliança do Brasil. Consortium Telemar paid R$3.4 billion for the Brazilian government's shares in our corporate capital.

Acquisition by TmarPart

In July 1999, TmarPart, a closely held Brazilian company, acquired the equity interests in TNL owned by the members of Consortium Telemar in exchange for cash, shares of TmarPart and the assumption of certain debt obligations by TmarPart. The primary corporate purpose of TmarPart is to hold shares of TNL. For a discussion of the entities that own equity interests in TmarPart, see "Principal shareholders and related party transactions — Principal Shareholders — TmarPart."

Corporate reorganization of Telemar

Following its formation, TNL provided fixed-line telecommunications services through 16 separate operating subsidiaries, each of which provided telecommunications 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 Telecomunicações do Rio de Janeiro S.A., or Telerj. In September 2001, Telerj changed its name to Telemar Norte Leste S.A.

Expansion of data transmission network

We acquired Pegasus Telecom S.A., or Pegasus, in December 2002. Prior to that time, we held preferred shares of Pegasus representing 24.4% of its share capital. In November 2005, Pegasus merged with and into TNL PCS S.A., which we refer to as Oi. Pegasus was a broadband data transmission services provider that primarily served corporate clients in major cities in Region II and Region III. Because Pegasus's fiber-optic network was 100% compatible with the technology used by our existing data network, this acquisition allowed us to provide fully integrated data transmission services to our corporate clients on a nationwide basis.

Acquisition of Oi

Oi was established in November 2000 as a wholly-owned subsidiary of TNL to provide SMP services in Region I. In March 2001, Oi was granted an authorization by ANATEL to provide SMP services in Region I utilizing Band D following Oi's successful bid of approximately R$1.1 billion in an auction held for the authorization and the related radio frequency license. Oi commenced operations in June 2002.

In May 2003, TNL sold to us all of the shares of Oi held by TNL, representing 99.99% of the share capital of Oi. The aggregate sale price was fixed at R$1.00, which was equal to the net equity value of Oi at market price, on the base date of March 31, 2003, as determined by a valuation procedure undertaken in accordance with Brazilian corporate law, as adjusted to reflect Oi's April 2003 results and the capitalization of Oi in the amount of R$562 million through the conversion of part of Oi's debt held by TNL prior to the sale.

Since the sale price of R$1.00 was higher than Oi's book value (based on Oi's unsecured liabilities at April 30, 2003), and in consideration of Telemar's capitalization of R$600 million on May 30, 2003, Telemar recorded goodwill of R$500 million under accounting practices adopted in Brazil. For consolidation purposes, in accordance with accounting practices adopted in Brazil, this goodwill was eliminated against the resulting unrealized profit of TNL in connection with the sale.

Investment in infrastructure joint venture

At the time of our acquisition of Pegasus in December 2002, Pegasus owned 18.1% of the share capital of AIX. In December 2003, we acquired additional shares of AIX for R$1.00, increasing our interest in the share capital of AIX to 50%. AIX provides infrastructure services to Telemar and is engaged in the construction of ductwork for the installation of fiber optic cables along highways in the State of São Paulo. Under accounting practices adopted in Brazil, we proportionally consolidate the results of AIX in our consolidated financial statements.

Entry into the ISP business

In February 2005, Oi Internet, an ISP and a wholly-owned subsidiary of Telemar, commenced its ISP operations under the brand name "Oi Internet."

Acquisition of mobile payment business

In December 2007, we purchased all of the outstanding shares of Paggo for an aggregate purchase price of R$75.0 million, which we paid in February 2008. Paggo is a holding company that owns all of the share capital of Paggo Acquirer Gestão de Meios de Pagamentos Ltda. and Paggo Administradora de Crédito Ltda., which together operate the Paggo System of Credits and Payments, or the Paggo System. The Paggo System permits the use of mobile phones to pay for goods and services, providing a new range of services to complement regular mobile telecommunications services. The acquisition of this system is consistent with our strategy to extend the portfolio of services we offer to our customers.

Acquisition of Amazônia Celular

In April 2008, we purchased 1,292,679 common shares and 3,715 preferred shares of TNCP, representing 51.9% of the common shares, 0.1% of the preferred shares and 19.3% of the total shares issued by TNCP, for an aggregate purchase price of R$128.6 million. TNCP is the controlling shareholder of Amazônia Celular, which is a mobile services provider in Area 8 of Region I, consisting of the Brazilian states of Amazonas, Roraima, Amapá, Pará and Maranhão. In addition, we purchased certain rights for the subscription of new shares to be issued by TNCP, as set forth in CVM Ruling No. 319/1999, for an aggregate purchase price of R$22.6 million.

Voluntary tender offers

On July 18, 2008, we announced the commencement of a voluntary tender offer for any and all outstanding preferred shares of TNCP at a purchase price of R$33.00 per share. The auction with respect to this tender offer took place on the BOVESPA on August 19, 2008. In the auction, we acquired 3,951,923 preferred shares of TNCP, representing 93.9% of the outstanding preferred shares of TNCP and 59.0% of the outstanding share capital of TNCP, for an aggregate purchase price of R$130.4 million.

Under the rules of the CVM, because we acquired more than two-thirds of the preferred shares of TNCP held by public shareholders, any holder of TNCP preferred shares was permitted to exercise a shareholder put right for the three-month period immediately following the date of the auction for the TNCP preferred shares. Holders of TNCP preferred shares that exercised the shareholder put right were entitled to receive the tender offer price of R$33.00, adjusted by the CDI rate from the settlement date of the auction to the date payment was made. As a result of the exercise of these shareholder put rights, we acquired an additional 191,666 preferred shares of TNCP for an aggregate purchase price of R$6.5 million.

On September 22, 2008, we announced the commencement of a voluntary tender offer for any and all outstanding preferred shares of Amazônia Celular at a purchase price of R$38.00 per share. The auction with respect to this tender offer took place on the BOVESPA on October 23, 2008. In the auction, we acquired 921,014 preferred shares of Amazônia Celular, representing 25.5% of the outstanding preferred shares of Amazônia Celular and 15.6% of the outstanding share capital of Amazônia Celular, for an aggregate purchase price of R$35.0 million.

Under the rules of the CVM, because we acquired more than two-thirds of the preferred shares of Amazônia Celular held by public shareholders, any holder of Amazônia Celular preferred shares was permitted to exercise a shareholder put right for the three-month period immediately following the date of the auction for the Amazônia Celular preferred shares. Holders of Amazônia Celular preferred shares that exercised the shareholder put right were entitled to receive the tender offer price of R$38.00, adjusted by the CDI rate from the settlement date of the auction to the date payment was made. As a result of the exercise of these shareholder put rights, we acquired an additional 50,777 preferred shares of Amazônia Celular for an aggregate purchase price of R$2.0 million.

Mandatory tender offers

Under Article 254-A of the Brazilian Corporate Law and CVM Instruction No. 361, of March 5, 2002, as amended, we were required to offer to purchase any and all common shares of TNCP held by public shareholders and any and all common shares of Amazônia Celular held by public shareholders as a result of our acquisition of control over TNCP and Amazônia Celular.

On September 16, 2008, we announced the commencement of mandatory tender offers for (1) any and all outstanding common shares of TNCP at a purchase price of R$79.51 per share (adjusted by the fluctuation in average daily rate of the CDI, from April 3, 2008 until the date payment was made), and (2) any and all outstanding common shares of Amazônia Celular at a purchase price of R$121.61 per share (adjusted by the fluctuation in average daily rate of the CDI from April 3, 2008 until the date payment was made). The auctions with respect to these tender offers took place on the BOVESPA on January 16, 2009. In the auctions, we acquired (1) 1,175,018 common shares of TNCP, representing 47.1% of the outstanding common shares of TNCP and 17.5% of the outstanding share capital of TNCP, for an aggregate purchase price of R$102.9 million, and (2) 80,868 common shares of Amazônia Celular, representing 3.6% of the outstanding common shares of Amazônia Celular and 1.4% of the outstanding share capital of Amazônia Celular, for an aggregate purchase price of R$10.8 million.

Following the acquisitions made through these tender offers, we owned an aggregate of 98.7% of the outstanding share capital of TNCP, including 99.0% of the outstanding common shares of TNCP. Through this ownership interest in TNCP, together with other shares of Amazônia Celular that we owned directly, we owned an aggregate of 92.8% of the outstanding share capital of Amazônia Celular, including 93.3% of the outstanding common shares of Amazônia Celular.

Corporate reorganization of TNCP, Amazônia Celular and Oi

On March 9, 2009:

- TNCP and Amazônia Celular completed a share exchange, as a result of which Amazônia Celular became a wholly owned subsidiary of TNCP, each holder of common shares of Amazônia Celular, other than TNCP, received 1.529505 common shares of TNCP in exchange for each common share of Amazônia Celular, and each holder of preferred shares of Amazônia Celular, other than TNCP, received 1.151515 preferred shares of TNCP in exchange for each preferred share of Amazônia Celular;
- We contributed all of the shares of Oi that we held to the capital of TNCP as a result of which TNCP held 99.9% of the share capital of Oi;
- Amazônia Celular merged with and into Oi and was dissolved; and
- Amazônia Celular surrendered its radio frequency licenses to ANATEL.

Acquisition of BrT

On April 25, 2008, each of the shareholders of Invitel and Banco de Investimentos Credit Suisse (Brasil) S.A., or Credit Suisse, as agent on behalf of Telemar, acting as principal, entered into the Share Purchase Agreement, under which Credit Suisse agreed to purchase all of the outstanding shares of Invitel and certain shares of BrT Part owned by the shareholders of Invitel. As of December 31, 2008, Invitel owned 100.00% of the outstanding shares of Solpart, which owned 19.01% of the outstanding share capital, including 51.99% of the voting share capital, of BrT Part, which, in turn, owned 67.26% of the outstanding share capital, including 99.09% of the voting share capital, of BrT.

Open market purchases of preferred shares of BrT Part and BrT

Between April 25, 2008 and June 17, 2008, we acquired (1) 55,819,400 preferred shares of BrT Part, representing 24.3% of the outstanding preferred shares of BrT Part and 15.4% of the share capital of BrT Part, for an aggregate purchase price of R$1,425.2 million in transactions conducted over the BOVESPA, and (2) 45,590,200 preferred shares of BrT, representing 15.3% of the outstanding preferred shares of BrT and 8.3% of the share capital of BrT, for an aggregate purchase price of R$897.8 million in transactions conducted over the BOVESPA.

Tender offers for preferred shares of BrT Part and BrT

On June 19, 2008, we announced the commencement of voluntary tender offers for (1) up to 20,826,442 preferred shares of BrT Part at a purchase price of R$30.47 per share, and (2) up to 13,366,365 preferred shares of BrT at a purchase price of R$23.42 per share. The auctions with respect to these tender offers took place on the BOVESPA on July 22, 2008. In the auctions, we acquired (1) 20,826,442 preferred shares of BrT Part, representing 9.1% of the outstanding preferred shares of BrT Part and 5.7% of the outstanding share capital of BrT Part, for an aggregate purchase price of R$634.6 million, and (2) 13,366,365 preferred shares of BrT, representing 4.5% of the outstanding preferred shares of BrT and 2.4% of the outstanding share capital of BrT, for an aggregate purchase price of R$313.0 million.

Closing of the Share Purchase Agreement

On November 21, 2008, pursuant to an Agency Agreement between us and Credit Suisse, Credit Suisse assigned all of its rights and obligations under the Share Purchase Agreement to us and we assumed these rights and obligations. On January 8, 2009, we acquired all of the outstanding shares of Invitel and 12,185,836 common shares of BrT Part for an aggregate purchase price of R$5,371.1 million.

Following this acquisition, we own indirectly an aggregate of 40.1% of the outstanding share capital of BrT Part, including 61.2% of the outstanding common shares of BrT Part. Through this ownership interest in BrT Part, together with other shares of BrT we own indirectly, we own an aggregate of 37.7% of the outstanding share capital of Brasil Telecom, including 51.5% of the outstanding common shares of Brasil Telecom.

Overview of BrT

BrT is the largest telecommunications service provider in Region II in Brazil, based on revenues and customers as of and for the year ended December 31, 2008, according to information available from ANATEL and other publicly available information. BrT offers a range of integrated telecommunications services that is substantially similar to the services that we offer. BrT Part's net operating revenue was R$10,296.7 million in 2006, R$11,058.5 million in 2007 and R$11,296.8 million in 2008.

Based on BrT's 8.1 million fixed lines in service as of December 31, 2008, BrT was the principal fixed-line telecommunications service provider in Region II, with an estimated market share of 51.3% of the total fixed lines in service in this region as of December 31, 2008, according to our internal estimates. For the year ended December 31, 2008, BrT's highly mature fixed-line business generated R$11,148 million in gross operating revenue, which represented a decrease of 0.5% compared to the year ended December 31, 2007.

BrT offers mobile telecommunications services in Region II through its subsidiary Brasil Telecom Mobile. BrT had 5.6 million mobile subscribers as of December 31, 2008 and an estimated market share of 14.4% of the total number of mobile subscribers in this region as of December 31, 2008, according to information available from ANATEL. For the year ended December 31, 2008, BrT's mobile services business generated R$2,120 million in gross operating revenue, which represented an increase of 4.8% compared to the year ended December 31, 2007.

BrT offers a variety of high-speed data transmission services, including services offered by its subsidiaries BrT Serviços de Internet S.A., Brasil Telecom Comunicação Multimídia Ltda. and Vant Telecomunicações S.A. BrT's broadband services, primarily utilizing ADSL technology, are sold in Region II under the brand name "Turbo." As of December 31, 2008, BrT had 1.8 million ADSL subscribers. BrT also provides voice and data services to corporate clients throughout Brazil through its network in Region II, through our network in Region I, and through cooperation agreements with other telecommunications network operators in Region III. For the year ended December 31, 2008, BrT's data transmission services business generated R$3,738.9 million in gross operating revenue, which represented an increase of 35.0% compared to the year ended December 31, 2007.

BrT operates a fiber optic cable system that connects the United States, Bermuda, Brazil and Venezuela through its 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., and an internet portal through its subsidiary Internet Group do Brasil S.A. under the brand name "iG" that was the second largest internet portal in Brazil in terms of the number of unique visitors in 2008 according to Ibope/NetRatings.

Financial impact of the acquisition

As of December 31, 2008, Invitel had consolidated total assets of R$20,226 million and consolidated indebtedness of R$5,842 million. For the year ended December 31, 2008, Invitel had consolidated net operating revenues of R$11,297 million and consolidated operating income of R$1,214 million. For additional information about the financial condition and results of operations of BrT Part, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Brasil Telecom Participações" and the consolidated financial statements of BrT Part included in this offering memorandum.

Regulatory approvals

CADE. Under Brazilian antitrust regulations, the BrT Transaction is first analyzed by ANATEL to assess the effects on competition of our acquisition of control of BrT, following which it is submitted to CADE, the Brazilian antitrust authority, for final approval. Brazilian law permitted us to consummate this transaction prior to receiving the final approval from CADE. CADE will determine whether this transaction negatively impacts competitive conditions in the markets in which we compete or adversely affects consumers in these markets.

On December 10, 2008, we entered into an Agreement for Maintenance of the Reversibility of Operation (*Acordo de Preservação de Reversibilidade da Operação*) with CADE relating to our acquisition of control of BrT. Under this agreement:

- we have agreed to submit to CADE's analysis any authorizations that we are granted in the future to provide WiMax, 3G, and MMDS services;
- we have agreed to maintain iG and Oi Internet, our respective broadband internet access providers, as independent business units until CADE's final decision on the BrT Transaction is issued; and
- we have agreed to maintain until CADE's final decision on the BrT Transaction is issued a free dial-up ISP in all municipalities in which Oi Internet, iG or iBest provided dial-up ISP services free of charge on the date of the agreement.

ANATEL. On December 19, 2008, ANATEL granted its approval for our acquisition of control of BrT, subject to a number of conditions contained in the order granting the approval, some of which we have already fulfilled. The most significant of the remaining conditions require us to:

- employ at least the aggregate number of employees that Telemar and BrT employed on February 1, 2008 until March 25, 2011;

- offer the mobile service packages currently offered by Oi in Region I to Brasil Telecom Mobile's customers in Region II by December 31, 2009;
- develop environmental conservation projects, including the establishment of battery and handset recycling programs in our customer service centers, by June 30, 2009;
- make dial-up internet access available through local fixed-line calls to our ISP in 23% of the municipalities in Region I by December 31, 2009, 39% by December 31, 2010 and 56% by December 31, 2011;
- provide an alternative long-distance plan with flat rates approved by ANATEL available for dial-up internet access to customers in municipalities not served by our ISP through local fixed-line calls by December 31, 2010;
- extend fiber optic cables to the city of Boa Vista by December 31, 2009, the city of Manaus by December 31, 2010, and 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 100 new municipalities in Regions I and II by December 31, 2010 and an additional 40 new municipalities in each of the succeeding five years;
- offer broadband services in 50% of the municipalities covered by our obligations to provide transmission lines connecting the fiber-optic internet backbones of Telemar and Brasil Telecom 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;
- provide to the Brazilian Ministry of Defense a voice and data system and related equipment and installation by June 2010; 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 our FUNTTEL contributions, which may be increased to 100% at ANATEL's discretion.

Proposed tender offers for common shares of BrT Part and BrT

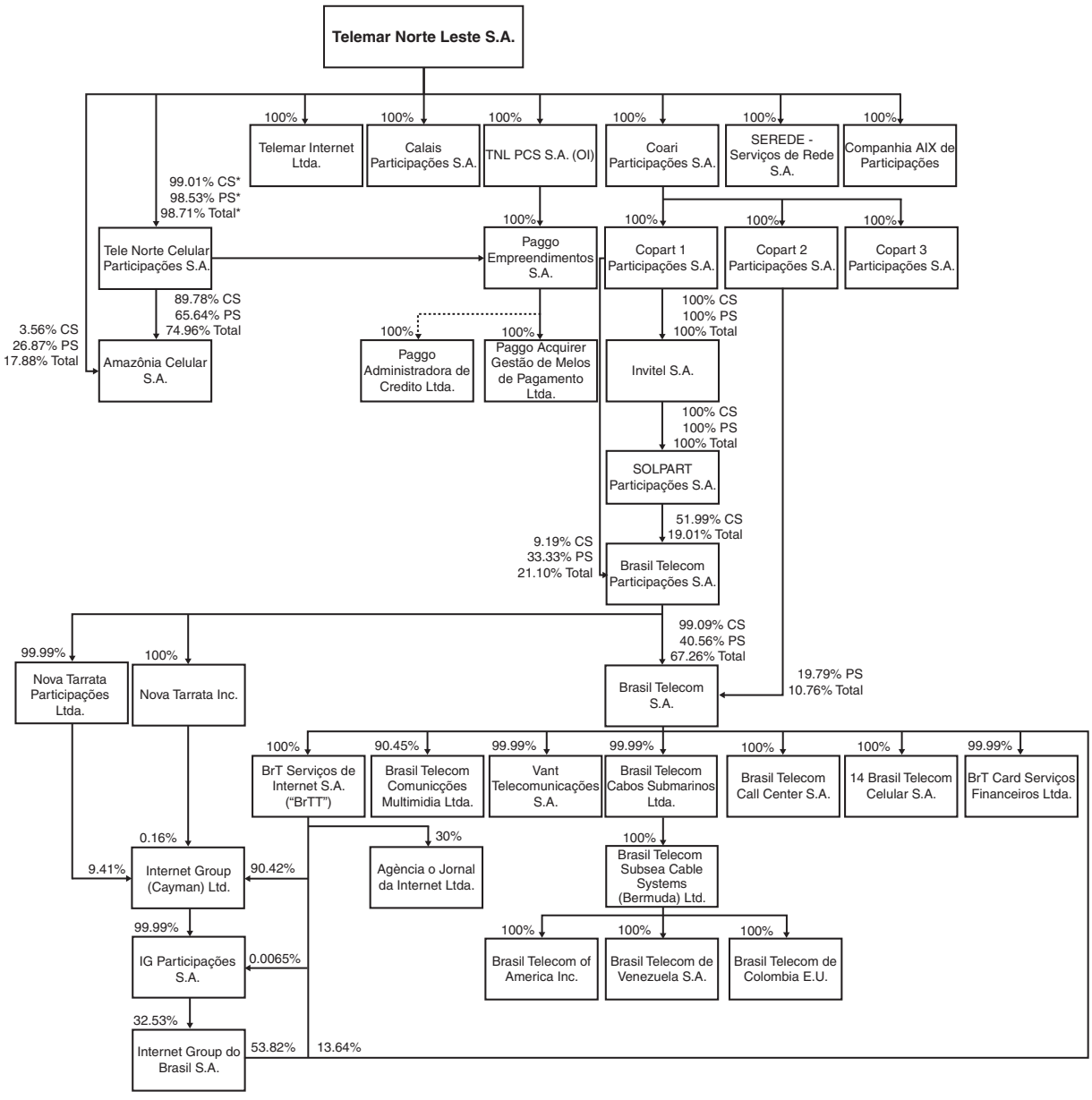
As a result of the BrT Transaction, under CVM Instruction No. 361, of March 5, 2002, as amended, we are required to offer to purchase any and all common shares of BrT Part and BrT held by public shareholders. On February 9, 2009, we applied to register these tender offers with the CVM. Once such tender offers are approved by the CVM, we will be required to purchase any and all common shares of BrT Part and BrT at a price equivalent to at least 80% of the price that we paid for such shares under the Share Purchase Agreement, as adjusted by the Reference Rate (*Taxa Referencial*), a monthly weighted average of the rates of certificates of deposit at 30 selected Brazilian financial institutions, plus 6% from January 8, 2009 until the date of payment. We expect that the cost to purchase these shares will be an aggregate of approximately R$3,300 million.

The corporate reorganization

Following the tender offers for the common shares of BrT Part and BrT, we intend to carry out a corporate reorganization in order to simplify our corporate structure and have the shareholders of BrT Part and BrT migrate to Telemar.

Corporate structure

The chart below shows our corporate structure at January 31, 2009.



* CS represents the percentage ownership of total outstanding common shares. PS represents the percentage ownership of total outstanding preferred shares. Total represents the percentage ownership of the total outstanding share capital (common shares and preferred shares).

Our principal operating subsidiaries are as follows:

- *BrT*: BrT provides fixed-line telecommunications services, as well as broadband services, mobile telecommunications services and a variety of data transmission services, in Region II. As of December 31, 2008, the issued share capital of BrT totaled R$2,596.2 million and is fully paid. BrT's issued share capital is divided into 134,031,688 common shares with voting rights and 229,937,525 preferred shares

without voting rights. As of January 31, 2009, through our indirect ownership interest in BrT Part, together with other shares of BrT we own indirectly, we owned an aggregate of 37.7% of the outstanding share capital of BrT. As of December 31, 2008, BrT had R$1,432 million in reserves. In 2008, BrT generated net income of R$1,029 million.

- *TNL PCS S.A.*: TNL PCS S.A., or Oi, conducts mobile telecommunications services operations in Regions I and III, as described in this offering memorandum. As of December 31, 2008, the issued share capital of Oi totaled R$9,612.5 million and is fully paid. Oi's issued share capital is divided into 6,101,213,226 shares, all of which are common shares with voting rights. As of January 31, 2009, we held 99.999% of Oi's issued share capital. As of December 31, 2008, Oi had R$89 million in reserves. In 2008, Oi generated net income of R$611 million.
- *14 Brasil Telecom Celular S.A.*: 14 Brasil Telecom Celular S.A., or Brasil Telecom Mobile, conducts mobile telecommunications services operations in Region II, as described in this offering memorandum. As of December 31, 2008, the issued share capital of Brasil Telecom Mobile totaled R$4,474.3 million and is fully paid. Brasil Telecom Mobile's issued share capital is divided into 4,473,443 shares, all of which are common shares with voting rights. As of January 31, 2009, through our indirect ownership interest in BrT Part, together with other shares of BrT we own indirectly, we owned an aggregate of 37.7% of the outstanding share capital of Brasil Telecom Mobile. Brasil Telecom Mobile's issued share capital. As of December 31, 2008, Brasil Telecom Mobile had R$0 million in reserves. In 2008, Brasil Telecom Mobile generated net loss of R$126 million.

Our service areas

Our concessions and authorizations from the Brazilian government, including those of Brasil Telecom, of which we acquired control on January 8, 2009, allow us to provide:

- fixed-line telecommunications services in Regions I and II;
- long-distance telecommunications services throughout Brazil;
- mobile telecommunications services in Regions I, II and III; and
- data transmission services throughout Brazil.

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

Region I consists of 16 states of Brazil located in the northeastern and part of the northern and southeastern regions of Brazil. 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 40.0% of Brazil's gross domestic product in 2006 (the most recent period for which such information is currently available). The population of Region I was 100.8 million as of April 1, 2007, which represented 54.8% of the total population of Brazil as of that date. In 2006, per capita income in Region I was approximately R$8,285, varying from R$4,213 in the State of Piauí to R$17,695 in the State of Rio de Janeiro.

Region II consists of the Federal District of Brazil and nine states of Brazil located in the western, central and southern regions of Brazil. 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 26.2% of Brazil's gross domestic product in 2006. The population of Region II was 43.5 million as of April 1, 2007 which represented 23.6% of the total population of Brazil as of that date. In 2006, per capita income in Region II was approximately R$13,626, varying from R$7,041 in the State of Acre to R$37,600 in the Federal District.

Region III consists of the State of São Paulo. Region III covers an area of approximately 200,000 square kilometers, which represents approximately 2.9% of the country's total land area and accounted for approximately 33.9% of Brazil's gross domestic product in 2006. The population of Region III was 39.8 million as of April 1, 2007, which represented 21.6% of the total population of Brazil as of that date. In 2006, per capita income in Region III was approximately R$19,548.

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

State	Population (millions) (2007)	Population per Square Kilometer (2007)	% of Gross Domestic Product (2006)	Gross Domestic Product per Capita (R$) (2006)
Region I:				
Rio de Janeiro	15.4	352.9	11.6	17,695
Minas Gerais	19.3	32.9	9.1	11,028
Bahia	14.1	24.9	4.1	6,922
Pernambuco	8.5	86.3	2.3	6,528
Pará	7.1	5.7	1.9	6,241
Amazonas	3.2	2.1	1.7	11,829
Espírito Santo	3.4	72.7	2.2	15,236
Ceará	8.2	55.0	2.0	5,636
Paraíba	3.6	64.5	0.8	5,507
Rio Grande do Norte	3.0	57.1	0.9	6,754
Maranhão	6.1	18.4	1.2	4,628
Sergipe	1.9	88.5	0.6	7,560
Alagoas	3.0	109.4	0.7	5,164
Piauí	3.0	12.1	0.5	4,213
Amapá	0.6	4.1	0.2	8,543
Roraima	0.4	1.8	0.2	9,075
Subtotal	100.8		40.0	
Region II:				
Rio Grande do Sul	10.6	37.6	6.6	14,310
Paraná	10.3	51.6	5.8	13,158
Santa Catarina	5.9	61.5	3.9	15,638
Goiás	5.6	16.6	2.4	9,962
Mato Grosso	2.9	3.2	1.5	12,350
Federal District	2.5	423.3	3.8	37,600
Mato Grosso do Sul	2.3	6.3	1.0	10,599
Rondônia	1.5	6.1	0.6	8,391
Tocantins	1.2	4.5	0.4	7,210
Acre	0.7	4.3	0.2	7,041
Subtotal	43.5		26.2	
Region III (State of São Paulo)	39.8	160.5	33.9	19,548
Total	184.0		100.0	

Source: IBGE.

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 "Risk Factors — Risks relating to Brazil."

Our services

Our telecommunications services consist of:

- local fixed-line services, primarily in Regions I and II, but also in Region III, including installation, monthly subscription, metered services, collect calls and supplemental local services;
- domestic long-distance services and international long-distance services primarily from Regions I and II, placed through fixed-line and mobile telephones using long-distance carrier selection codes (*Código de Seleção de Prestadora*), which is represented by the number 31 in the case of Telemar and the number 14 in the case of BrT;
- mobile telecommunications services utilizing 2G and 3G technology;

- data transmission services, comprising (1) ADSL services, (2) the lease of dedicated digital and analog lines to other telecommunications services providers and ISPs and corporate customers, (3) IP solutions, and (4) other data transmission services;
- usage of our network (1) to complete calls initiated by customers of other telecommunications services providers (interconnection services) or (2) by service providers that do not have the necessary network;
- traffic transportation services;
- public telephone services (*Terminais de Uso Público*);
- value-added services which include voicemail, caller ID, directory assistance and other services;
- advanced voice services to corporate customers, such as 0800 (toll free) services; and
- the operation of the iG internet portal.

Local fixed-line services

As of December 31, 2008, we had approximately 13.9 million local fixed-line customers in Region I, and BrT had 8.1 million local fixed-line customers in Region II. Although we continue to assess our strategic plans with regard to providing such services in Region III, we do not currently plan to offer local fixed-line services to residential customers in Region III due to the size of the investment that would be required.

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. ANATEL has divided Region I into 2,920 local areas and Region II into 1,772 local areas.

Under our concession agreements, we and BrT are required to offer two local fixed-line plans to users: the PBM and the PASOO, each of which includes installation charges, monthly subscription charges, and charges for local minutes. As of December 31, 2008, 54% of our fixed-line customers subscribed to the PBM or the PASOO, and 38.5% of BrT's fixed-line customers subscribed to the PBM or the PASOO.

In addition to the PBM and the PASOO, we offer a variety of alternative fixed-line plans that are designed to meet our customers' usage profiles. As of December 31, 2008, 46.0% of our fixed-line customers and 51.3% of BrT's fixed-line customers subscribed to alternative plans.

Telemar offers (1) bundled plans which permit subscribers to purchase unlimited local calls to other fixed-line customers, a fixed number of minutes per month that may be used for long-distance calls or local calls to mobile subscribers, and broadband services or minutes for use to establish dial-up internet connections, which we market under the brand name "*Oi Conta Total*"; (2) voice and internet plans which permit subscribers to purchase a fixed number of local minutes per month for calls to fixed-line telephones and for use to establish dial-up internet connections; (3) voice only plans which permit subscribers to purchase a fixed number of local minutes per month for calls to fixed-line telephones; and (4) budget plans which permit subscribers to purchase a fixed number of local minutes, either on a pre-paid basis or a monthly basis, but restrict local calls after the purchased minutes have been consumed and require the purchase of a pre-paid card to make long-distance calls or calls to mobile handsets, such as our "*Oi Fixo Controle*" and our "*Oi Fixo Economia*" plans.

BrT permits subscribers to its alternative plans to design their own plans, selecting from a menu of options, including (1) the number of local minutes per month for calls to fixed-line telephones; (2) the number of local minutes per month for calls to mobile telephones; and (3) the number of long-distance minutes per month. BrT also offers bundled plans that include these elements and broadband services or dial-up internet connection services for a fixed monthly rate which it markets under the brand name "*Pluri*".

Local fixed-line services also include in-dialing services (direct transmission of external calls to extensions) for corporate clients. For corporate clients in need of a large quantity of lines, we offer digital trunk services, which optimize and increase the speed of the customer's telephone system.

Long-distance services

For each long-distance call, whether originated from a fixed-line telephone or a mobile handset, a caller chooses its preferred long-distance carrier by dialing such carrier's long-distance carrier selection code. The caller pays the long-distance service provider for the call and the long-distance service provider pays interconnection fees to the service providers on whose fixed-line or mobile networks the call originated and terminated.

Our domestic and international long-distance services have historically consisted primarily of calls originated in Region I. As a result of our acquisition of control of BrT, our domestic and international long-distance services consisting of calls originated in Region II have substantially increased.

Fixed line-to-fixed line

Calls from one local area to another local area are domestic long-distance calls, other than calls between separate local areas within specified metropolitan regions which, under ANATEL regulations, are charged as local calls. Calls between locations in Brazil and locations outside Brazil are international long-distance calls.

We have historically provided domestic long-distance services for calls originating from Region I through interconnection agreements, mainly with Telesp in Region III and BrT in Region II, that permit us to interconnect directly with their local fixed-line networks. We have historically provided international long-distance services originating from Region I through agreements to interconnect our network with those of the main telecommunications service providers worldwide.

As a result of our acquisition of control of BrT, we have expanded our domestic long-distance services for calls originating from Region II and our international long-distance services originating from Region II, utilizing BrT's interconnection agreements, mainly with us in Region I, Telesp in Region III and the main telecommunications service providers worldwide.

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, and Brazil is divided into sectors based on the first digit of the area code of a caller'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 sharing the same first digit (for example, Rio de Janeiro (area code 21) and Vitória (area code (27)), is referred to as an intrasectoral mobile call. A call originated by a mobile subscriber registered in one home registration area to a mobile subscriber registered in another home registration area that does not share the same first digit (for example, Rio de Janeiro (area code 21) and São Paulo (area code (11)), is referred to as an intersectoral mobile call. Different rates apply to intrasectoral and intersectoral mobile calls.

We have historically provided mobile long-distance services originating from Region I through interconnection agreements, with BrT in Region II, Telesp in Region III, and each of the principal mobile services providers operating in Brazil that permit us to interconnect directly with their local fixed-line and mobile networks. We have historically provided international long-distance services originating or terminating on our customer's mobile handsets through agreements to interconnect our network with those of the main telecommunications service providers worldwide.

As a result of our acquisition of control of BrT, we have expanded our mobile long-distance services originating from Region II, utilizing BrT's interconnection agreements, mainly with us in Region I, Telesp in Region III and each of the principal mobile services providers operating in Brazil. We also use BrT's submarine fiber optic network to transport international mobile long-distance calls.

Mobile telecommunications services

As of December 31, 2008, we had approximately 24.4 million subscribers located in 1,214 municipalities in Region I, and BrT had 5.6 million subscribers located in 1,015 municipalities in Region II. As of December 31, 2008, we had a 30.4% share of the mobile services market in Region I based on the total number of subscribers as of that date, and BrT had a 14.4% share of the mobile services market in Region II based on the total number of subscribers as of that date. In addition, on October 24, 2008, we launched our mobile telecommunications services in Region III, and, as of December 31, 2008, we had 2.0 million mobile subscribers in that region and an estimated market share of 5.3% of the total number of mobile subscribers in this region as of December 31, 2008, according to information available from ANATEL.

As of December 31, 2008, 84.4% of our customers subscribed to pre-paid plans and 15.6% subscribed to post-paid plans, and 82.5% of BrT's customers subscribed to pre-paid plans and 17.5% subscribed to post-paid plans.

Pre-paid customers

Pre-paid customers activate their Oi or Brasil Telecom Mobile 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 the purchase of pre-paid cards at prices that vary based on the number of minutes available or through the purchase of additional credits over the phone which can be charged to the customer's credit card or included on their bill for fixed-line services. These credits are valid for a fixed period of time following activation.

Oi markets "Oi Ligadores" subscriptions to its pre-paid customers which allow these customers to receive bonus minutes with each purchase of additional credits. We charge a nominal subscription fee to enroll a customer in the "Oi Ligadores" program and provide bonus minutes to these customers that may be used for local calls to Telemar's fixed-line subscribers or Oi's mobile subscribers or long-distance calls to Telemar's fixed-line subscribers.

Oi sells pre-paid cards in Region I that contain a feature called "Oi Cartão Total." "Oi Cartão Total" is a service that integrates mobile, fixed-line and public telephone services through a single card. Particularly focused on our pre-paid customers and on public telephone users, the "Oi Cartão Total" allows these customers to use their available credits to make any type of call from mobile, fixed-line or public telephones. We believe that "Oi Cartão Total" represents a significant step towards the convergence of our telecommunications services and satisfies the needs of a common profile of our pre-paid customers who use a mobile phone to receive calls and public telephones to make calls. We have made aggressive service offerings in order to promote and stimulate the use of the "Oi Cartão Total," including bonus minutes for calls made by our pre-paid customers.

Oi sells pre-paid cards in Region I 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. Oi regularly launches various incentive packages designed for the pre-paid segment.

In connection with our strategy of selling pre-paid service packages, Oi continues to develop new sales channels in order to increase market penetration and reduce sales costs, including selling SIM cards in small retail shops (newsstands, drugstores and supermarkets, among others). Since 2006, Oi has pursued a strategy under which we do not subsidize the purchase of mobile handsets in connection with our acquisition and retention of pre-paid customers in the retail consumer segment. Brasil Telecom Mobile adopted a similar strategy in 2009.

BrT markets "Pula-Pula" subscriptions to its pre-paid customers which allow these customers to receive bonus minutes with each purchase of additional credits. In addition, BrT launched "*Crédito Especial*," a product which provides the customer with an emergency credit of R$3.00 for the price of R$0.60 payable when the customer adds credit to his account.

Post-paid customers

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 mailbox, caller ID, conference, call forwarding, calls on hold and special services, including WAP (a protocol which simplifies standard internet codes for the more limited transmission features of a mobile handset), GPRS (providing speeds in the range of 115 kilobytes per second (Kbps)) and EDGE, which allows speed in the range of 230 Kbps.

The GPRS and EDGE services we include in our post-paid plans are available to customers with advanced mobile handset models. These services allow for mobile access to the internet through mobile telephones, laptops or personal digital assistants. They also enable customers simultaneously to use voice and data services, because the connection to the internet remains active even when the customer is speaking on the phone. This means that the customer can remain continuously online and, at the same time, place or receive calls.

The WAP portal is another service and content channel available to our post-paid plan customers. Some of its features include sending and receiving e-mails, forming contact groups, accessing banks and buying tickets. The WAP portal can also be used on the internet, for instance, to schedule personal activities and join or initiate contact groups.

Under our authorizations to provide personal mobile services, Oi and Brasil Telecom Mobile are required to offer basic post-paid mobile plans that include activation charges, monthly subscription rates and charges for local calls. As of December 31, 2008, less than 1.0% of our mobile customers subscribed to our basic post-paid plan and 1.7% of Brasil Telecom Mobile's customers subscribed to its basic post-paid plan. In addition to the basic plan, we offer a variety of alternative post-paid plans that are that are designed to meet our customers' usage profiles.

Oi offers (1) plans which permit a subscriber to purchase a fixed number of minutes per month for local calls to other fixed-line or mobile subscribers; (2) family plans which permit a subscriber to purchase a fixed number of minutes per month for local calls that may be shared by up to four individuals; (3) budget plans which 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, and (4) 3G plans providing data transmission at speeds from 300MB to 10GB.

Brasil Telecom Mobile offers similar post-paid mobile plans, other than the family plans. Under our authorization from ANATEL to complete the BrT Transaction, we are required to offer the same plans to Brasil Telecom Mobile's customers by December 31, 2009.

Roaming

Oi has roaming agreements with Brasil Telecom Mobile, Companhia de Telecomunicações do Brasil Central, or CTBC, and Sercomtel S.A. Telecomunicações, or Sercomtel, providing its customers with automatic access to roaming services when traveling outside of Regions I and III in areas of Brazil where mobile telecommunications services are available on the GSM standard. Brasil Telecom Mobile has roaming agreements with Oi, CBTC and Sercomtel, providing its customers with automatic access to roaming services when traveling outside of Region II in areas of Brazil where mobile telecommunications services are available on the GSM standard.

We generate revenues from roaming when one of our mobile subscribers receives a call while at a location outside the sector that includes their home registration area. In addition, we generate revenues when a subscriber of another mobile services provider places a call from a location that is outside the coverage area of its mobile services provider and the call is originated on our mobile networks. Conversely, when one of our mobile subscribers places a call from outside of Brazil, we pay the applicable roaming rate to the mobile services provider on whose network the call originated.

3G broadband services

In 2007, we and BrT were granted authorizations and the related frequency licenses by ANATEL to offer 3G mobile services in our respective service areas. The deployment of our 3G networks allows us to offer data communication services to our personal mobile service customers at greater speeds than those made available by our previously existing 2G networks. As of December 31, 2008, Oi had launched 3G services in a total of 52 municipalities, including the 16 state capitals in Region I, and BrT had launched 3G services in a total of 49 municipalities, including the Federal District and the nine state capitals in Region II. As of December 31, 2008, Oi and BrT had approximately 31,300 and 100,900 3G mobile broadband customers, respectively.

Data transmission services

Broadband services

We provide high-speed internet access services using ADSL technology, which we refer to as broadband services, to residential customers and businesses in the primary cities in Region I under the brand name "Oi Velox" and Region II under the brand name "Turbo." As of December 31, 2008, we offered broadband services in 451 municipalities in Region I, and BrT offered broadband services in 1,546 municipalities in Region II. As of December 31, 2008, we had 2.0 million ADSL customers, and BrT had 1.8 million ADSL customers.

ADSL technology allows high-speed transmission of voice and data signals on a single copper wire pair for access to the network. Since voice transmission through telephone lines uses only one of many available frequency bands, the remaining frequency bands are available for data transmission. An ADSL modem is installed using the customer's conventional line, which, in turn, is connected to Digital Subscriber Line Access Multiplexer, or DSLAM, equipment at the switching station. As a result, customers can use the telephone line simultaneously with the internet. Customers pay a fixed monthly subscription fee, irrespective of their actual connection time to the internet.

As of December 31, 2008, we had upgraded approximately 49% of our fixed-line network, and BrT had upgraded approximately 38.8% of its fixed-line network, to enable these portions of our networks to support ADSL2+. ADSL2+ is a data communications technology that allows data transmission at speeds of up to 24 Mbps downstream and 1 Mbps upstream, which is much faster than data transmission through conventional ADSL. ADSL2+ permits us to offer a wider range of services though our Turbo 2.0 service and Internet Protocol Television, which we refer to as IP TV, a television service that is based on broadband internet access.

We charge monthly fees to our broadband users that choose Oi Internet, iBest or iG as their ISP. We do not charge fees to our fixed-line customers that choose Oi Internet, iBest or iG as their ISP for dial-up internet access. As of December 31, 2008, Oi Internet had 3.5 million registered dial-up users and iBest and iG had approximately 4.0 million registered dial-up users. In the beginning of 2007, BrT launched a flat-fee dial-up service, called "Internet Toda Hora" ("Internet all the time") under which BrT's fixed-line subscribers can access the internet through dial-up connections during evening and weekend hours for a flat fee without using the local minutes that they purchase under their fixed-line plans.

Commercial data transmission services

We provide a variety of customized, high-speed data transmission services through various technologies and means of access to other telecommunications services providers, ISPs and corporate customers. Our data transmission services include interconnection between local area networks at data transmission speeds of 34 Mbps, 155 Mbps and 1 Gbps, videoconferencing, video/image transmission and multimedia applications. Our principal commercial data transmission services are:

- Industrial Exploitation of Dedicated Lines (*Exploração Industrial de Linha Dedicada*), or EILD, under which we lease trunk lines to other telecommunications services providers, primarily mobile services providers, which use these trunk lines to link their radio base stations to their switching centers.

- Dedicated Line Services (*Serviços de Linhas Dedicadas*), or SLD, under which we lease dedicated lines to other telecommunications services providers, ISPs and corporate customers for use in private networks that link different corporate websites.
- Internet Protocol services which consist of dedicated private lines and dial-up internet access which we provide to most of the leading ISPs in Brazil, as well as virtual private network services that enable our customers to operate private intranet and extranet networks.
- 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 virtual private networks.

We provide these data transmission services using service network platforms in Regions I and II and our nationwide fiber optic cable network and microwave links.

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 telecommunications services packages to our customers.

In addition, we provide services at our six cyber data center services located in Brasília, São Paulo, Curitiba, Porto Alegre and Fortaleza. We provide hosting collocation and IT outsourcing at these centers, permitting our customers to outsource their IT structures to us or to use these centers to provide backup for their IT systems. We acquired these centers as part of our acquisition of control of BrT.

As part of our acquisition of control of BrT, we also acquired BrT's submarine fiber optic network, which connects Brazil with the United States, Bermuda and Venezuela. Through this network, we offer international data transportation services, primarily leased lines to other telecommunications services providers.

Network usage services (interconnection service)

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

Use of our local fixed-line networks

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.

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, or (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.

Use of our long-distance 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 their long-distance networks for which the caller has selected us as the long-distance provider.

Use of our mobile networks

We are authorized to charge for the use of our mobile networks on a per-minute basis for all calls terminated on our mobile networks 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.

Traffic transportation services

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 telecommunications service providers the option to terminate their Brazilian inbound traffic through our network, as an alternative to Embratel and Intelig. We charge international telecommunications 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.

Public telephone services

We own and operate public telephones throughout Region I and Region II. As of December 31, 2008, we had approximately 576,900 public telephones in service and BrT had approximately 227,900 public telephones in service, all of which are operated by pre-paid cards. For a discussion of how we and BrT Part account for the sale of the pre-paid cards, see “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Telemar — Critical accounting policies and estimates — Revenue recognition and accounts receivable” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations — Brasil Telecom Participações — Critical accounting policies and estimates — Revenue recognition and accounts receivable.”

Value-added services

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), SMS subscription services (horoscope, soccer teams and love match), chat, mobile television, location-based services and applications (mobile banking, mobile search, email and instant messaging).

Advanced voice services

We provide advanced voice services to our corporate customers, mainly 0800 (toll free) services, as well as voice portals where customers can participate in real-time chats and other interactive voice services.

iG internet portal

BrT operates an internet portal under the brand name “iG” that was the second largest internet portal in Brazil in terms of the number of unique visitors in 2008 according to Ibope/NetRatings. In 2008, iG was visited by 13.3 million unique visitors, and as of December 31, 2008, iG had approximately two million registered subscribers and hosted 7.5 million e-mail accounts. iG has launched several collaborative tools like blogs, chat,

photo album, video player and an online dating service, and has developed new channels that promote the creation and distribution of content created by the user. BrT has entered into an agreement with Google that allows iG to offer e-mail services using Gmail's platform and use Google's search engine throughout the portal. BrT has entered into agreements under which it is licensed to distribute a variety of content through the iG portal, such as entertainment, news, sports and education, including an agreement to launch the "Second Life" game in Brazil. We generate revenue through the iG portal from (1) monthly subscription fees that we charge to registered users of this portal, (2) fees charged to place advertisements on this portal, and (3) fees that we receive from fixed-line service providers based on the number of minutes that their subscribers are connected to this portal.

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."

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 PBM and the PASOO, each of which includes installation charges, monthly subscription charges, and charges for local minutes. As of December 31, 2008, 54% of our fixed-line customers subscribed to the PBM or the PASOO, and 38.5% of BrT's fixed-line customers subscribed to the PBM or the PASOO.

The monthly subscription fees under the PBM and the PASOO vary in accordance with the subscribers' profiles, as defined in the applicable ANATEL regulations. The monthly subscription fee for the PBM 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 PASOO 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 only deduct two local minutes from a PBM customer's monthly allotment and four minutes from a PASOO customer's monthly allotment for each local call made, regardless of the duration of the call, during the following off-peak hours: Monday through Friday between midnight and 6 a.m.; Saturdays between midnight and 6 a.m. and between 2 p.m. and midnight; and any time on Sundays and Brazilian holidays. 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 PBM subscriber or a PASOO 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 PBM and the PASOO, 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 the plan to our customers. In general, ANATEL does not object to the terms of these plans. As of December 31, 2008, 46.2% of our fixed-line customers and 51.3% of BrT's fixed-line customers subscribed to alternative plans.

Under our fixed-line rate plans, 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. However, calls of three seconds or less are not charged, except in certain specific instances as provided for in ANATEL regulations.

Prior to January 2006, calls were measured and charged in terms of pulses, consisting of a single charge per call and an additional charge for each four-minute interval of usage. In January 2006, our new concession agreements established a per-minute billing system for local fixed-line telecommunications services, which we implemented by July 2007. In localities where we have not implemented the minute-based rates due to technical or economic infeasibility, we do not charge fees for additional minutes on local calls made to another fixed-line telephone. In these localities, we charge only basic monthly subscription fees.

On an annual basis, ANATEL increases or decreases the maximum rates we are authorized to charge for our basic service plans. ANATEL decreased the rates we may charge by an average of 0.51% as of July 13, 2006, and increased these rates by an average of 1.83% as of July 20, 2007 and 2.76% as of July 24, 2008. ANATEL decreased the rates BrT may charge by an average of 0.43% as of July 13, 2006, and increased these rates by an average of 2.14% as of July 20, 2007 and 3.01% as of July 24, 2008. 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 our basic local fixed-line service rates and the local fixed-line service rates of BrT during the periods indicated.

	Year Ended December 31,		
Monthly subscription rates for PBM plans(1)	**2006**	**2007**	**2008**
		(in R$)	
Telemar:			
PBM (residential)	27.29	27.78	28.54
PBM (commercial)	45.72	46.56	47.84
PBM (trunk lines)	45.72	46.56	47.84
BrT:			
PBM (residential)	27.28	27.86	28.69
PBM (commercial)	40.36	41.23	42.48
PBM (trunk lines)	39.98	40.85	42.09

(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 VC1 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.

VC1 rates vary depending on the time of the day and day of the week, and are applied per minute for the duration of the call. As with local fixed-line calls, the charge unit is a tenth of a minute (six seconds), rounding is permitted to the next succeeding tenth of a minute, and there is a minimum charge period of 30 seconds for every call.

On an annual basis, ANATEL increases or decreases the maximum VC1 rates we are authorized to charge. In 2006 ANATEL did not change the maximum VC1 rate we or BrT were authorized to charge. ANATEL

authorized us to increase our VC1 rates by an average of 2.88% as of July 20, 2007 and 2.76% as of July 24, 2008. ANATEL authorized BrT to increase its VC1 rates by an average of 3.34% as of July 20, 2007 and 3.03% as of July 24, 2008. Discounts from the VC1 rates approved by ANATEL may be granted to customers without ANATEL approval.

The following table sets forth the average per-minute rates that we and BrT charged for fixed-line to mobile calls during the periods indicated.

	Year Ended December 31,		
Per-minute charges for local fixed-line calls made to mobile telephones(1)	**2006**	**2007**	**2008**
		(in R$)	
Telemar	0.48	0.49	0.51
BrT	0.48	0.50	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 per minute for the duration of the call. As with local fixed-line calls, the charge unit is a tenth of a minute (six seconds), rounding is permitted to the next succeeding tenth of a minute, and there is a minimum charge period of 30 seconds for every call.

On an annual basis, ANATEL increases or decreases the maximum domestic fixed line-to-fixed line long-distance rates we are authorized to charge. ANATEL decreased these rates by an average of 2.86% as of July 13, 2006 and increased these rates by an average of 1.83% as of July 20, 2007 and 2.76% as of July 24, 2008. ANATEL decreased the rates BrT may charge by an average of 2.77% as of July 13, 2006 and increased these rates by an average of 2.14% as of July 20, 2007 and 3.01% as of July 24, 2008. 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 charged 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) by our company and BrT during the periods indicated.

	Year Ended December 31,		
Domestic long-distance rates per minute(1)	**2006**	**2007**	**2008**
		(in R$)	
Telemar:			
0 to 50 km	0.22	0.23	0.20
50 to 100 km	0.28	0.31	0.32
100 to 300 km	0.31	0.33	0.37
Over 300 km	0.36	0.38	0.41
BrT:			
0 to 50 km	0.22	0.24	0.24
50 to 100 km	0.31	0.33	0.35
100 to 300 km	0.35	0.35	0.36
Over 300 km	0.36	0.36	0.37

(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 intrasectoral long-distance call, which is charged at rates designated by ANATEL as VC2 rates, or an intersectoral long-distance call, which is charged at rates designated by ANATEL as VC3 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 VC2 and VC3 rates vary depending on the time of the day and day of the week, and are applied per minute for the duration of the call. As with local fixed-line calls, the charge unit is a tenth of a minute (six seconds), rounding is permitted to the next succeeding tenth of a minute, and there is a minimum charge period of 30 seconds for every call.

On an annual basis, ANATEL increases or decreases the maximum VC2 and VC3 rates we are authorized to charge. ANATEL authorized us to increase our VC2 and VC3 rates by an average of 7.99% as of March 20, 2006, 2.88% as of July 20, 2007 and 2.76% as of July 24, 2008. ANATEL authorized BrT to increase its VC2 and VC3 rates by an average of 7.99% as of July 27, 2006, 3.29% as of July 18, 2007 and 3.01% as of July 23, 2008.

The following table sets forth the average rates that we and BrT charged per minute for mobile long-distance calls 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,		
Per-minute charges for mobile long-distance calls(1)	**2006**	**2007**	**2008**
		(in R$)	
Telemar:			
VC2	1.02	1.06	1.09
VC3	1.16	1.20	1.24
BrT:			
VC2	1.04	1.08	1.11
VC3	1.19	1.23	1.26

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

Mobile rates

Mobile telecommunications 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, Oi 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, 2008, less than 1.0% of our mobile customers subscribed to our basic post-paid plan and less than 1.0% of our mobile customers subscribed to our basic pre-paid plan, and 1.7% of Brasil Telecom Mobile's customers subscribed to its basic post-paid plan and less than 1.0% of Brasil Telecom Mobile's customers subscribed to its basic pre-paid plan.

Under the basic post-paid service plan, customers pay monthly subscription charges (which include a specified number of usage minutes) and pay fees based on usage of excess minutes that were not included in the monthly subscription charge. Under the basic pre-paid service plan, customers pay only a one-time activation charges well as charges for the minutes that they use. The rates for the applicable services under these plans (*e.g.*, activation charges, monthly subscription charges, charges for local and long-distance calls and roaming charges) were approved by ANATEL at the time that the plans were authorized.

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, based on the length of the call. As with local fixed-line services, the charge unit is a tenth of a minute (six seconds), rounding is permitted to the next succeeding tenth of a minute, and there is a minimum charge period of 30 seconds for every call.

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 the plan to our customers. In general, ANATEL does not object to the terms of these plans. As of December 31, 2008, substantially all of our and BrT's 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.

Rates under our basic and alternative 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 3.20% in 2006, 3.17% in 2007 and 6.56% in 2008.

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 per minute for the duration of the call. As with local fixed-line calls, the charge unit is a tenth of a minute (six seconds), rounding is permitted to the next succeeding tenth of a minute, and there is a minimum charge period of 30 seconds for every call.

Charges for the use of our local fixed-line network to terminate local calls originating on the network of another local fixed-line service provider are only billed and due when usage of our network exceeds 55% of the total traffic registered between our network and the network of the other telecommunications service provider.

On January 1, 2006, our TU-RL rate was reduced to 50% of the rate included in our PBM plans for a local fixed-line call, which is adjusted on an annual basis by ANATEL. See "— Local fixed-line rates — Local rates." On January 1, 2007, our TU-RL rate was reduced to 40% of the rate included in our PBM plans for a local fixed-line call, which is adjusted on an annual basis by ANATEL. As of the date of this offering memorandum, Telemar'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$0.028 per minute, and BrT's TU-RL rate during peak hours is R$0.031 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 2010.

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 per minute for the duration of the call. As with local fixed-line calls, the charge unit is a tenth of a minute (six seconds), rounding is permitted to the next succeeding tenth of a minute, and there is a minimum charge period of 30 seconds for every call. On January 1, 2006, our TU-RIU rate was reduced to 30% of our domestic fixed line-to-fixed line long-distance rates for calls of more than 300 km, which are adjusted on an annual basis by ANATEL. See "— Domestic long-distance rates — Fixed line-to-fixed line." As of the date of this offering memorandum, Telemar's TU-RIU rate during peak hours is R$0.12 per minute, and BrT's TU-RIU rate during peak hours is R$0.12 per minute.

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

	Year Ended December 31,		
Fixed-Line Network Usage Rates(1)	**2006**	**2007**	**2008**
		(in R$)	
Telemar:			
TU-RL	0.034	0.027	0.028
TU-RIU	0.102	0.079	0.083
BrT:			
TU-RL	0.037	0.030	0.031
TU-RIU	0.081	0.083	0.087

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

Mobile networks

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

The terms and conditions of interconnection to our mobile networks, including the rates charged to terminate calls on our mobile networks, which are designated by ANATEL as VU-M rates, commercial conditions and technical issues, are freely negotiated between us and other mobile and fixed-line telecommunications service providers, subject to compliance with regulations established by ANATEL relating to traffic capacity and interconnection infrastructure that must be made available to requesting providers, among other things. We must offer the same VU-M rates to all requesting service providers on a nondiscriminatory basis. As with local fixed-line calls, the charge unit is a tenth of a minute (six seconds), rounding is permitted to the next succeeding tenth of a minute, and there is a minimum charge period of 30 seconds for every call.

If we are not able to establish interconnection rates for use of our mobile networks with other mobile and fixed-line telecommunications service providers, ANATEL is empowered to arbitrate, at its discretion, the interconnection rates that we may charge. In 2005, mobile service providers and fixed-line service providers in Brazil were unsuccessful in negotiating an agreement for new VU-M rates. All mobile service providers and fixed-line service providers in Brazil commenced arbitration proceedings before ANATEL to establish the applicable VU-M rates. The mobile service providers and fixed-line service providers entered into a provisional agreement establishing provisional rates applicable to each mobile service provider, and after the providers entered into this agreement, ANATEL approved the adjusted VC1 rates that the fixed-line service providers were permitted to charge based on the provisional VU-M rates.

An initial decision approving these provisional rates was rendered in September 2007, but an appeal remains pending before ANATEL's council of directors. We cannot predict whether the final interconnection rates established by ANATEL will be equivalent to those currently applied by us. We and the other mobile services providers negotiate provisional agreements each year to establish rate increases for the VU-M charged by the mobile services providers, subject to a final decision of ANATEL in the arbitration regarding the initial provisional VU-M charges established by ANATEL.

In March 2006, a provisional agreement among the incumbent fixed-line service providers (*i.e.*, Telemar, Brasil Telecom and Telesp) and the mobile services providers, including Oi and Brasil Telecom Mobile, was submitted to ANATEL that increased the VU-M rate for calls terminated on a mobile services provider's network by 4.5% over the previously existing VU-M rate.

In July 2007, a provisional agreement among the incumbent fixed-line service providers, as well as CTBC Telecom and Sercomtel, and the mobile services providers, including Oi and Brasil Telecom Mobile, was submitted to ANATEL that provided for an annual increase of the VU-M rates of 1.97143% for calls terminated in Region I, and an annual increase of the VU-M rates of 2.25356% for calls terminated in Region II or Region III.

In July 2008, a provisional agreement among the incumbent fixed-line service providers, as well as CTBC Telecom and Sercomtel, and the mobile services providers, including Oi and Brasil Telecom Mobile, was submitted to ANATEL that established an average increase in the VU-M rates of 2%, and provided that the VU-M rates would be increased by an amount equal to 68.5% multiplied by the percentage increase in VC1 approved by ANATEL in 2008.

Until June 2006, charges for the use of our mobile network in connection with local calls originating from another fixed-line or mobile telecommunications service provider were only billed and due when usage of our network exceeded 55% of the total traffic registered between our network and the network of such other telecommunications service provider. In July 2006, the full billing system was adopted under which (1) we are permitted to charge for the use of our mobile networks based on the volume of traffic originated on the fixed-line or mobile network of other telecommunications service providers that terminates on our mobile networks, and (2) we are required to pay other mobile telecommunications service providers based on the volume of traffic originated on our fixed-line or mobile networks that terminates on their mobile networks.

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

	Year Ended December 31,		
Per-minute charges for local fixed-line calls made to mobile telephones(1)	**2006**	**2007**	**2008**
		(in R$)	
Telemar	0.40	0.40	0.41
BrT	0.40	0.41	0.42

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

Data transmission rates

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

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

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

Marketing

In 2008, we incurred R$488 million in marketing expenses, primarily to: (1) solidify our strategy of marketing all of our integrated services (fixed-line, mobile and broadband) under the "Oi" brand name; (2) launch new services, including "*Oi Velox 3G"* (mobile broadband) for high-speed access to the internet on our mobile network, "*Oi Controle*" for mobile customers seeking a fixed monthly rate for a fixed number of minutes in order to limit costs, and "*Oi Fixo Controle*" and "*Oi Fixo Economia*" for fixed-line services directed towards low-income consumers; (3) introduce the "*Oi*" brand in the State of São Paulo; (4) promote our mobile telecommunications services through specific marketing campaigns targeting certain market segments, such as pre-paid retail customers and corporate customers; and (5) maintain a strong base of fixed lines in service.

Throughout 2008, we continued to offer integrated promotions by bundling our various services, such as mobile communications, ADSL services, fixed-line services and public telephone services. We also continued to reinforce our strategy of selling SIM cards individually, separate from mobile handsets, to acquire new pre-paid customers and retain existing ones. Beginning in February 2008, ANATEL regulations have required service mobile providers to unblock the mobile handsets of their customers, permitting mobile users to choose a different service provider than the handset supplier. The unblocking of mobile handsets has favored our strategy of selling SIM cards on a stand-alone basis. During 2008, sales of unblocked mobile phones by retail stores have been increasing, and in 2008, we maintained 160 permanent locations in Region I to unblock competitors' mobile phones.

Our most successful new services offered to the public in 2008 were the granting of bonus minutes for calls made within our network (between our customers) by our "*Oi Ligadores*" pre-paid customers and the launch of "*Oi Fixo Controle*," a budget plan under which a subscriber purchases a fixed number of local minutes for calls to a fixed-line telephone or for a dial-up internet connection, which allowed us to further leverage our fixed-line and mobile services in Region I. Additionally, we successfully launched the "*Oi*" brand in the State of São Paulo by coordinating the launch with our campaign to unblock mobile phones. To facilitate the launch, we set up 250 permanent and 35 temporary locations to unblock phones in the city of São Paulo and elsewhere throughout the State of São Paulo, which resulted in the activation of approximately two million mobile service accounts within 90 days after the launch.

In 2008, BrT incurred R$178.3 million in marketing expenses, primarily to promote the cost savings available through its bundled service plans, diversify its sales efforts and strengthen its strategy of selling SIM cards independent of mobile handsets. As part of the sale of stand-alone SIM cards, BrT maintained 170 permanent and 97 temporary locations in Region II to unblock competitors' mobile phones in conjunction with SIM card sales.

We use a broad range of marketing channels, including television, radio, billboards, exterior signage, telemarketing, direct mail and internet advertising to market our fixed-line, mobile, long-distance and broadband services. We also sponsor sporting events and individual athletes, as well as cultural events, such as fashion shows, theatrical performances and popular music concerts. The goal of our marketing initiatives is to increase brand awareness in our targeted customer base and expand the use of our distribution channels.

We target our marketing efforts on three separate segments of the telecommunications services market: (1) retail customers, (2) high-value residential customers and medium and small commercial customers, and (3) large commercial customers.

Retail customers

We market our local fixed-line services, pre-paid and post-paid mobile services, long-distance services and dial-up internet access to retail customers. The retail marketing segment generated approximately 54% of our gross operating revenues in 2008. Our principal distribution channels in the retail segment in 2008 were:

- telemarketing, which accounted for approximately 76% of our sales of fixed-line plans and 67% of our sales of broadband service subscriptions in 2008. Our telemarketing sales channel consists of approximately 2,500 sales representatives that answer more than two million calls per month. This channel provides us with the ability to pro-actively reach new customers, thereby increasing our client base and revenues, and also receive calls prompted by offers in numerous types of media.
- 40 exclusive agents with 1,500 salespeople trained to sell our services door-to-door in Region I in places where customers generally are not reachable by telemarketing. This channel accounted for approximately 20% of our sales of fixed-line plans in 2008.
- approximately 2,000 retail stores through which we primarily sell SIM cards and pre-paid mobile cards. This channel accounted for approximately 35% of our sales of SIM cards in 2008.
- approximately 250,000 drug stores, supermarkets, newsstands and similar outlets through which we primarily sell SIM cards and pre-paid mobile cards. This channel accounted for approximately 60% of our sales of SIM cards in 2008.

Although BrT has not historically segmented the telecommunications market in connection with its marketing and promotional activities in the same way we have, BrT has generally sold its services in the retail market segment through the same distribution channels as we have. However, we have placed greater emphasis on drug stores, supermarkets, newsstands and similar outlets because we believe this channel enables us to achieve broad distribution of our pre-paid services with relatively low distribution costs through this channel. We expect to integrate BrT's marketing efforts with ours during the first half of 2009 and to expand BrT's use of this distribution channel as part of this integration effort. BrT's principal distribution channels in the retail segment in 2008 were:

- telemarketing, which accounted for approximately 70% of BrT's sales of fixed-line plans, 63% of BrT's sales of broadband services subscriptions and 21% of BrT's sales of post-paid mobile plans in 2008. BrT's telemarketing sales channel consists of approximately 1,100 sales representatives that answer more than 500,000 calls per month.
- 94 exclusive agents with 497 salespeople trained to sell BrT's services door-to-door in Region II in places where customers generally are not reachable by telemarketing. This channel accounted for approximately

17% of BrT's sales of fixed-line plans, 14% of BrT's sales of broadband services and 6% of BrT's sales of pre-paid mobile plans in 2008.

- approximately 2,200 large and small retail stores through which BrT primarily sells SIM cards, pre-paid mobile cards and post-paid mobile plans. This channel accounted for approximately 53% of BrT's sales of pre-paid mobile plans and 4% of BrT's sales of post-paid mobile plans in 2008.

High-value residential customers and medium and small commercial customers

We market our local fixed-line services, broadband services, post-paid mobile services and long-distance services to high-value residential customers and medium and small commercial customers. This marketing segment generated approximately 28% of our gross operating revenues in 2008. Our principal distribution channels in this marketing segment in 2008 were:

- our telemarketing channel described above, which accounted for approximately 76% of our sales of fixed-line plans and 67% of our sales of broadband service subscriptions in 2008.
- 234 "Oi" franchised service stores and kiosks located in the largest shopping malls and other high density areas throughout Regions I and III that are focused on sales of higher value-added services (post-paid mobile plans and broadband services). This channel accounted for approximately 28% of our sales of post-paid mobile plans in 2008.
- direct sales campaigns in facilities of large companies and organizations.
- 470 mobile services stores through which we primarily sell post-paid mobile plans and SIM cards. This channel accounted for approximately 24% of our sales of post-paid mobile plans in 2008.
- a network comprised of approximately 417 non-exclusive commissioned sales agents dedicated mainly to marketing to small and medium-sized commercial customers.

BrT has generally sold its services to high-value residential customers through the same distribution channels we have, although BrT has not historically engaged in direct sales campaigns at the facilities of large companies and organizations and has marketed to small and medium commercial customers as part of its marketing efforts focused on commercial customers generally. BrT's principal distribution channels in the high-value residential customer and small and medium commercial customer segment in 2008 were:

- BrT's telemarketing channel described above, which accounted for approximately 70% of BrT's sales of fixed-line plans, 63% of BrT's sales of broadband services subscriptions and 21% of BrT's sales of post-paid mobile plans in 2008.
- 72 exclusive "Brasil Telecom" service stores and kiosks located in the largest shopping malls and other high density areas throughout Region II that are focused on sales of higher value-added services (fixed-line, mobile and broadband services). This channel accounted for approximately 5.2% of BrT's sales broadband services subscriptions, 15% of BrT's sales of post-paid mobile plans and 8% of BrT's sales of pre-paid mobile cards in 2008.
- 735 multi-brand mobile services stores through which BrT primarily sells post-paid mobile plans, SIM cards and pre-paid mobile cards. This channel accounted for approximately 16% of BrT's sales of broadband services subscriptions, 29% of BrT's sales of post-paid mobile plans and 33% of BrT's sales of pre-paid mobile plans in 2008.

Large commercial customers

We market our local fixed-line services, broadband services, post-paid mobile services, long-distance services and commercial data transmission services to large commercial customers. This marketing segment generated approximately 13% of our net operating revenues in 2008. Our principal distribution channels in this

marketing segment in 2008 were our direct sales force. BrT has generally sold its services to commercial customers of all sizes through a direct sales force.

Billing and collection

Fixed-line telephone services

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

We are required to include in our monthly bills charges incurred by our customers for long-distance services provided by other long-distance service providers upon the request of these providers. We have billing agreements with each long-distance telecommunications service provider that interconnects with our networks under which we bill our customers for any long-distance calls originated on our networks that are carried by another long-distance service provider and transfer the balance to the relevant provider after deducting any access fees due for use of our networks.

Payments are due within an average of 13 days after the billing date. We charge late-payment interest at a rate of 1% per month plus a one-time late charge of 2% of the amount outstanding. At December 31, 2008, 9.4% of all accounts receivable due from our fixed-line customers were outstanding for more than 30 days and 4.6% were outstanding for more than 90 days, as compared to 10.3% and 6.4%, respectively, at December 31, 2007. At December 31, 2008, 37.5% of all accounts receivable due from BrT's fixed-line customers were outstanding for more than 30 days and 17.7% were outstanding for more than 90 days, as compared to 36.7% and 27.2%, respectively, at December 31, 2007.

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

Mobile telecommunications services

We bill our mobile post-paid customers on a monthly basis and itemize charges in the same manner as we bill our fixed-line customers. See "— Fixed-line telephone services." In addition, the monthly bills also provide details regarding minutes used and roaming charges.

Payments are due within an average of 13 days after the billing date. We charge late-payment interest at a rate of 1% per month plus a one-time late charge of 2% of the amount outstanding. At December 31, 2008, 8.2% of all accounts receivable due from our mobile customers were outstanding for more than 30 days and 6.5% were outstanding for more than 90 days, as compared to 7.4% and 7.6%, respectively, at December 31, 2007. At December 31, 2008, 48.8% of all accounts receivable due from BrT's mobile customers were outstanding for more than 30 days and 32.8% were outstanding for more than 90 days, as compared to 58.8% and 45.3%, respectively, at December 31, 2007.

ANATEL regulations permit us to partially suspend services to a mobile customer when the customer's account is more than 15 days past due, restrict all incoming calls received and outgoing calls made by a mobile customer when the customer's account is more than 45 days past due, and cancel services to a mobile customer when the customer's account is more than 75 days past due, provided in each case that 15-days' prior notice has been given to that customer prior to the imposition of each restriction. The cancellation process thus comprises several stages, including customer notification regarding the referral of their delinquency to credit bureaus, before services to the mobile customer may be ultimately cancelled due to non-payment. Notices range from text messages to active calls for negotiation with the customer. Our collection system enables us to access delinquent subscribers' accounts according to their payment profile. This profile takes into consideration, among other things, the length of subscription, the outstanding balance of the account and the longest payment delays. We have also implemented an information tool to assist with account management which is designed to warn subscribers of high outstanding amounts due and unpaid.

Network and facilities

Our network is comprised of a physical and logical infrastructure through which we provide fully integrated services, whether fixed-line or mobile, voice, data or image, thereby optimizing available resources.

Telemar and Oi monitor their networks remotely from our centralized national network operations center in Rio de Janeiro. BrT monitors its networks remotely from its centralized national network operations center in Florianópolis. Network operating and configuration platforms, located at the network operations centers, perform failure monitoring, database and configuration management, security management and performance analysis for the each network.

Fixed-line network

Our fixed-line network includes a network of access lines connecting customers to digital exchanges, digital exchanges, trunk lines connecting digital exchanges and long-distance transmission equipment. As of December 31, 2008, our access network served approximately 13.9 million fixed-line subscribers and approximately 2.0 million ADSL subscribers, and the access network of BrT served approximately 8.1 million fixed-line subscribers and approximately 1.3 million ADSL subscribers. As of December 31, 2008, we provided ADSL services in 451 municipalities, and BrT provided ADSL services in 1,546 municipalities (*municípios*).

During 2008, the number of installed access lines in our fixed-line network declined by 1.2 million lines as a result of the disconnection of analog terminals in order to reduce network maintenance costs, and our total access lines in service declined by approximately 246,000 lines as a result of customer migration to mobile and broadband networks. During 2008, the number of installed access lines in BrT's fixed-line network declined by approximately 400,000 lines as a result of the disconnection of analog terminals in order to reduce network maintenance costs.

In 2008, we provided fixed-line services at 1,970 new localities (*localidades*), 1,562 of which were provided with group access (public telephone services) and 408 of which were provided with individual access (residential telephone service), and we visited more than 7,500 localities to confirm data on our record of localities. In 2008, BrT provided fixed-line services at 100 new localities, 65 of which were provided with group access and 35 of which were provided with individual access, and BrT visited more than 478 localities to confirm data on its record of localities. As of December 31, 2008, we offered fixed-line services in approximately 24,000 localities, either with individual or group access, and BrT offered fixed-line services in approximately 8,909 localities, either with individual or group access.

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

	As of and For Year Ended December 31,		
	2006	2007	2008
Telemar:			
Installed access lines (in millions)	17.1	16.5	17.7
Access lines in service (in millions)	14.4	14.2	13.9
Public telephones in service (in thousands)	577.1	583.8	576.9
Broadband access lines in service (in thousands)	1,128.0	1,518.0	1,965.1
BrT:			
Installed access lines (in millions)	10.4	10.8	10.4
Access lines in service (in millions)	8.4	8.0	8.1
Public telephones in service (in thousands)	277.9	281.8	277.9
Broadband access lines in service (in thousands)	1,317.7	1,567.8	1,805.5

Our fixed-line network is fully digitalized. Our transmission infrastructure connects these digital switches to two international gateway switches. Additionally, our network supports advanced services, including pre-paid and toll-free services.

Our long-distance network consists of fiber-optic cable networks and microwave links that we use to provide long-distance services within Regions I and II. We have extended long-distance fiber optic networks that connect the state capitals in Region I, other than Manaus, Boa Vista, and Macapá (located in the States of Amazonas, Roraima and Amapá, respectively), the state capitals of Region II and the Federal District. Most of the large urban areas of Regions I and II are also connected by our fiber optic cable networks. Manaus, Boa Vista, and Macapá are served by our satellite network.

Our long-distance network is modern, has an infrastructure prepared to support a capacity of 400 Gbps and is equipped with an automatic control system that provides for a high level of availability and flexibility for configuration and provisioning. Our transmission infrastructure has the capacity to accommodate our customers' demand for long-distance, internet and data transmission services and other telecommunications service providers' demand for transmission facilities.

Satellite network

We have deployed an expanded range of satellite-based services to comply with our public service obligations to the rural and remote areas of northern Brazil, including the Amazon rainforest region. These satellite services include internet access and access to corporate data applications. As of December 31, 2008, our satellite network covered approximately 3,000 localities located in municipalities in ten states and provided voice and data services to approximately 4.5 million persons and approximately 650,000 terminals.

In 2000, we began the implementation of the land-based segment of a satellite network in order to extend transmission to remote areas in the states of Pará, Amazonas, Amapá and Roraima, as well as to other areas with limited access to telecommunications services due to geographical conditions. The satellite network comprises satellite earth stations located in less-populated rural areas, as well as hub stations in the cities of Manaus, Boa Vista, Macapá, Belém, Salvador and Rio de Janeiro (located in the States of Amazonas, Roraima, Amapá, Pará, Bahia and Rio de Janeiro, respectively). This satellite network uses digital technology and began operating in August 2000. The fiber optic and satellite backbones are interconnected in Belém, Fortaleza, Salvador and Rio de Janeiro (located in the States of Pará, Ceará, Bahia and Rio de Janeiro, respectively). The integration of the land-based segment of our satellite network allows us to service our subscribers in any location in Region I.

We and Hispamar Ltda., a Spanish-Brazilian consortium created in November 1999 by Hispasat (the leading satellite telecommunications provider in the Iberian Peninsula), or Hispamar, invested nearly R$1.0 billion in the construction of the Amazonas I satellite, which was manufactured by Astrium (EADS Space Company). In December 2002, we entered into an agreement with Hispamar that granted and transferred to Hispamar the rights to exploit geostationary orbital position 61 W, C band, and we acquired a minority equity stake in Hispamar. The Amazonas I satellite was launched into geostationary orbit over the Americas and started to operate in November 2004. The Amazonas I satellite provides both C and Ku bands and on-board switching. The launch of the Amazonas I satellite has put Hispamar into direct competition for satellite services with StarOne S.A., a subsidiary of Embratel.

We lease transponders from:

- Hispamar with 754 MHz of capacity in the C band on the Amazonas I satellite to provide voice and data services through 351 remote switches covering 204 municipalities;
- Hispamar with 83 Mhz of capacity in the Ku band on the Amazonas I satellite to provide voice and data services to approximately 2,340 localities;
- Intelsat Satellite with 213 MHz of capacity in the C band on the IA@8 satellite to provide voice and data services between five existing gateways switches;
- Intelsat Satellite with 144 MHz of capacity in the C band on the IS-805 satellite and 648 MHz of capacity in the C band on the IS 10-02 satellite to transport voice and data signals from Manaus to Rio de Janeiro; and
- Intelsat Satellite with 72 MHz of capacity in the C band on the IS-905 satellite to transport voice and data signals from Macapá to Rio de Janeiro and Boa Vista to Rio de Janeiro.

In 2005, we started to operate a satellite platform operating in the Ku band that is comprised of a satellite transport solution with Digital Video Broadcast — Return Channel Satellite technology and a control solution through Next Generation Networking.

Mobile network

Our mobile networks are GPRS based networks. We offer GPRS/EDGE technology for data and 1,800/900 MHz for voice. We have GPRS coverage in 100% of the localities covered and EDGE, or Enhanced Data Rates for Global Evolution, in all capitals of the states in our service areas, other than Aracajú, Maceió, João Pessoa and Natal (located in the States of Sergipe, Alagoas, Paraíba and Rio Grande do Norte, respectively). Our mobile networks have unique data cores that are fully integrated with our fixed-line data networks.

As of December 31, 2008, our mobile network, consisting of 5,025 active radio base stations, covered 1,119 municipalities, or more than 81.9% of the urban population in Region I, and covered 152 municipalities in Region III, or 78.9% of the urban population in that region. As of December 31, 2008, BrT's mobile network, consisting of 2,874 active radio base stations, covered 1,015 municipalities, or 90.0% of the urban population in Region II.

With the acquisition of new radio frequencies and the authorization to provide 3G services in Region I, we started the implementation process for our new 3G network, which was present in 14 states in Region I as of December 31, 2008. As of December 31, 2008, we had 31,000 3G customers in Region I. This project is designed to provide the necessary capacity for up to 341,000 customers and includes the installation of 1,504 active radio base stations, Node-Bs and systems provided by Huawei and Nokia. This project also involves the connection of 15 3G control units and the expansion of our data and network transmission.

With the acquisition of new radio frequencies and the authorization to provide 3G services in Region II, BrT started the implementation process for its new 3G network. This project is designed to provide the necessary

capacity for up to 120,000 customers and includes the installation of 1,418 active radio base stations, Node-Bs and systems provided by Ericsson and Nokia. This project also involves the connection of 19 3G control units and the expansion of its data and network transmission.

We commenced offering 2G services in Region III in October 2008 and expect to commence offering 3G services in Region III in the second quarter of 2009. We currently offer 2G services in 38 municipalities within the metropolitan area of São Paulo and in 444 municipalities in the interior of the State of São Paulo. Upon completion of the implementation of our 3G network, we expect to offer 3G services in 38 municipalities of São Paulo's metropolitan area and in 61 municipalities in the interior of the State of São Paulo. Our 2G network in Region III initially had the capacity to serve up to 2.9 million mobile customers, and our 3G network in Region III is expected to initially have the capacity to serve up to 120,000 mobile customers.

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

Data transmission network

Broadband services

Our broadband network uses ADSL as a broadband access technology using our existing fixed-line networks with speeds of up to 8 Mbps (download) and 512 Kbps (upload). We are implementing DSLAMs/ Ethernet technology on a significant portion of our networks to support ADSL2+ technologies that allow us to offer higher speed services. BrT has implemented an address control and name resolution system for its IP networks with the objective of optimizing resources and improving the availability of internet access services.

We believe that we were one of the first telecommunications service providers in Latin America to implement Metro Ethernet technology for high-speed internet access. Metro Ethernet is a network that covers a metropolitan area to connect our subscribers to the internet. With the implementation of this technology, we are now able to provide IP TV, a television service that is based on broadband internet access. BrT is also deploying a Metro Ethernet network, as well as fiber optic networks based on GPON technology together with VDSL2 for fiber to the building.

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

Commercial data transmission services

Our Asynchronous Transfer Mode, or ATM, network, with its fully integrated management system, provides:

- frame relay data services (a data transmission service using fast protocols based on direct use of transmission lines) from 64 Kbps up to 34 Mbps;
- ATM data services supporting access rates from 2 Mbps to 622 Mbps; and
- aggregation network services for ADSL platforms.

These features allow our integrated ATM network to service each of the different types of data applications used by our customers. ATM is a technology that converts existing twisted-pair telephone lines into access paths for high-speed communications.

Call center

In 2007, BrT consolidated its call center structure by merging its 30 pre-existing sites into five sites (Goiânia, Campo Grande, Florianópolis, Brasília and Curitiba). BrT improved its customer relationship management system which integrates its systems and provides a database of information for each customer in order to provide better service and identify sales opportunities during each contact it has with its customers.

Competition

Our industry is highly competitive. The competitive environment is significantly affected by key trends, including technological and service convergence, market consolidation and combined service offerings by service providers. See "Management's Discussion and Analysis of Financial Condition and Results of Operations — Telemar — Principal factors affecting our financial condition and results of operations" and "Management's Discussion and Analysis of Financial Condition and Results of Operations — Brasil Telecom Participações — Principal factors affecting our financial condition and results of operations."

Local fixed-line services

In the local fixed-line telecommunications services market, competition is focused on corporate customers. In addition, competition from other telecommunications services has been increasing, particularly from mobile telecommunications services, which has led to traffic migration from fixed-line traffic to mobile traffic and the substitution of mobile services for fixed-line services, encouraged by offers of aggressively priced packages from some mobile telecommunications service providers. Finally, the decrease in interconnection rates has discouraged the construction of new fixed-line networks and has led to decreases in market prices for telecommunications services by enabling telecommunications service providers that use the local fixed-line networks of incumbent fixed-line providers to offer lower prices to their customers.

We are the leading provider of local fixed-line services in Region I with 13.9 million fixed lines in service as of December 31, 2008 and an estimated market share of 83.9% of the total fixed lines in service in this region as of December 31, 2008, according to our internal estimates. Our principal competitor in Region I for fixed-line services is Embratel, which has an estimated market share of 13.8% of the total fixed lines in service in this region as of December 31, 2008, according to our internal estimates.

BrT is the leading provider of local fixed-line services in Region II with 8.1 million fixed lines in service as of December 31, 2008 and an estimated market share of 85.0% of the total fixed lines in service in this region as of December 31, 2008, according to our internal estimates. Our principal competitors in Region II for fixed-line services are (1) GVT, which has an estimated market share of 10.2% of the total fixed lines in service in this region as of December 31, 2008, according to our internal estimates, and (2) Embratel, which has an estimated market share of 4.9% of the total fixed lines in service in this region as of December 31, 2008, according to our internal estimates.

Embratel provides local fixed-line services to residential customers through the cable network owned by its affiliate Net in the portions of Regions I and II where Net provides cable television service. As a result, Net is able to offer cable television, broadband and telephone services as a bundle at a very competitive price. Net has engaged in efforts to promote Embratel's fixed-line service by offering free local fixed line service to its customers for a period of one year. Because this promotion is ongoing, we are unable to evaluate the number of our fixed-line customers that are served by Embratel through Net that will cancel their subscriptions with us when the promotional period ends. We expect competition from Embratel to increase as the cable network of Net expands through internal growth and as a result of acquisitions, such as its recently completed acquisition of Big TV.

We also expect competition from Embratel and GVT to increase in certain cities, such as Rio de Janeiro, Belo Horizonte and Salvador, where they continue to expand their respective local fixed-line network.

TIM has entered the local fixed-line services market by offering fixed-line wireless services which, unlike traditional mobile services, only permit a subscriber to place and receive calls when in proximity to a single specified radio base station. These services allow TIM to offer fixed-line service without installing a network of fixed lines directly to the homes or businesses of their fixed-line customers.

We expect to continue to face competition from mobile services providers, which represent the main source of competition in the local fixed-line service market. As of December 31, 2008, there were 74 million mobile subscribers (including our mobile customers) in Region I, a 24.1% increase over December 31, 2007, and there were 39 million mobile subscribers (including BrT's mobile customers) in Region II, a 20.7% increase over December 31, 2007. The increase in the number of mobile users, in addition to reduced mobile services rates, is expected to continue to adversely affect the number of fixed-line subscribers and the volume of local fixed-line traffic. In addition, because mobile providers offer promotions and service plans that permit subscribers to make calls within the mobile provider's network at rates that are less than those charged for calls from a fixed-line telephone to a mobile telephone, we believe that we may be vulnerable to traffic migration as customers with both fixed-line and mobile telephones use their mobile devices to make calls to other mobile subscribers.

We believe that number portability, which was implemented in Brazil between August 2008 and March 2009, may negatively affect our local fixed-line business, because it may allow our customers to overcome their general resistance to changing their fixed-line telephone numbers and thereby allow our competitors to attract these customers.

We believe that major technological innovations, such as instant messaging services and VoIP, may impact local fixed-line traffic in the future. In Brazil, those services have been increasing in popularity, which could put further pressure on the local fixed-line telecommunications market.

Long-distance services

The long-distance services market is highly competitive. For the year ended December 31, 2008, based on internal data and publicly available information, we were the leader in long-distance services provided to customers in Region I and BrT was the leader in long-distance services provided to customers in Region II in terms of the volume of traffic from calls originated in these regions.

Our principal competitor for long-distance services originating on fixed-line telephones in Region I is Embratel, and our principal competitors for long-distance services originating on fixed-line telephones in Region II are Embratel and GVT. We compete for long-distance services originating on mobile telephones in Region I with Embratel, Telefónica, S.A. and TIM, and in Region II with Embratel, Telefónica, S.A., TIM and GVT.

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

In addition, the offering of plans by other mobile services providers that include free minutes for calls to other subscribers of those mobile services providers may adversely impact our revenues from mobile long-distance calls if our mobile customers migrate to our competitors to remain within the network of the people to whom they plan to place long-distance calls.

New technologies that serve as an alternative to traditional fixed-line long-distance telephone calls, such as VoIP, may start to capture part of long-distance traffic. However, in contrast to what has occurred in other countries such as the United States, we do not expect to compete with VoIP providers in the near term due to (1) the low level of broadband penetration in Brazil due to the population's relatively low per capita income, and (2) the expected adverse effect of the success of this technology on the long-distance call margins of Embratel, which is an affiliate of Net, the main service provider with the ability to offer alternatives through VoIP.

Mobile services

The mobile telecommunications services market in Brazil is characterized by intense competition among providers of mobile telecommunications services. According to IBGE, approximately 77% of the Brazilian population lived in areas with at least three mobile services providers in 2007. We expect the auction carried out by ANATEL in September 2007 for additional radio frequency spectrum for use by mobile services providers to lead to even greater competition. As a result of the grant of these new radio frequency licenses, each region in Brazil will have at least four mobile service competitors.

We compete primarily with the following mobile services providers:

- Vivo, which is a joint venture between Telefónica, S.A. and Portugal Telecom S.A. and markets its services under the brand name "Vivo." Vivo provides services throughout Brazil.
- TIM, which is a subsidiary of Telecom Italia S.p.A. and markets its services under the brand name "TIM." TIM provides services throughout Brazil.
- Telecom Americas Group, which is a subsidiary of América Móvil S.A.B. de C.V., an affiliate of Telmex, and markets its services under the brand name "Claro." Telecom Americas Group provides services throughout Brazil.

Of these competitors, Telecom Americas Group has been the most aggressive. Its strategy for gaining market share has included heavily subsidizing traffic and sales of mobile handsets. Vivo and TIM have been more conservative with respect to handset subsidies.

As of December 31, 2008, we had a market share of 30.4% of the total number of subscribers in Region I, followed by Vivo with 24.4%, TIM with 24.1% and Claro with 20.7%. According to information available from ANATEL, we captured 34.8% of all new mobile subscribers in Region I during 2008. As of December 31, 2008, BrT had a market share of 14.4% of the total number of subscribers in Region II, ranking behind Vivo with 32.8%, Claro with 27.7% and TIM with 24.9%. According to information available from ANATEL, BrT captured 20.1% of all new mobile subscribers in Region II during 2008. In October 2008, we launched our mobile services in Region III, which represents a new competitive environment for our company. In addition to enabling us to offer roaming services in São Paulo to our current subscribers in Region I, our entry into the Region III market offers us the opportunity to gain market share in one of the largest and most profitable mobile services markets in Brazil. Within three months of operations, as of December 31, 2008, we had 2.0 million mobile subscribers in this region.

We believe that as the third entrant in the mobile services market in Region I, the fourth entrant in the mobile services market in Region II, and the fourth entrant in the mobile services market in Region III, our mobile business will benefit from number portability, which was implemented in Brazil between August 2008 and March 2009, because it may allow us to overcome the general resistance of long-time users (usually high-value customers) to changing their mobile telephone numbers and thereby allow us to attract these customers from our competitors.

Data transmission services

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

Our principal competitors in the commercial data transmission services market are Embratel, GVT and Intelig. Because the commercial data transmission services market is significantly less regulated than the fixed-line, long-distance and mobile services markets and, therefore, presents fewer barriers to entry, this market is

subject to competition from a large number of competitors, including fixed-line telecommunications service providers and specialized services companies competing in this high-growth market and focused on large- and medium-sized business customers. Along with growth in traffic volume and increasing demand for broadband capacity, we expect significant price reductions in data transmission services as competitors expand their networks. We also anticipate a shift in competition towards value-added services provided over IP platforms.

Concessions, authorizations and licenses

Under the General Telecommunications Law and ANATEL regulations, the right to provide telecommunications services is granted either through a concession under the public regime or an authorization under the private regime. For additional details regarding the rights and obligations of service providers operating under the public regime and the private regime, see "— Regulation of the Brazilian telecommunications industry — Concessions and authorizations."

We operate under:

- 16 concessions that were granted to Telemar to provide local fixed-line services in Region I (except for 57 municipalities in the State of Minas Gerais), and 10 concessions that were granted to BrT to provide local fixed-line services in Region II (except for excluded areas in the States of Goiás, Mato Grosso do Sul and Paraná);
- 16 concessions that were granted to Telemar to provide domestic long-distance services in Region I (except for 57 municipalities in the State of Minas Gerais), and 10 concessions that were granted to BrT to provide domestic long-distance services in Region II (except for excluded areas in the States of Goiás, Mato Grosso do Sul and Paraná);
- authorizations that were granted to Oi to provide personal mobile services in Region I and Region III, and authorizations that were granted to Brasil Telecom Mobile to provide personal mobile services in Region II;
- radio frequency licenses that were granted to Oi to provide 3G mobile services in Region I and Region III (except for 23 municipalities in the interior of the State of São Paulo that includes the city of Franca and surrounding areas), and to Brasil Telecom Mobile to provide 3G mobile services in Region II;
- authorizations that were granted to Telemar to provide local fixed-line services and domestic long-distance services in Region II, Region III and the 57 municipalities in the State of Minas Gerais that are excluded from the concession area of Region I, and to BrT to provide local fixed-line services and domestic long-distance services in Region I, Region III and the areas in the States of Goiás, Mato Grosso do Sul and Paraná that are excluded from the concession area of Region II;
- authorizations that were granted to Telemar and BrT to provide international long-distance services originating from any location in Brazil;
- authorizations that were granted to Oi and BrT to provide Multimedia Communication Services (*Serviço de Comunicação Multimídia*) throughout Brazil; and
- an authorization that was granted to Oi to provide DTH satellite television services throughout Brazil.

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

Fixed-line services concession agreements

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

- expires on December 31, 2025;

- sets forth the parameters that govern adjustments to our rates for fixed-line services;
- requires us to comply with the network expansion obligations set forth in the General Plan on Universal Service Goals;
- requires us to comply with certain quality of service obligations set forth in these concession agreements as well as the quality of service obligations set forth in the General Plan on Quality Goals; and
- requires payment of biannual fees equal to 2.0% of the net operating revenues of each of Telemar and BrT that are derived from the provision of local fixed-line services (excluding taxes and social contributions) during the immediately preceding year.

For more information regarding the adjustment of our rates for fixed-line services, the General Plan on Universal Service Goals and the General Plan on Quality Goals, see "— Regulation of the Brazilian telecommunications industry — Regulation of fixed-line services."

These concession agreements required Telemar and BrT to render services in public telecommunications offices that serve as business centers for low-income populations. In April 2008, these concession agreements were amended to remove the obligation to construct new public telecommunications offices and replace it with obligations to provide (1) transmission lines connecting the fiber-optic internet backbones of Telemar and BrT to municipalities in their concession areas in which they did not provide internet service, which we refer to as backhaul, and (2) internet services in urban schools. Under these amendments, Telemar is obligated to set up backhaul in 2,800 municipalities and provide internet services to 31,700 urban schools in Region I, and BrT is obligated to set up backhaul in 452 municipalities and provide internet services to 15,099 urban schools in Region II. Telemar and BrT were each required to provide backhaul to 40% of these municipalities and internet services to 40% of these schools by December 12, 2008. However, our obligations to provide backhaul have been enjoined pending the outcome of a lawsuit seeking to classify the facilities that we construct to meet this obligation as property that is part of our concession and will therefore revert to the Brazilian government. Under the amendments, Telemar and BrT are required to provide backhaul to 80% of these municipalities and internet services to 80% of these schools by December 31, 2009 and all of these municipalities and schools by December 31, 2010.

These concession agreements provide that ANATEL may modify their terms in 2010, 2015 and 2020 and may revoke them prior to expiration under the circumstances described under "— Regulation of the Brazilian telecommunications industry — Regulation of fixed-line services — Termination of a concession." The modification right permits ANATEL to impose new terms and conditions in response to changes in technology, competition in the marketplace and domestic and international economic conditions. ANATEL is obligated to engage in public consultation in connection with each of these potential modifications.

Telemar and BrT are discussing modifications to these concession agreements with ANATEL, and ANATEL is expected to publish a public notice of the proposed modifications to these concession agreements in the second quarter of 2009. The final modifications will become effective on January 1, 2011.

Domestic long-distance services concession agreements

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

- expires on December 31, 2025;
- sets forth the parameters that govern adjustments to our rates for domestic long-distance services;
- requires us to comply with certain quality of service obligations set forth in these concession agreements as well as the quality of service obligations set forth in the General Plan on Quality Goals; and

- requires payment of biannual fees equal to 2.0% of the net operating revenues of each of Telemar and BrT that are derived from the provision of domestic long-distance services (excluding taxes and social contributions) during the immediately preceding year.

For more information regarding the adjustment of our rates for fixed-line services, the General Plan on Universal Service Goals and the General Plan on Quality Goals, see "— Regulation of the Brazilian telecommunications industry — Regulation of fixed-line services."

These concession agreements provide that ANATEL may modify their terms in 2010, 2015 and 2020 and may revoke them prior to expiration under the circumstances described under "— Regulation of the Brazilian telecommunications industry — Regulation of fixed-line services — Termination of a concession." The modification right permits ANATEL to impose new terms and conditions in response to changes in technology, competition in the marketplace and domestic and international economic conditions. ANATEL is obligated to engage in public consultation in connection with each of these potential modifications.

Telemar and BrT are discussing modifications to these concession agreements with ANATEL, and ANATEL is expected to publish a public notice of the proposed modifications to these concession agreements in the second quarter of March 2009. The final modifications will become effective on January 1, 2011.

Personal mobile services authorization agreements and radio frequency spectrum licenses

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

We hold 11 licenses to use radio frequency spectrum in specific geographic regions, including licenses granted to Brasil Telecom Mobile. These licenses grant us permission to use the applicable radio spectrum for 15 years from the date of grant and are renewable for additional 15-year terms. We will be required to pay an amount equal to 2.0% of the prior year's net operating revenue from personal mobile services upon renewal of the license and on every second anniversary of the renewal. Our radio frequency spectrum licenses expire between 2017 and 2022.

Our authorization agreements are subject to network scope and service performance obligations set forth in these authorization agreements. Under these obligations, as of the date of this offering memorandum, we are required to:

- service all cities in Region I with a population in excess of 100,000;
- service all cities in Region II with a population in excess of 200,000;
- service all cities in Region II with a population in excess of 100,000 by May 3, 2009;
- service 50% of the urban area of the state capital of Region III, and at least 50% of the municipalities in Region III with a population in excess of 500,000 by April 30, 2009;
- service 80% of the urban area of the state capital of Region III and each municipality in Region III with a population in excess of 500,000 by April 30, 2010;
- service 50% of the urban area of at least 50% of the municipalities in Region III with a population in excess of 200,000 by April 30, 2011;
- service 80% of the urban area of all municipalities in Region III with a population in excess of 200,000 by April 30, 2012; and
- service 80% of the urban area of all municipalities in Region III with a population in excess of 100,000 by April 30, 2013.

A municipality is considered "serviced" when the covered service area contains at least 80% of the urban area in the municipality. Our failure to meet these targets may result in the imposition of penalties established in ANATEL regulations and, in extreme circumstances, in termination of our personal mobile services authorizations by ANATEL.

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

3G radio frequency licenses

We have been granted radio frequency licenses by ANATEL that govern the use by Oi of the frequencies necessary to provide 3G services in Regions I and III, and by Brasil Telecom Mobile of the frequencies necessary to provide 3G services in Region II. Each of these licenses grants us permission to use the applicable radio spectrum for 15 years from the date of grant and is renewable for additional 15-year terms. We will be required to pay an amount equal to 2.0% of the prior year's net operating revenue from personal mobile services upon renewal of the license and on every second anniversary of the renewal. These licenses expire in 2023.

These radio frequency licenses include network scope obligations. Under these obligations, we are required to provide the following services in Regions I, II and III:

- Region I:
  - service 290 municipalities that are currently without mobile service with either 2G or 3G mobile telecommunications services, with half of those municipalities serviced by April 30, 2009 and the remaining municipalities serviced by April 30, 2010;
  - provide 3G service to all state capitals and municipalities with a population in excess of 500,000 by April 30, 2010;
  - provide 3G service to all municipalities with a population in excess of 200,000 by April 30, 2012;
  - provide 3G service to all municipalities with a population in excess of 30,000 by April 30, 2013; and
  - provide 3G service to 370 municipalities with a population of less than 30,000 by April 30, 2016.
- Region II:
  - service 168 municipalities that are currently without mobile service with either 2G or 3G mobile telecommunications services, with half of those municipalities serviced by April 30, 2009 and the remaining municipalities serviced by April 30, 2010;
  - provide 3G service to all state capitals, the Federal District and all municipalities with a population in excess of 500,000 by April 30, 2010;
  - provide 3G service to all municipalities with a population in excess of 200,000 by April 30, 2012;
  - provide 3G service to all municipalities with a population in excess of 100,000 and to 50% of the municipalities with a population in excess of 30,000 and less than 100,000 by April 30, 2013; and
  - provide 3G service to 60% of the municipalities with a population in excess of 30,000 by April 30, 2016; and
  - provide 3G service to 242 municipalities with a population of less than 30,000 by April 30, 2016.
- Region III:
  - service the one municipality that is currently without mobile service with either 2G or 3G mobile telecommunications services by April 30, 2009;

- provide 3G service to the state capital and all municipalities with a population in excess of 500,000 by April 30, 2010;
- provide 3G service to all municipalities with a population in excess of 200,000 by April 30, 2012;
- provide 3G service to all municipalities with a population in excess of 30,000 by April 30, 2013; and
- provide 3G service to 69 municipalities with a population of less than 30,000 by April 30, 2014.

A city is considered "serviced" when the covered service area contains at least 80% of the urban area in the city. Our failure to meet these targets may result in the imposition of penalties established in ANATEL regulations and, in extreme circumstances, in termination of our personal mobile services authorizations by ANATEL.

Fixed-line services authorization agreements

We have entered into authorization agreements with ANATEL that govern Telemar's authorizations to provide local fixed-line services in Regions II and III and the 57 municipalities in the State of Minas Gerais that are excluded from the concession area of Region I, and BrT's authorizations to provide local fixed-line services in Regions I and III and the areas in the States of Goiás, Mato Grosso do Sul and Paraná that are excluded from the concession area of Region II. These authorizations do not have termination dates and require us to comply with certain quality of service obligations set forth in the General Plan on Quality Goals.

We have entered into authorization agreements with ANATEL that govern Telemar's authorizations to provide domestic long-distance services originating from Regions II and III and the 57 municipalities in the State of Minas Gerais that are excluded from the concession area of Region I, and BrT's authorizations to provide domestic long-distance services originating from Regions I and III and the areas in the States of Goiás, Mato Grosso do Sul and Paraná that are excluded from the concession area of Region II. These authorizations do not have termination dates and require us to comply with certain quality of service obligations set forth in the General Plan on Quality Goals.

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

Multimedia communication services authorization agreements

In May 2003, ANATEL granted a Multimedia Communication Services authorization to BrT together with the related spectrum license, permitting BrT to provide high speed data service throughout Brazil.

In February 2006, ANATEL granted a Multimedia Communication Services authorization to Oi, together with the related spectrum license, permitting Oi to provide high speed data service throughout Brazil.

DTH authorization agreement

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

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

Capital expenditures and investments

Our capital expenditures on property, plant and equipment and intangible assets were R$4,620 million in 2008, R$2,399 million in 2007 and R$2,327 million in 2006. The following table sets forth our capital expenditures on plant expansion and modernization for the periods indicated, together with a reconciliation of capital expenditures to amounts shown in the company's cash flow statements reflecting adjustments required under Law 11,638/07.

	Year Ended December 31,		
	2006	2007	2008
	(in millions of R$)		
Mobile network and systems	680	568	2,520
Data transmission equipment	573	682	849
Voice transmission	582	515	767
Telecommunications services infrastructure	372	398	249
Information technology services	38	77	64
Other	82	159	171
Total capital expenditures	2,327	2,399	4,620
Accounting adjustment pursuant to Law No. 11,638/07	—	(18)	389
Capital Expenditures according to the cash flow statement	2,327	2,381	5,009

Our capital expenditures projects during 2006 through 2008 included the following:

- We implemented the systems necessary for us to comply with ANATEL's number portability requirements. This project was commenced in September 2007 and was completed in March 2009. The total cost of this project was R$535 million.
- We implemented new hubs to operate satellite transmission services between Manaus and Rio de Janeiro through the Intelsat IS 10-02 satellite. This project provides 648 MHz of additional satellite transmission capacity to enable us to meet our universal service obligations in the north of Brazil. This project was completed in March 2009 at a total cost of R$23.9 million.

Additionally, our investments in interests in other companies were R$4 million in 2008, R$12 million in 2007 and R$46 million in 2006.

Acquisition of Paggo

On December 17, 2007, we purchased all of the shares issued by Paggo for the total amount of R$75.0 million, which we paid in a single installment on February 26, 2008.

2G Expansion in Region I

In December 2007, we acquired additional radio frequency licenses in 12 states of Region I in an auction conducted by ANATEL, which allows us to expand our 2G services in this region. The total cost of these licenses was R$10.5 million. In connection with the acquisition of these licenses, we have undertaken an expansion of our mobile network in Region I. This project includes the installation of 125 radio base stations and the related switching equipment, traffic transportation infrastructure and control systems and is designed to permit us to provide mobile services to as many as four million additional mobile services subscribers. This project was completed in December 2008 at a total cost of R$572.6 million.

Expansion of 2G services into Region III

In December 2007, we acquired an authorization to provide 2G mobile services in Region III, comprising the State of São Paulo, and the related radio frequency licenses in an auction conducted by ANATEL. This authorization has allowed us to commence providing 2G services in this region. The total cost of this authorization and the related licenses was R$120.6 million. We have undertaken a project to develop our mobile services network in Region III which we expect will allow us to offer 2G service in 38 municipalities within the metropolitan area of São Paulo and in 444 municipalities in the interior of the State of São Paulo. This project includes the installation of 1,907 radio base stations and the related switching equipment, traffic transportation infrastructure and control systems and is designed to permit us to provide mobile services as many as 2.9 million mobile services subscribers in Region III. This project was completed in February 2009 at a total cost of R$646.2 million.

Commencement of 3G services in Region I and III

In December 2007, we acquired radio frequency licenses in an auction conducted by ANATEL to provide 3G mobile services in six of the nine regions into which Brazil has been divided by ANATEL for purposes of providing 3G services. These licenses have allowed us to commence providing 3G services throughout Regions I and III. The total cost of these licenses was R$867.0 million. We have undertaken a project to develop our 3G network in Regions I and III. This project is designed to provide the necessary capacity for up to 341,000 customers and includes the installation of 1,504 active radio base stations, Node-Bs and systems provided by Huawei and Nokia, the connection of 14 3G control units and the expansion of our data and network transmission. We expect that this project will allow us to offer 3G services in 38 municipalities of São Paulo's metropolitan area, 61 municipalities in the interior of the State of São Paulo and 53 municipalities in Region I. By providing 3G services, we believe that we will strengthen our bundling strategy in Region I and ensure our ability to operate in the State of São Paulo with a range of services that will meet the requirements of all consumer segments of that state. This project was completed in Region I in September 2008 and is subject to completion in Region III at a total estimated cost of R$296.1 million for both regions.

Acquisition of Amazônia Celular

In April 2008, we purchased 1,292,679 common shares and 3,715 preferred shares of TNCP, representing 51.9% of the common shares, 0.1% of the preferred shares and 19.3% of the total shares issued by TNCP, for an aggregate purchase price of R$128.6 million. TNCP is the controlling shareholder of Amazônia Celular, which is a mobile services provider in Area 8 of Region I, consisting of the Brazilian states of Amazonas, Roraima, Amapá, Pará and Maranhão. In addition, we purchased certain rights for the subscription of new shares to be issued by TNCP, as set forth in CVM Ruling No. 319/1999, for an aggregate purchase price of R$22.6 million.

We purchased additional common and preferred shares of TNCP and Amazônia Celular through tender offers that concluded in August 2008, October 2008 and January 2009, and the exercise by the shareholders of TNCP and Amazônia Celular of related shareholder put rights. We paid an aggregate amount of R$279.2 million for these shares and, as a result of our acquisition of these shares, we owned an aggregate of 98.7% of the outstanding share capital of TNCP, including 99.0% of the outstanding common shares of TNCP. Through this ownership interest in TNCP, together with other shares of Amazônia Celular that we owned directly, we owned an aggregate of 92.8% of the outstanding share capital of Amazônia Celular, including 93.3% of the outstanding common shares of Amazônia Celular.

Acquisition of BrT

On April 25, 2008, each of the shareholders of Invitel and Credit Suisse, as agent on behalf of Telemar, acting as principal, entered into the Share Purchase Agreement, under which Credit Suisse agreed to purchase 100.00% of the outstanding shares of Invitel and certain shares of BrT Part owned by the shareholders of Invitel.

As of December 31, 2008, Invitel owned all of the outstanding shares of Solpart, which owned 19.01% of the outstanding share capital, including 51.99% of the voting share capital, of BrT Part, which, in turn, owned 67.26% of the outstanding share capital, including 99.09% of the voting share capital, of BrT.

Between April 25, 2008 and June 17, 2008, we acquired (1) 55,819,400 preferred shares of BrT Part, representing 24.3% of the outstanding preferred shares of BrT Part and 15.4% of the share capital of BrT Part, in transactions conducted over the BOVESPA, and (2) 45,590,200 preferred shares of BrT, representing 15.3% of the outstanding preferred shares of BrT and 8.3% of the share capital of BrT, in transactions conducted over the BOVESPA. We paid an aggregate amount of R$2,323.0 million for these shares.

We purchased additional preferred shares of BrT and BrT Part through tender offers that concluded in July 2008. In these tender offers, we acquired (1) 20,826,442 preferred shares of BrT Part, representing 9.1% of the outstanding preferred shares of BrT Part and 5.7% of the outstanding share capital of BrT Part, for an aggregate purchase price of R$634.6 million, and (2) 13,366,365 preferred shares of BrT, representing 4.5% of the outstanding preferred shares of BrT and 2.4% of the outstanding share capital of BrT. We paid an aggregate amount of R$947.6 million for these shares.

On January 8, 2009, we acquired all of the outstanding shares of Invitel and 12,185,836 common shares of BrT Part for an aggregate purchase price of R$5,371.1 million.

Following this acquisition, we own indirectly an aggregate of 40.1% of the outstanding share capital of BrT Part, including 61.2% of the outstanding common shares of BrT Part. Through this ownership interest in BrT Part, together with other shares of BrT we own indirectly, we own an aggregate of 37.7% of the outstanding share capital of BrT, including 51.5% of the outstanding common shares of BrT.

On February 9, 2009, we applied to register with the CVM offers to purchase any and all common shares of BrT Part and BrT held by public shareholders. We are required to make the tender offer for the common shares of BrT Part at a price equivalent to at least 80% of the price that we paid under the Share Purchase Agreement for common shares of BrT Part, and we are required to make the tender offer for the common shares of BrT at a price equivalent to at least 80% of the price per share of BrT implied by the price that we paid under the Share Purchase Agreement for common shares of BrT Part. Assuming that all holders of common shares of BrT Part and BrT tender their shares in these offers, we expect the total cost of these offers will be R$3,300 million.

Integration of mobile networks

We plan to undertake a project to upgrade the core mobile network of Brasil Telecom Mobile, with the primary goal of fully integrating Brasil Telecom Mobile's network into the Oi mobile network. The total cost for this project, which is expected to be significant, has not yet been determined.

Enhancement of mobile networks

We are undertaking a project to upgrade a portion of our mobile networks to enable us to increase the capacity of these networks. We plan to replace 3,060 of Brasil Telecom Mobile's radio base stations in Region II and 949 radio base stations in northern and northeastern Brazil that were operated by Amazônia Celular, all of which previously employed Alcatel technology, with Huawei base stations. We expect the replacement of these radio base stations in northern and northeastern Brazil to be completed by February 2010 and the replacement of radio base stations in Region II to be completed by May 2010. The total cost of this project is expected to be approximately R$300 million.

2009 capital expenditure budget

Our 2009 capital expenditure budget totals approximately R$5.0 billion, of which R$2.6 billion will be applied in Region I, R$2.0 billion will be applied in Region II and the remaining will be applied in connection with our entrance into Region III and implementation of 3G. We plan to finance such expenditures through operating cash flows and long-term financings. From this total, we have budgeted 24% of our 2009 capital expenditure budget to the mobile telephone services business, and 63% to the fixed-line business, which includes the capital expenditures that will be necessary in order for us to meet our regulatory targets.

Research and development

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

As part of the privatization process of Telebrás, the newly formed telecommunications service providers, including our company and BrT, contributed to the Foundation for Research and Development of Telecommunications (*Fundação Centro de Pesquisa e Desenvolvimento em Telecomunicações*), or Foundation CPqD, which is a research and development center formerly operated by Telebrás that develops telecommunications technology to be applied in Brazil.

Our current agreement with Foundation CPqD provides for Foundation CPqD's development of software and information technology services. We made disbursements to Foundation CPqD of approximately R$17.4 million in each of 2006, 2007 and 2008 for software development related to billing systems, anti-fraud systems for public phones and management of network maintenance workforce. BrT's current agreements with Foundation CPqD provide for access to telecommunications software developed by Foundation CPqD and technological services provided by Foundation CPqD, including equipment testing, consulting and training services.

Since 2006, BrT has performed research in cooperation with equipment and systems suppliers designed to develop new technologies and services. In 2007, BrT modified its "Único" service to include Wi-Fi access and GSM seamless integration. As a result, we believe that BrT is the first Brazilian carrier to launch services that use next generation network architecture.

BrT has developed a technology laboratory that includes space for equipment test and assembly. This laboratory performs a variety of functions, such as operation support systems, business support systems and information security. BrT conducts trials of technologies from different vendors in this laboratory to evaluate these technologies for deployment. BrT's costs associated with this laboratory were R$5.3 million in 2008.

BrT participates in telecommunications standards bodies, technical associations and committee forums such as the European Telecommunication Standards Institute (ETSI), the Telecommunication and Internet Services and Protocols for Advanced Networking (TISPAN), the Third Generation Partnership Project (3GPP), and the Fixed Mobile Convergence Alliance (FMCA) in order to contribute and gather expertise in globally applicable technical specifications, technical reports and telecommunications standards.

Social projects — Oi Future

Oi Future is the non-profit institution that organizes our social responsibility activities, including social projects that foster education, technology (games, internet, network and technology language), computing, sports and culture. The aim of Oi Future is to contribute to an improved society, using new information technology and communication as tools to promote social transformation and human development.

Approximately four million people from the 16 states in Region I benefit from these programs, including our programs called *Tonomundo, Geração Oi, Oi Conecta, Oi Kabum!* Schools of Arts and Technology, and the cultural spaces Oi Future in the cities of Rio de Janeiro and Belo Horizonte. Additionally, the Oi Future Institute supports social and cultural initiatives of other organizations, such as the project Novos Brasis (New Brazils) and the management of Program Oi of Cultural Sponsorship, following the same ethical standards that guide the Oi Future Institute.

Property, plant and equipment

Our principal properties, owned and leased, are located in Regions I and II. As of December 31, 2008, we owned 4,890 properties, with a total of 1.6 million square meters of built area, of which 96% were operational sites, with a total of approximately 852,000 square meters occupied by equipment. As of that date, BrT owned 3,155 properties.

As of December 31, 2008, we also leased 8,526 operational properties from third parties, of which 4,778 were related to our fixed-line telephone services and 3,738 were related to our mobile services. As of that date, BrT leased 3,625 operational properties from third parties.

As of December 31, 2008, we had been granted right of use privileges (*comodato* or *cessão de uso*) for 3,753 properties owned by third parties for which we are not required to make any lease payments.

At December 31, 2008, the net book value of our property, plant and equipment was R$12,831 million. As of that date, the net book value of BrT's property, plant and equipment was R$5,902.1 million.

Our main equipment consists of transmission equipment, trunking and switching stations (including local, tandem and transit telephone exchanges), metallic and fiber-optic cable networks and lines, underground ducts, posts and towers, data communication equipment, network systems and infrastructure (including alternating and direct current supply equipment) and motor-generator groups.

Buildings, land and leasehold improvements represented 9% of the net book value of our property, plant and equipment; underground ducts, post and towers, cables and lines represented 29%; plant and equipment related to trunking and switching stations represented 12%; transmission equipment represented 32%; construction in progress represented 7%; and other fixed assets represented 11%.

Buildings represented 6.3% of the net book value of BrT's property, plant and equipment; underground ducts, post and towers represented 20.0% of the net book value; plant and equipment related to switching stations represented 4.7%; transmission equipment represented 44.2%; construction in progress represented 17.1%; and other fixed assets represented 7.8%.

All property, plant and equipment that are essential in providing the services described in our concession agreements are considered "reversible assets," which means that, should our concession agreements expire or terminate without being renewed, these assets will automatically revert to ANATEL. There are no other encumbrances that may affect the utilization of our property, plant and equipment. For more details, see note 16 to our consolidated financial statements at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008 and note 27 to the audited consolidated financial statements of BrT Part at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008.

Intellectual property

We believe the trademarks that identify us and our businesses are important for us, and as a result, we have taken steps to protect them. In the first half of 2006, we engaged an international advisory company and, after conducting a comprehensive survey, decided to implement a project for the unification of our activities under the

Oi brand. This project was aimed at reinforcing the concept of convergence of services, improving the practices shared among our controlled companies, as well as facilitating the perception of the group's financial soundness by our customers. The project to unify our activities under the Oi brand has been fully implemented.

We have 877 trademarks registered with the INPI along with 1,145 pending registration requests. Our main trademarks, Oi and BrT, are registered with the INPI in several classes, which allows us to use these trademarks in a variety of markets in which we operate, including our fixed-line, mobile and broadband services. Among the various trademarks we have registered with the INPI, nine are being contested by third parties. Additionally, of the 1,145 pending registration requests, 71 have been challenged by third parties.

We have 2,632 domain names registered with the Center of Information and Coordination of Dot Br –NIC. Br, an agency responsible for registering domain names in Brazil. The information included on our websites or that might be accessed through our websites is not included in this offering memorandum and is not incorporated into this offering memorandum by reference.

We have filed seven patent applications with the INPI, including four patent applications filed by BrT Mobile. Requests for technical examination have been submitted to the INPI for all of these patent applications. Once examination is concluded, a decision accepting or rejecting the application will be issued. If granted, the patent will have a term of 20 years from the date of filing and no less than ten years from the date the application is granted.

Employees

As of December 31, 2008, we had a total of 10,982 employees. All of our employees are employed on a full-time basis, divided into the following functions: plant operation, maintenance, expansion and modernization, sales and marketing, administrative support, and corporate management, budget and finance.

The table below sets forth our breakdown of employees by main category of activity and geographic location as of the dates indicated:

	As of December 31,		
	2006	2007	2008
Number of employees by category of activity:			
Plant operation, maintenance, expansion and modernization	4,158	6,435	6,684
Sales and marketing	1,833	1,765	2,403
Administrative support	818	825	923
Corporate management, budget and finance	814	911	972
Total	7,623	9,936	10,982
Number of employees by geographic location:			
Rio de Janeiro	3,733	6,000	6,760
Regional Minas:			
Minas Gerais	1,492	1,416	1,185
Espírito Santo	156	144	140
Regional Bahia:			
Alagoas	71	74	70
Sergipe	60	58	57
Bahia	451	447	428
Regional Pernambuco:			
Rio Grande do Norte	102	98	97
Paraíba	106	107	107
Pernambuco	335	336	327
Regional Ceará:			
Amazonas	91	96	146
Roraima	19	19	31
Pará	186	199	367
Amapá	17	19	36
Maranhão	113	117	161
Piauí	83	88	83
Ceará	325	318	308
São Paulo	233	321	588
Porto Alegre	3	1	1
Brasília	41	71	84
Paraná	8	7	6
Total	7,623	9,936	10,982

As of December 31, 2008, BrT Part had a total of 20,541 employees. All of BrT Part's employees are employed on a full-time basis, divided into the following functions: network operations, sales and marketing, information technology, call center operations, support areas and authorized agents.

The table below sets forth BrT Part's breakdown of employees by main category of activity and geographic location as of the dates indicated:

	As of December 31,		
	2006	2007	2008
Number of employees by category of activity:			
Network operations	1,978	2,036	1,830
Sales and marketing	2,069	2,095	2,141
Information technology	358	304	332
Call center operations	104	10,860	14,064
Support areas	1,208	1,309	1,434
Authorized agents	118	165	650
Total	5,835	16,769	20,451
Number of employees by geographic location:			
Goiás	338	4,138	6,779
Paraná	662	4,814	5,273
Federal District	2,129	2,175	2,377
Santa Catarina	804	1,997	2,107
Mato Gross do Sul	220	1,885	2,088
Rio Grande do Sul	687	685	682
São Paulo	463	527	587
Mato Grosso	227	229	226
Rondônia	149	152	156
Tocantins	55	56	57
Acre	41	42	43
Rio de Janeiro	34	39	42
Minas Gerais	7	7	8
Ceará	2	2	2
United States, Venezuela and the Bermuda Islands	17	21	24
Total	5,835	16,769	20,541

We negotiate separate collective bargaining agreements with the local unions in each of the states in Region I for Telemar and each of its subsidiaries operating in such states and in each of the states in Region II for Brasil Telecom and each of its subsidiaries operating in such states. New collective bargaining agreements with these unions are negotiated every year. We maintain good relations with each of the unions representing our employees. As of December 31, 2008, approximately 18% of our employees were members of state labor unions associated either with the National Federation of Telecommunications Workers (*Federação Nacional dos Trabalhadores em Telecomunicações*), or Fenattel, or with the Interstate Federation of Telecommunications Workers (*Federação Interestadual dos Trabalhadores em Telecomunicações*), or Fittel. As of December 31, 2008, approximately 47.2% of BrT's employees were members of state labor unions associated either with Fenattel or Fittel. Some employees in particular job categories are affiliated with other unions specific to such categories. We have never experienced a strike that had a material effect on our operations.

Employee benefits

Pension benefit plans

Sistel plan

Sistel is a private pension fund created by Telebrás in November 1977 to supplement the benefits provided by the federal government to employees of the former Telebrás System. Since the privatization of Telebrás, Sistel

has been sponsored by the fixed-line telecommunications companies that resulted from the privatization of Telebrás, including TNL and BrT Part. Sistel is self-funded and no longer admits new members. Although we no longer make contributions to Sistel, we are jointly and severally responsible, along with other fixed-line telecommunications companies, for 100% of any insufficiency in payments owed to members of the Sistel Benefits Plan (*Plano de Benefícios da Sistel*), or PBS-A social security plan. As at December 31, 2008, the PBS-A had R$6,828 million of plan assets and the Medical Assistance Plan to the Retired (*Plano de Assistência Médica ao Aposentado*, or PAMA), a health care plan managed by Sistel, had R$614.3 million of assets.

PBS Telemar Plan

PBS Telemar was derived from the restructuring of Sistel and has the same characteristics as the Sistel benefit plan. Since the creation of the TelemarPrev plan in September 2000, the PBS Telemar no longer admits new members. At that time, 96% of the active members migrated from PBS Telemar to the TelemarPrev plan described below. PBS Telemar provides monthly pensions to retired employees who participate in PBS Telemar, as well as medical care on a cost-shared basis. We are responsible for any deficits incurred at PBS Telemar according to the existing proportion of the contributions we make to this plan. As of December 31, 2008, PBS Telemar had R$277 million of plan assets.

TelemarPrev Plan

In September 2000, we began sponsoring TelemarPrev. Members of TelemarPrev have two categories of benefits: (1) risk benefits, which are funded according to the defined benefit method; and (2) programmable benefits, which are funded according to the defined contribution method. We are responsible for any deficits incurred at TelemarPrev according to the existing proportion of the contributions we make to this plan. As of December 31, 2008 TelemarPrev had R$3,164 million of plan assets.

Fundação Atlântico de Seguridade Social

In 2004, we established Fundação Atlântico de Seguridade Social, or FASS, a private social security fund manager. FASS has approximately 20 thousand members who either benefit from or contribute to the TelemarPrev or PBS Telemar plan. As of December 31, 2008, FASS had R$3,445 million in assets under management.

Fundação 14 (TCSPREV Plan)

In 2000, BrT began sponsoring the TCSPREV Plan, a private pension plan offered to employees that participated in the Sistel Plan and new employees who were employed after the privatization of the Telebrás System. Members of the TCSPREV Plan have two categories of benefits: (1) risk benefits, which are funded according to the defined benefit method; and (2) programmable benefits, which are funded according to the defined contribution method. BrT is responsible for any deficits incurred at the TCSPREV Plan according to the existing proportion of the contributions it makes to this plan. BrT also provides a health assistance plan to retired employees. As of December 31, 2008, the TCSPREV Plan had R$822.8 million of plan assets.

Fundação BrTPREV Plan

In 2000, as a result of BrT's acquisition of CRT S.A., BrT assumed responsibility for retirement benefits to CRT's employees. In October 2002, 96% of the CRT employees and retirees migrated to the BrTPREV Plan. As of December 31, 2008, the BrTPREV Plan had R$855.8 million of plan assets. The BrTPREV Plan has an existing deficit that is being amortized over 20 years. Since February 2003, BrT has been making additional monthly contributions to the BrTPREV Plan to reduce this deficit, which totaled R$753.3 million as of December 31, 2008. During 2008, BrT contributed R$100.2 million to the BrTPREV Plan, not including the additional monthly contributions.

Medical, dental and employee assistance benefits

We provide our employees with medical and dental assistance, pharmacy and prescription drug assistance, group life insurance and meal, food and transportation assistance. We and our employees cover the costs of these benefits on a shared basis. In 2008, we contributed R$31 million to the medical and dental assistance and medicine plans, R$39 million for the Worker's Food Program (*Programa de Alimentação do Trabalhador*), or PAT, and R$10 million to the other benefits programs. In 2008, BrT contributed R$25.7 million to the medical and dental assistance and medicine plans, R$46.6 million for the PAT, and R$22.3 million to the other benefits programs.

Profit sharing plans

In 1999, we implemented a profit sharing plan as an incentive for employees to pursue our goals and to align employees' interests with those of our shareholders. Profit sharing occurs if economic value-added targets and other targets defined annually by our board of directors are achieved. In 2006 and 2007, we distributed R$15.9 million and R$76.3 million, respectively, under our profit sharing plan to an aggregate of 6,690 and 7,961 employees, respectively. As at the date of this offering memorandum, we have not yet made any distributions under our profit sharing plan for 2008.

BrT's collective bargaining agreements with several labor unions require BrT to pay bonuses to employees who reach certain operational targets. For 2008, BrT has provisioned R$99.4 million to be distributed in bonuses.

Education and training

We contribute to the professional qualification of our employees by offering training for the development of organizational and technical skills. Approximately 518,000 hours of training were offered in 2008. In order to meet the demand for technical training, we offered 136,467 hours of training in equipment, technologies and specific knowledge in the engineering, maintenance, operations and technology areas in 2008.

In 2008, the Program of MBA Scholarships provided 152 employees from all over Brazil with scholarships to improve their technical and managerial performance at our company. For those employees without a bachelor's degree, we designed the Program of Undergraduate Scholarships. In 2008, we provided 121 employees from all over Brazil with scholarships. In 2008, approximately R$22.5 million was invested in the qualification and training of our employees.

BrT also offers educational programs and training opportunities to its employees.

Insurance

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

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

We believe that our current insurance coverage is suitable to our operations. For more details on our insurance policies, see note 29 to our consolidated financial statements at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008 and note 27 to the audited consolidated financial statements of BrT Part at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008.

Regulation of the Brazilian telecommunications industry

Overview

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

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

Concessions and authorizations

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

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

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

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

Regulation of fixed-line services

General policies for the regulation of the fixed-line telecommunications sector

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

- universal access to telecommunications services;
- stimulation of employment and development of the Brazilian telecommunications sector;
- promotion of competition and adoption of rate readjustment policies that take into account Brazilian socioeconomic considerations; and
- the financial equilibrium of existing concession agreements.

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

A number of bills affecting telecommunications policy have been submitted to the Brazilian Congress with an aim to make telecommunications services more accessible to Brazil's low-income population. These bills have proposed to: (1) eliminate the monthly subscription fee *(assinatura mensal)* that compensates telecommunications companies for extending and maintaining fixed-line telecommunications services for their customers; and (2) impose inexpensive fixed-line telephone plans *(telefone social)* that telecommunications companies would be required to provide to certain eligible low-income residential customers. If approved, we expect that these types of proposals will adversely affect the overall margin of telecommunications providers, including us. For a discussion of the legal and regulatory risks associated with our business, see "Risk Factors — Risks relating to our company and the Brazilian telecommunications industry — Our industry is highly regulated. Changes in laws and regulations may adversely impact our business."

Private regime authorizations

With the goal of introducing competition in fixed-line telephone services in Brazil, the federal government granted four private-regime authorizations in 1999 to permit fixed-line service providers to compete with the incumbent fixed-line concessionaires. Three of these authorizations were granted to providers of local and intraregional long-distance services in the three fixed-line service regions. Embratel currently holds two of these authorizations, which allows it to provide local fixed-line services in Regions I and III, and GVT holds the other authorization, which allows it to provide local fixed-line services in Region II. The fourth fixed-line authorization, to provide domestic and international long-distance services throughout Brazil, is currently held by Intelig. Since 2002, the number of authorizations to provide fixed-line services that the federal government may issue is unlimited.

Public regime concessions

Each of the public regime service providers operated under a concession agreement that expired at the end of 2005. Each of these providers entered into new concession agreements in December 2005 that extended their concessions for an additional 20-year period expiring in December 2025. Under these new concession agreements, each of the public regime service providers are required to comply with the provisions of (1) the General Plan on Universal Service Goals (*Plano Geral de Metas de Universalização*) that was adopted by ANATEL in June 2003, (2) the General Plan on Quality Goals (*Plano Geral de Metas de Qualidade*) that was adopted by ANATEL in June 2003, and (3) the General Plan on Competition Targets (*Plano Geral de Metas de Competição*), which has not yet been adopted by ANATEL.

The concession agreements provide that ANATEL may modify their terms in 2010, 2015 and 2020 and may revoke them prior to expiration under the circumstances described below under "— Termination of a concession." The modification right permits ANATEL to impose new terms and conditions in response to changes in technology, competition in the marketplace and domestic and international economic conditions. ANATEL is obligated to engage in public consultation in connection with each of these potential modifications.

Rate regulation

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

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

Under the concession agreements entered into in 2005, a new calculation method for Factor X was adopted. In 2006 and 2007, Factor X, which was discounted from the IST, was equal to 50% of the increase in a public regime provider's productivity. Beginning in 2008, ANATEL has calculated the sector's weighted average productivity rate. Currently, Factor X is equal to (1) 50% of the increase in the weighted average productivity rate of public regime providers, plus (2) a factor calculated by ANATEL that is designed to reflect cost optimization targets for the telecommunications industry as a whole. If the weighted average productivity rate is negative, ANATEL will not allow the annual adjustment to be increased by more than the IST.

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

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

Prior to January 2006, calls were measured and charged in terms of pulses, consisting of a single charge per call and an additional charge for each four-minute interval of usage. The concession agreements entered into in 2005 established a per-minute billing system for local fixed-line telecommunications services to meet ANATEL's objective to establish a more objective and transparent billing criteria for customers.

For information on our rates and service plans, see "— Rates."

General Plan on Universal Service Goals

The General Plan on Universal Service Goals was approved by ANATEL in June 2003 and became effective in January 2006. The General Plan on Universal Service Goals sets forth the principal network expansion and modernization obligations of the public regime providers, such as providing public telephones in towns with a population in excess of 100, and installing residential fixed lines within seven days of a request in towns with a population in excess of 300. In addition, public regime providers must comply with the Special Individual Access Class (*Acesso Individual Classe Especial*) rules, which are designed to require service for economically disadvantaged people. Under the Special Individual Access Class rules, a qualifying customer may subscribe to a service plan, limited to one fixed-line per household, and pay a lower monthly fee for service than under the basic service plans.

Public regime providers are also subject to network expansion requirements under the General Plan on Universal Service Goals, which are revised by ANATEL from time to time. No subsidies or other supplemental financings are anticipated to finance our network expansion obligations. Our failure to meet the network expansion and modernization obligations established by the General Plan on Universal Service Goals or in our concession agreements may result in fines and penalties of up to R$50.0 million, as well as potential revocation of our concessions.

Unbundling of local fixed-line networks

On May 2004, ANATEL issued an order establishing rules for partial unbundling of the local fixed-line networks of the public regime service providers, which we refer to as "line sharing," and requiring the eventual full unbundling of local fixed-line networks, which will entail these providers to making their entire networks available to other telecommunications service providers. This order (1) establishes a time by which service providers must comply with the order to provide such access, (2) limits the rates service providers can charge for line sharing and full unbundling of services, and (3) addresses related matters such as co-location space requirements. Co-location means that a service provider requesting interconnection may place its switching equipment in or near the local exchange of the service provider whose network the requesting service provider wishes to use and may connect to the network at this local exchange.

This regulation was designed to increase competition in the local fixed-line and broadband internet access markets by making it easier for new telecommunications service providers operating under either the public or private regime to enter these markets and for existing service providers to provide new services or enter new regions.

ANATEL has not yet adopted final unbundling rules or rates for full unbundling, although we expect that the rates that we would receive from other telecommunications services providers accessing our fixed-line networks will be lower than the rates we currently charge our customers for providing fixed-line and broadband internet services. As of December 31, 2008, no unbundled lines had been used by competitors in our region.

Service restrictions

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

- a prohibition on holding more than 20% of the voting shares of more than one other provider of public regime services;
- a restriction on mergers between regional fixed-line service providers and mobile services providers (a prohibition that also applies to private regime companies); and

- a restriction on offering cable television services, unless the company offering public regime services has won a public auction to provide cable television services in the relevant region and no other bidders participated.

On November 20, 2008, Brazil's president issued Decree No. 6,654, which modified the General Plan of Grants (*Plano Geral de Outorgas*) applicable to the fixed-line telecommunications industry. This decree eliminated a provision of ANATEL's regulations that prohibited one public regime provider from holding more than 20% of the voting shares of any other public regime provider. As a result of the elimination of this provision, we were no longer prohibited from acquiring indirect control of BrT.

Termination of a concession

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

- an extraordinary situation jeopardizing the public interest, in which case the Brazilian government is authorized to start rendering the services set forth under the concession in lieu of the concessionaire, subject to congressional authorization and payment of adequate indemnification to the owner of the terminated concession;
- termination by the provider (through an agreement with ANATEL or pursuant to legal proceedings) as a consequence of an act or omission of the Brazilian government that makes the rendering of the services excessively burdensome to the provider;
- annulment of the concession due to a contractual term, which is deemed by subsequent law to be illegal;
- material failure to comply with the provider's universalization targets;
- failure to meet insurance requirements set forth in the concession agreement;
- a split-up, spin-off, amalgamation, merger, capital reduction or transfer of the provider's control without ANATEL's authorization;
- the transfer of the concession without ANATEL's authorization;
- the dissolution or bankruptcy of the provider; or
- an extraordinary situation in which Brazilian government intervention, although legally permissible, is not undertaken, as such intervention would prove to be inconvenient, unnecessary or would result in an unfair benefit to the provider.

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

General Plan on Quality Goals

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

- modernization of the network;
- responses to repair requests;
- responses to change of address requests;

- rate of call completion;
- operator availability;
- availability of services to customers;
- personal services to customers;
- issuance of bills;
- responses to mail received from customers; and
- quality of public telephones.

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

ANATEL measures the performance of fixed-line service providers in each individual state in which they operate. As a result, the performance of fixed-line service providers in any particular state may not meet one or more quality performance targets even if such service provider's overall performance is satisfactory. Therefore, fixed-line service providers, including us, could be subject to fines or penalties as a result of the failure to meet the quality performance targets in one or more particular states.

The failure by fixed-line service providers to meet the quality of service obligations established by the General Plan on Quality Goals or in our concession agreements may result in fines and penalties of up to R$40.0 million.

Regulation of mobile services

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

Under the personal mobile service regulations:

- Band A and Band B service providers can apply for an additional frequency range;
- each service provider may apply to provide domestic and international long-distance services originating from its service region;
- existing service providers, as well as new entrants into the Brazilian telecommunications market, may bid for new licenses in all frequency bands, other than Band A and Band B;
- personal mobile services providers are required to offer a basic service plan to their customers containing certain prescribed features;
- personal mobile services providers are required to establish interconnection rates for the use of one provider's network by another provider;
- the number of regions in which a personal mobile services provider may offer services is not limited; and

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

Auction of personal mobile services spectrum

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

ANATEL conducted additional auctions of radio frequency licenses in 2004 and 2006. In April 2004, Brasil Telecom Mobile acquired extension blocks (900 MHz) in Region II.

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

Auction of 3G spectrum

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

Personal mobile services rate regulation

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

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

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

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

Obligations of personal mobile services providers

As a telecommunications services provider, we are subject to requirements concerning network expansion and quality of service, as established in applicable regulations and in our personal mobile services authorizations. If we fail to meet these obligations, we may be fined, subject to a maximum penalty of R$50.0 million, until we are in full compliance with our obligations. While it is possible for an authorization to be revoked for non-compliance with these obligations, there are no precedents for such a revocation.

Network expansion obligations

The personal mobile services authorizations set forth certain obligations and targets that must be met by a personal mobile services provider.

Quality of service obligations

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

Additional obligations

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

- establish at least one customer service center in each registration area served that has more than 100,000 inhabitants;
- upgrade customer service centers to improve access by people with hearing disabilities;
- increase the term applicable to pre-paid cards from 90 to 180 days or more;
- deliver to pre-paid customers a detailed report of service use upon request;
- reimburse unused pre-paid credits;
- limit the duration of contracts with pre-paid customers to 12 months;
- permit customers to change service plans without penalties;
- unblock mobile handsets, allowing a customer who purchased a mobile handset from any personal mobile services provider to use it on the network of another personal mobile services provider; and
- increase the grace period for defaulting customers prior to blocking partial or total access from 15-30 days after the date a bill is due to 30-60 days.

Interconnection regulations

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

Interconnection regulations applicable to fixed-line providers

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

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

Fixed-line service providers are only required to pay interconnection fees to another fixed-line service provider for traffic in the same local area in the event that the ratio of the outbound traffic generated by that provider (measured in minutes) to the inbound traffic terminated by that provider (measured in minutes) exceeded 55% or was less than 45%. This system is designated the "bill and keep" system.

In 2006, the TU-RL rates that fixed-line service providers could charge each other to terminate a call on their respective networks were reduced to 50% of the rate included in their PBM plans for a local fixed-line call. In 2007, the TU-RL rates of the fixed-line service providers were reduced to 40% of the rate included in their PBM plans for a local fixed-line call. ANATEL announced that beginning in 2008, the method used to determine the TU-RL rates would be based on a cost methodology, known as long-run incremental costs. However, in October 2007, ANATEL published an official letter delaying this change until 2010.

In 2006, the TU-RIU rates that fixed-line service providers could charge each other to use a portion of their long-distance networks to complete long-distance calls were reduced to 30% of the applicable domestic fixed line-to-fixed line long-distance rates for calls of more than 300 km.

Interconnection regulations applicable to personal mobile services providers

Interconnection fees are charged at a flat rate per minute of use of a personal mobile services provider's network. Prior to February 2005, interconnection rates charged by Band A and Band B providers were subject to a price cap stipulated by ANATEL. Since February 2005, the terms and conditions of interconnection agreements of all personal mobile services providers, including the rates charged by the operator of the network to terminate a call on its mobile network (the VU-M rate), commercial conditions and technical issues, are freely negotiated between mobile and fixed-line telecommunications service providers, subject to compliance with regulations established by ANATEL relating to traffic capacity and interconnection infrastructure that must be made available to requesting providers, among other things.

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

ANATEL may determine terms and conditions by arbitration. Since no agreement with fixed-line service providers could be reached regarding VU-M rates when Oi and Brasil Telecom Mobile began offering personal mobile services, ANATEL set the initial VU-M rates for each of them.

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

Transition from "bill and keep" system to "full billing" system

Prior to July 2006, a personal mobile services provider was only required to pay interconnection fees to another personal mobile services provider for traffic in the same registration area in the event that the ratio of the outbound traffic generated by that provider (measured in minutes) to the inbound traffic terminated by that provider (measured in minutes) exceeded 55% or was less than 45%.

In July 2006, ANATEL adopted new regulations under which personal mobile services providers recognize interconnection revenues (and costs) for traffic in the same registration area on a gross basis based on the total traffic between personal mobile services providers' networks. This system is designated the "full billing" system. These regulations also:

- require that personal mobile services providers adopt discounts to the VU-M rates for off-peak calls that correspond to the discounts required to be offered by fixed-line service providers; and
- provide that more stringent regulations applicable to interconnection between personal mobile services providers that are members of economic groups with significant market power will be adopted in order to ensure market competition.

Regulation of interconnection rates charged by providers with significant market power

In 2005, ANATEL issued regulations defining a series of cost-based methods, including the fully allocated cost methodology, for determining interconnection fees charged by telecommunications service providers belonging to economic groups with significant market power based on their fixed-line or personal mobile services interconnection networks. All incumbent fixed-line service providers and all personal mobile services providers are deemed by ANATEL to belong to economic groups with significant market power in their respective service areas until ANATEL finalizes its evaluation of each provider under published criteria to determine significant market power.

In July 2006, ANATEL issued regulations regarding the fees that may be charged for the use of mobile networks by personal mobile services providers with significant market power in the mobile interconnection market. These regulations will become effective as of a future date to be established by ANATEL. Under these regulations, ANATEL will determine, based on a fully allocated cost model, a reference value for VU-M rates of providers that are deemed to hold significant market power. This reference value will be reassessed every three years. In order to determine whether a provider has significant market power, ANATEL will establish criteria that consider:

- that provider's market share in the mobile interconnection market and in the personal mobile services market;
- the economies of scope and scale available to that provider;
- that provider's dominance over infrastructure that is not economically viable to duplicate;
- the existence of that provider's power to negotiate the acquisition of equipment and services;
- the existence of vertical integration in that provider's operations;

- the existence of barriers to entry in the mobile interconnection market and the personal mobile services market served by that provider; and
- that provider's access to financing sources.

In 2007, ANATEL developed a cost-based methodology that is expected to take effect in 2010 to determine reference values for the VU-M of mobile services providers having significant market power, which will be used in the case of arbitration by ANATEL of the value of VU-M. In 2008, mobile services providers began providing ANATEL with annual operating data, which is intended to support ANATEL's cost-based methods for determining interconnection fees.

Number portability regulations

Number portability is the ability of a customer to move to a new home or office or switch service providers while retaining the same fixed-line or mobile telephone number. In March 2007, ANATEL adopted the General Regulation of Portability (*Regulamento Geral de Portabilidade*), establishing the deadlines and general rules regarding portability of fixed-line and mobile telephone numbers. These regulations permit fixed-line customers to retain their telephone numbers if they become customers of a different fixed-line service provider in the same municipality or if they move to a new home or office in the same municipality. Personal mobile services customers are permitted to retain their telephone numbers if they change their service plan or if they become customers of a different personal mobile services provider within the same registration area. Implementation of number portability commenced in August 2008 and was completed in March 2009.

Each telecommunications provider has been required to contract a third-party management entity to manage all procedures relating to number portability. Service providers are permitted to charge a migrating customer that elects to retain its telephone number a one-time fee of no more than R$4.00. This amount is intended to compensate the customer's current provider for the costs associated with managing the portability process. The new provider may elect to absorb this fee on behalf of the customer.

Regulation of data transmission and internet services

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

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

Environmental and other regulatory matters

As part of our day-to-day operations, we regularly install ducts for wires and cables and erect towers for transmission antennae. We may be subject to federal, state and/or municipal environmental licensing

requirements due to the installation of cables along highways and railroads, over bridges, rivers and marshes and through farms, conservation units and environmental preservation areas, among other places. To date, we have been required to obtain environmental licenses for the installation of transmission towers and antennae in the municipality of Porto Alegre, the capital of the State of Rio Grande do Sul, with no material impact on our operations. However, there can be no assurances that other state and municipal environmental agencies will not require us to obtain environmental licenses for the installation of transmission towers and antennae in the future and that such a requirement would not have a material adverse effect on the installation costs of our network or on the speed with which we can expand and modernize our network.

We must also comply with environmental legislation regarding the management of solid wastes. According to Resolution No. 237/97 of the National Environmental Council (*Conselho Nacional do Meio Ambiente*), companies responsible for the treatment and final disposal of solid industrial wastes, special wastes and solid urban wastes are subject to environmental licensing. Should the waste not be disposed of in accordance with standards established by environmental legislation, the company generating such waste may be held jointly and severally liable with the company responsible for waste treatment for any damage caused. Also, in all states where we operate, we have implemented management procedures promoting the recycling of batteries, transformers and fluorescent lamps.

In addition, we are subject to ANATEL regulations that impose limits on the levels and frequency of the electromagnetic fields originating from our telecommunications transmissions stations.

We believe that we are in compliance with ANATEL standards as well as with all applicable environmental legislation and regulations. We are currently not involved in any administrative or judicial proceeding involving material liability for environmental damage.

Legal proceedings

Telemar

General

We are a party to certain legal proceedings arising in the normal course of business, including civil, administrative, tax, social security and labor proceedings, representing an estimated contingency of R$12,897 million as of December 31, 2008. We had established provisions in the amount of R$1,962 million in respect of these proceedings as of that date. We classify our risk of loss in legal proceedings as "remote," "possible" or "probable," and we only record provisions for reasonably estimable probable losses, as determined by our management.

The composition of our provisions for legal contingencies is as follows as of the dates indicated:

Type of Legal Proceeding	As of December 31, 2006	2007	2008
	(in millions of R$)		
Tax	673	637	562
Civil(1)	555	725	795
Labor	924	582	605
Total	2,152	1,944	1,962

(1) Includes fines from ANATEL.

Our provisions for legal contingencies are subject to monthly monetary adjustments. For a detailed description of our provisions for contingencies, see note 23 to our audited consolidated financial statements at

December 31, 2008 and 2007 and for each of the two years ended December 31, 2008 included elsewhere in this offering memorandum.

Administrative proceedings

As of December 31, 2008, the total estimated contingency in connection with administrative proceedings against us totaled R$432 million, all of which relates to ANATEL proceedings, and we had recorded provisions of R$432 million related to these proceedings.

The principal administrative proceedings against us are as follows:

- *Sale of Oi to Telemar:* On May 30, 2003, TNL sold to us all of its shares in Oi, representing 99.99% of the share capital of Oi. The sale price was fixed at R$1.00, which was equal to the net equity value of Oi at market price on the base date of March 31, 2003, as determined by a fair value appraisal evaluation conducted by an independent public accounting firm in accordance with Brazilian corporate law.

  In response to a complaint filed with the CVM by one of our minority shareholders, the CVM initiated an administrative proceeding to investigate the terms of the sale of Oi to us. On December 28, 2006, the investigation committee of the CVM determined that the appraisal report contained certain technical mistakes which caused certain assets and liabilities on Oi's balance sheet to be overvalued, and as a result the investigation committee of the CVM determined that TNL and its senior management and our senior management abused their powers and breached their fiduciary duties. We, TNL and the senior management of TNL filed our respective administrative defenses and, on March 25, 2008, the CVM rendered a judgment absolving the defendants of liability and imposing a warning on the defendants for their purported lack of diligence as members of their respective board of directors and executive boards. The members of each of the board of directors and the executive board of TNL and Telemar filed a voluntary appeal with the Board of Appeals of the National Financial System (*Conselho de Recursos do Sistema Financeiro Nacional*), or CRSFN, and the CVM filed a mandatory appeal with the CRSFN. As of the date of this offering memorandum, the appeal is pending before the Office of the Attorney General of the National Treasury, which will render a decision accepting or denying the appeals. After the issuance of the Attorney General's decision, the action will be finally determined by the CVM. We cannot predict when a final decision will be rendered.

- *Unfair competition charges*: In March 2004, Embratel filed a complaint with CADE alleging that we, Telesp and BrT had engaged in anticompetitive practices, including, among other things: (1) discriminatory rate policies; (2) manipulative strategies during telecommunications auctions with a view to influencing prices; and (3) deceptive marketing practices by omitting information to customers related to more convenient long-distance carrier selection codes. In April 2004, the Law and Economics Secretariat (Secretaria de Direito Econômico) commenced a preliminary investigation in order to determine if such practices could be considered anticompetitive. As of the date of this offering memorandum, the Law and Economics Secretariat had not reported its findings. The complaint brought by Embratel, then a subsidiary of MCI, was part of its broader strategy to prevent the Calais Consortium formed by us, Telesp and BrT from acquiring Embratel's assets which at the time were being sold by MCI to Telmex as part of MCI's reorganization process. Although Telmex succeeded in acquiring Embratel, this investigation continues to run its normal course with the Brazilian antitrust authorities. However, we believe Embratel's possibility of success in this claim is remote.

- *ANATEL proceedings*: We are subject to administrative proceedings brought by ANATEL, which primarily relate to our failure to achieve certain goals defined in the GPUS, such as call completion rates during peak hours and resolution of billing complaints. As of December 31, 2008, we had recorded provisions in the amount of R$432 million in connection with these proceedings. We have increased our provision for legal contingencies in connection with ANATEL proceedings as a result of the implementation of new, more conservative internal policies with respect to contingency provisions. Prior

to the implementation of such policies in 2006, we only recorded a provision in connection with ANATEL proceedings after ANATEL had determined the applicable fine. Under the new contingency provision policies, we record ANATEL-related provisions upon the commencement of a proceeding by ANATEL (based on the outcome of prior cases relating to similar matters) or, in connection with our failure to achieve quality targets, upon the reporting of any such failure to ANATEL.

Tax proceedings

As of December 31, 2008, the total estimated contingency in connection with tax proceedings against us totaled R$8,842 million, and we had recorded provisions of R$562 million related to these proceedings.

The principal tax proceedings against us are as follows:

- *Value-added state taxes (ICMS)*: Under the regulations governing the Tax on the Circulation of Merchandise and Services (*Imposto Sobre a Circulação de Mercadorias e Serviços*), or ICMS (a state value-added tax on sales and services), in effect in various Brazilian states, telecommunications companies must pay ICMS on every transaction involving the sale of telecommunications services they provide. We may record ICMS credits for each of our purchases of operational assets. These same rules allow us to take the credits we have recorded for the purchase of operational assets and apply them to reduce the ICMS amounts we must pay when we sell our services.

  We have received various tax assessments challenging the amount of tax credits that we recorded to offset the ICMS amounts we owed. Most of the tax assessments are based on two main issues: (1) whether ICMS is due on those services subject to Local Service Tax (*Imposto Sobre Serviços de Qualquer Natureza*); and (2) whether some of the assets we have purchased are related to the telecommunications services provided, and, therefore, eligible for an ICMS tax credit. A small part of the assessments that are considered to have a probable risk of loss are related to: (1) whether certain revenues are subject to ICMS tax or ISS tax; (2) offset and usage of tax credits on the purchase of goods and other materials, including those necessary to maintain the network; and (3) assessments related to non-compliance with certain ancillary (non-monetary) obligations.

  As of December 31, 2008, we deemed the risk of loss as possible with respect to approximately R$2,313.7 million of these assessments and therefore had not recorded any provisions in respect thereof as of that date. As of that date, we had recorded provisions in the amount of R$376.5 million for those assessments in respect of which we deemed the risk of loss as probable.

- *Local service tax (ISS)*: We have received various tax assessments regarding whether the Local Service Tax (*Imposto Sobre Serviços de Qualquer Natureza*), or ISS, should be applied to supplementary services provided by telecommunications service providers that do not clearly fit into the definition of "telecommunications services" (such as, among others things, equipment leasing and technical and administrative services).

  As of December 31, 2008, we deemed the risk of loss as possible with respect to approximately R$1,369.4 million of these assessments and therefore had not recorded any provisions in respect thereof as of that date. As of that date, we had recorded provisions in the amount of R$55.2 million for those assessments in respect of which we deemed the risk of loss as probable.

- *Contributions to the INSS*: Pursuant to Brazilian social security legislation, companies must pay contributions to the National Social Security Institute (*Instituto Nacional do Seguro Social*), or INSS, based on their payroll. In the case of outsourced services, the contracting parties must, in certain circumstances, withhold the social contribution due from the third-party service providers and pay the retained amounts to the INSS. In other cases, the parties are jointly and severally liable for contributions to the INSS. Assessments have been filed against us in connection with social security contributions allegedly due, totaling R$945.3 million of estimated contingencies as of December 31, 2008, for which we

had recorded provisions of R$29.7 million as of that date. These assessments relate primarily to claims regarding joint and several liability, claims regarding the percentage to be used to calculate workers' compensation benefits and other amounts subject to social security tax.

In December 2008, we were subject to an assessment in the amount of R$325.0 million for INSS related to pension contributions on amounts paid pursuant to a profit sharing program for which we deem the risk of loss as possible and, therefore, had not recorded any provision in respect thereof.

- *Federal taxes*: There are various federal taxes that have been assessed against us with respect to, among other things, offsetting of tax credits and their usage in the amount of approximately R$1,958.2 million as of December 31, 2008. Based on an opinion from our external counsel, we considered the risk of loss related to these assessments to be possible and therefore had not recorded any provisions in respect thereof as of that date.

- *IRRF, IRPJ and CSLL*: In August 2000, the Brazilian federal tax authorities of the State of Rio de Janeiro filed a claim relating to events which took place before 1996, in a total amount of R$993.7 million, of which R$51 million was included in the Tax Payment Program (*Programa de Recuperação Fiscal*), or REFIS, a program established to permit payment of tax debts on an installment basis. As of December 31, 2008, the estimated contingency we deemed as possible was approximately R$92.3 million, and therefore we had not recorded any provisions in respect of this contingency as of that date.

- *PIS and COFINS*: On June 30, 2006, the Brazilian federal tax authorities filed a claim in the amount of R$759.9 million (as of December 31, 2008) related to the basis for the calculation of PIS/COFINS. We obtained a partially favorable decision in a lower court that reduced the amount of R$759.9 million to R$327.9 million. As of December 31, 2008, the estimated contingency we deemed as possible was approximately R$327.9 million, and therefore we had not recorded any provisions in respect of this contingency as of that date.

- *IRRF fine:* In a civil action in the lower courts, we have successfully challenged a fine assessed against us by the tax authorities amounting to R$194.6 million as of December 31, 2008. The lower courts have reduced the amount of the fine by R$73.8 million. The Brazilian government filed an appeal of the lower court's decision, and, as of the date of this offering memorandum, the appeal is pending. We believe that our risk of loss is remote in relation to the reduced amount of R$73.8 million and possible in relation to the amount of R$120.9 million. Therefore, as of December 31, 2008, we had not recorded any provisions in connection with this claim.

- *ILL:* We have used credits from the Tax on Net Profit *(Imposto sobre Lucro Líquido)*, or ILL, to offset certain other taxes based on decisions rendered by the Federal Supreme Court. These decisions, however, did not consider the criteria by which to calculate the amounts permitted to be offset. We believe that our risk of loss is probable in relation to the amount that we ultimately will be permitted to offset. As of December 31, 2008, we had recorded provisions in the amount of approximately R$45.9 million in connection with this contingency.

- *FUST and FUNTTEL.* FUST is a fund that was established to promote the expansion of telecommunications services to non-commercially viable users. FUNTTEL was established to finance telecommunications technology research and is funded from 0.5% of the gross revenues of telecommunications service providers plus 1% of the amount collected for telecommunication services. Due to a change by ANATEL in the basis for calculation of FUST and FUNTTEL, as of December 31, 2008, we had provisioned R$115.0 million and R$63.8 million, respectively, for additional contributions to these funds. With respect to the calculation of the contribution to FUST, the Brazilian Association of Fixed-Line Companies *(Associação Brasileira das Empresas de Telefonia Fixa*) of which we are a member, filed a lawsuit to request a review of the applicable legislation. We believe that our risk of loss in connection with this claim is possible.

- *REFIS:* We have formalized our participation in REFIS II, the Special Alternative Payment Program, known as PAES, with respect to a substantial amount of taxes that were due and owing on or before February 28, 2003. As of December 31, 2008, the discounted present value of the REFIS II payments for the remaining term of four years and five months amounted to R$521.2 million. We believe the Brazilian federal tax authorities and the Attorney General of the National Treasury improperly included several of our taxes (as well as taxes of Oi) in REFIS II, which had the effect of significantly increasing the amount of each installment. As a result, we have made administrative and judicial claims to adjust the amounts incorrectly included in the program. If the unpaid taxes that are currently included in REFIS II were to be recalculated without the benefits thereof, the amount of the REFIS II debt, which is currently accounted for as a long-term liability, would be accounted for as a current liability in the total amount of R$3,744.0 million in respect of Oi. We believe that the risk of recalculation of the unpaid taxes without the REFIS II benefits is possible.

  For more information concerning our payments under the REFIS II program see note 22 to our consolidated financial statements at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008.

Civil claims

As of December 31, 2008, the total estimated contingency in connection with civil claims against us totaled R$2,317 million, and we had recorded provisions of R$795 million related to these claims.

The principal civil claims against us are as follows:

- *Claims relating to the sale of Oi to Telemar*: In September 2004, the Attorney General's Office and the State Attorney's Office of Rio de Janeiro filed a claim against TNL, Telemar, Oi and the Brazilian federal government, requesting the annulment of the transfer of Oi to Telemar, as well as indemnification for damages allegedly suffered by minority shareholders and the financial market. TNL and Telemar presented their defense and, as of the date of this offering memorandum, the municipal judge charged with this request had not issued a decision. Upon the issuance of a decision, we will decide whether there is any need to constitute a provision.

Labor claims

We are party to a large number of labor claims arising in the ordinary course of our businesses. As of December 31, 2008, the total estimated contingency in connection with labor claims against us totaled R$1,738 million, and we had recorded provisions of R$605 million related to these claims.

These claims include those related to the following:

- *Risk premium*: Under Brazilian labor laws, employees working in dangerous conditions, as defined by applicable laws, are entitled to payment of a premium equal to 30% of their basic salary as compensation for their exposure to a hazardous work environment. There are currently significant proceedings pending against us with respect to the total amount of risk premiums due as a result of an adjustment of the amount payable pursuant to collective bargaining agreements entered into with unions representing workers that work in hazardous work environments, principally near electricity lines. In accordance with decisions of the Superior Labor Court, the full amount of the risk premium is due even when exposure to the hazardous working environment is not continuous. Because our risk premium payments, as negotiated with the labor unions, do not fully comply with the Superior Labor Court's decision, we believe that the risk of an adverse judgment is probable. Accordingly, as of December 31, 2008, we had recorded provisions in the amount of R$98.7 million in respect of these proceedings.
- *Wage parity*: There are claims against us to equalize salary scales among employees who do the same kind of work, within a given period of time, and have the same productivity and technical performance.

This type of judicial proceeding usually involves significant amounts of money as it relates to the difference in monthly salaries for the relevant period. In addition, these proceedings usually depend on evidentiary issues and the court's interpretation of such evidence. As of December 31, 2008, our provision for probable losses in connection with these lawsuits was R$156.8 million.

- *Indemnification*: Indemnification claims refer to requests for indemnification or liquidated damages during the term of employment that may arise for various reasons, including: work accidents, occupational injuries, employment stability, moral damages, and reimbursement of amounts discounted from paychecks, as well as child care allowance and achievement of productivity standards set forth in the collective bargaining agreements. As of December 31, 2008, we had recorded provisions for these indemnification claims in the amount of R$110.7 million.
- *Overtime Pay*: We are currently defending against numerous claims for non-payment of overtime that have been filed against us. The claimants allege that we have underpaid amounts due for hours worked over the regular working schedule. The claimants also allege that we have failed to adjust the regular salary of the claimants to reflect such special compensation, which affects other labor rights granted by law. As of December 31, 2008, we had recorded provisions for overtime claims in the amount of R$210.2 million.
- *Labor fines*: As of December 31, 2008, we recorded provisions in the amount of R$67.1 million in respect of fines for late unpaid labor benefits.
- *Legal expert and fees*: Whenever an unfavorable decision is rendered against us, we have the obligation to pay for the claimants' legal and expert fees. As of December 31, 2008, we had recorded provisions in the amount of R$49.5 million in connection with these potential obligations.
- *Claims by employees of third-party service providers*: There are several lawsuits pending against us brought by former employees of third-party service providers in cases where we participated in the recruitment of such employees. Given our participation, we may be subject to claims for secondary liability for failure of those third-party service providers to pay such employees. Any liability in connection with these claims will depend on whether the financial resources of the third-party service providers, who are primarily responsible, are insufficient to satisfy any judgments against them. As of December 31, 2008, we had recorded provisions for these claims in the amount of R$63.8 million.
- *Other claims*: We are also a party to other labor claims arising in the ordinary course of our businesses. These proceedings involve: (i) pension plan claims for which we had recorded provisions in the amount of R$38.9 million as of December 31, 2008; (ii) allegations that the Employee's Dismissal Fund (*Fundo de Garantia por Tempo de Serviço*), or FGTS, paid to our employees was incorrect for which we had recorded provisions in the amount of R$17.6 million as of December 31, 2008; (iii) employees of third-party service providers seeking to establish a direct employer-employee relationship with us, for which, as of December 31, 2008, we had recorded provisions in the amount of R$16.4 million; and (iv) other claims related to, among others, additional benefits requested for length of service, profit sharing, night shifts and per diems, for which we had, as of December 31, 2008, recorded provisions in the amount of R$62.7 million.

BrT Part

General

BrT Part and its subsidiaries are parties to certain legal proceedings arising in the normal course of business, including civil, administrative, tax, social security and labor proceedings. BrT Part classifies its risk of loss in legal proceedings as "remote," "possible" or "probable" and only records provisions for reasonably estimable probable losses, as determined by its management. As of December 31, 2008, the total estimated contingency for those proceedings in respect of which the risk of loss was deemed possible or probable totaled R$5,106 million, and BrT Part had established provisions of R$1,453 million as of that date.

The composition of BrT Part's provisions for legal contingencies is as follows as of the dates indicated:

Type of Legal Proceeding	As of December 31, 2006	2007	2008
	(in millions of R$)		
Tax	179	373	274
Civil(1)	346	399	752
Labor	487	422	427
Total	1,012	1,194	1,453

(1) Includes fines from ANATEL.

BrT Part's provisions for legal contingencies are subject to monthly monetary adjustments. For a detailed description of BrT Part's provisions for contingencies, see note 8 to its audited consolidated financial statements included elsewhere in this offering memorandum. For a discussion of pro forma adjustments to the Unaudited Pro Forma Combined Financial Information included in this offering memorandum arising from the reconciliation of BrT Part's provisioning policies in respect of certain legal contingencies (civil, labor and tax) to those of Telemar, see note (K) to the notes accompanying the Unaudited Pro Forma Combined Financial Information. See also "Risk Factors — Risks relating to the BrT Transaction — The unaudited pro forma combined financial information included in this offering memorandum is subject to our ongoing due diligence review of BrT and BrT Part."

Administrative proceedings

Unfair competition charges

BrT is subject to a complaint filed by Embratel with CADE alleging that we, Telesp and BrT had engaged in anticompetitive practices. See "— Telemar — Administrative proceedings — Unfair competition charges."

In 2005, Terra Networks Brasil S.A., an affiliate of Telefónica, S.A., filed an administrative complaint with the Secretary of Economic Law (*Secretária de Direito Econômico*) alleging anticompetitive practices with regard to interconnection and the provision of ADSL in Region II. As of the date of this offering memorandum, no decision has been rendered by the antitrust authorities. Although BrT believes that this administrative complaint lacks merit, any unfavorable decision from CADE (a body of the Secretary of Economic Law) could result in the imposition of a fine ranging between 1% and 30% of BrT's annual revenue.

ANATEL proceedings

BrT is subject to administrative proceedings brought by ANATEL. As of December 31, 2008, BrT Part had recorded provisions in the amount of R$149.1 million in connection with proceedings classified as probable and had not recorded any provisions in connection with proceedings totaling R$162.6 million classified as possible. The most significant of these proceedings relate to the establishment of customer service kiosks, the failure to achieve certain goals defined in the GPUS relating to the installation of individual access lines and compliance with ANATEL rules relating to technical support for wireless internet users.

Tax proceedings

As of December 31, 2008, the total estimated contingency in connection with tax proceedings against BrT in respect of which the risk of loss was deemed possible or probable totaled R$2,071 million, and BrT had recorded provisions of R$274 million related to these proceedings.

The principal tax proceedings against BrT are as follows:

- *ICMS on new mobile lines*: In June 1998, the government of certain Brazilian states approved an agreement that extended the application of ICMS to certain services, including the installation and

establishment of new mobile lines. Tax authorities from various Brazilian states filed claims against BrT demanding retrospective payment of ICMS for the five-year period prior to the date of publication of the agreement. However, BrT obtained favorable decisions from the State Supreme Court confirming that ICMS could not be applied retrospectively. With respect to ICMS applicable to such services after the date of the agreement, BrT successfully challenged the legality of the tax in several Brazilian states. As of the date of this offering memorandum, decisions are pending in the States of Acre, Tocantins, Mato Grosso and Santa Catarina. As of December 31, 2008, we maintained R$147.8 million in deposits with the courts in the states where actions are pending. Because BrT considers the risk of loss in these proceedings as remote, BrT has not recorded provisions for these amounts.

- *ISS on value-added telecommunications services*: Certain municipalities have assessed ISS on BrT relating to supplementary telecommunications services. As of December 31, 2008, BrT deemed the risk of loss as possible with respect to approximately R$61.1 million of these contingencies and therefore had not recorded any provisions in respect thereof as of that date. In addition, BrT deemed the risk of loss as remote with respect to R$1.7 million of these contingencies and therefore had not recorded any provisions in respect thereof as of that date.
- *ICMS credits*: The Secretaries of the Treasury of certain Brazilian states have challenged BrT's use of ICMS credits principally relating to the purchase of equipment and the reversal of debits accounted for upon rendering telecommunications services. As of December 31, 2008, BrT deemed the risk of loss as possible with respect to approximately R$9.4 million of these contingencies and therefore had not recorded any provisions in respect thereof as of that date. As of that date, BrT had recorded provisions in the amount of R$23.2 million for those claims in respect of which it deemed the risk of loss as probable.
- *ICMS electric energy*: The Secretaries of the Treasury of certain Brazilian states have challenged BrT's use of ICMS credits relating to the purchase of electric energy. BrT has obtained favorable decisions in the State courts, and these decisions are currently pending on appeal in the superior courts. As of December 31, 2008, the amount of claims with a possible risk of loss was R$254.7 million for which no provisions had been made by BrT Part. As of that date, BrT Part had recorded provisions in the amount of R$75.1 million for those claims in respect of which it deemed the risk of loss as probable.
- *ICMS — reversal of debits:* The Secretaries of the Treasury of certain Brazilian states have challenged BrT's usage of ICMS credits to offset debits arising from contested revenue. BrT is defending itself against these challenges, however, as of the date of this offering memorandum, no decisions have been rendered. As of December 31, 2008, BrT Part had classified R$41.3 million of the total assessment as having a possible risk of loss for which no provisions had been made by BrT Part. As of that date, BrT Part had recorded provisions in the amount of R$14.1 million for those claims in respect of which it deemed the risk of loss as probable.
- *ICMS on international telecommunications services:* The Secretaries of the Treasury of certain Brazilian states are seeking to collect ICMS from BrT on international calls based on the theory that such calls involve services rendered in Brazil, and therefore should be subject to ICMS. As of December 31, 2008, BrT Part had classified R$21.8 million of the total assessment as having a possible risk of loss for which no provisions had been made by BrT Part. As of that date, BrT Part had recorded provisions in the amount of R$5.2 million for those claims in respect of which it deemed the risk of loss as probable.
- *ICMS — EILD and telecommunication services of public entities:* The Secretaries of the Treasury of certain Brazilian states are seeking to collect ICMS from BrT on EILD and telecommunications services rendered to public entities. As of December 31, 2008, BrT Part had classified R$198.9 million of the total assessment as having a possible risk of loss for which no provisions had been made by BrT Part. As of that date, BrT Part had recorded provisions in the amount of R$42.5 million for those claims in respect of which it deemed the risk of loss as probable.
- *ICMS — Acquisition of assets from other states:* The Secretaries of the Treasury of certain Brazilian states are seeking to collect from BrT the difference in ICMS rates arising from the acquisition of goods from other states. As of December 31, 2008, the risk of loss in connection with the estimated contingency

of R$62.9 million was deemed possible, and therefore BrT had not recorded any provisions in respect of these proceedings.

- *ICMS — Pre-paid cards:* The Secretaries of the Treasury of certain Brazilian states are seeking to collect ICMS from BrT on the sale of pre-paid cards. As of December 31, 2008, the risk of loss in connection with the estimated contingency of R$30.2 million was deemed possible, and therefore BrT had not recorded any provisions in respect of these proceedings.
- *INSS:* The INSS has brought various claims against BrT seeking the payment of social security contributions in respect of various benefits paid by BrT to its employees, which BrT believes are not in the nature of salaries and therefore should not be considered in connection with the calculation of social security contributions. As of December 31, 2008, the amount involved in these proceedings totaled R$272.8 million. BrT had recorded provisions in the amount of R$26.9 million for those claims it deemed to be probable.
- *PIS and COFINS:* BrT is a defendant in several public class actions filed by the Public Attorney's Office and the National Association for the Defense of Credit Card Consumers *(Associação Nacional de Defesa dos Consumidores de Cartão de Crédito)* which aim at suspending the PIS/COFINS charged on users of telecommunications services. As of December 31, 2008, the estimated amount of this contingency was approximately R$37.5 million. Because BrT Part considers the risk of loss in connection with these proceedings as possible, BrT Part had not recorded any provisions in connection with these claims as of that date.
- *CSLL and IRPJ*: The Brazilian federal tax authorities are seeking to collect from BrT Social Contribution on Net Profits (*Contribuição Social sobre Lucro Líquido*), or CSLL, and Corporate Income Tax (*Imposto de Renda de Pessoa Jurídica*), or IRPJ, based on the taxable events that BrT used to calculate these taxes. As of December 31, 2008, BrT classified claims in the amount of R$174.5 million as having a possible risk of loss for which no provision had been recorded. As of that date, BrT had recorded provisions in the amount of R$25.6 million for those claims in respect of which it deemed the risk of loss to be probable.
- *FUST*: BrT, together with other telecommunications services providers in Brazil, is challenging the changes introduced with respect to the calculation of FUST in December 2005 by ANATEL, which prohibits the exclusion of expenses (as well as on a retroactive basis) relating to EILD and interconnection from the base of the calculation. As of December 31, 2008, the amount involved in these proceedings totaled R$88.3 million. BrT had recorded provisions in the amount of R$3.4 million for probable losses.
- *REFIS*: In November 2000, BrT formalized its participation in the Tax Payment Program (*Programa de Recuperação Fiscal*) known as REFIS, a program established to permit payment of tax debts on an installment basis. BrT began paying installments of outstanding administrative taxes and INSS in the aggregate amount of R$75 million. As of December 31, 2006, the amounts outstanding under the REFIS program were fully paid by BrT; however, the Brazilian federal authorities did not deem paid certain amounts that were paid with tax credits held by BrT. Therefore, as of December 31, 2008, BrT Part had recorded provisions in the amount of R$13.0 million in connection with this dispute.
- *PAES:* In 2004, BrT formalized its participation in the PAES program with respect to certain outstanding federal taxes and commenced payment of such taxes. The Brazilian federal tax authorities challenged the amount included in the PAES program, which totaled R$73.4 million. BrT Part considers the risk of loss with respect to the federal tax authorities' challenge of the amount to be remote and therefore had not recorded any provisions in respect thereof as of December 31, 2008.

Civil claims

As of December 31, 2008, the total estimated contingency in connection with civil claims against BrT in respect of which the risk of loss was deemed possible or probable totaled R$1,973 million, and BrT had recorded provisions of R$752 million related to these claims.

The principal civil claims against BrT are as follows:

- *CRT:* BrT is subject to various civil claims as the successor to CRT, which was the predecessor telephone services provider in the State of Rio Grande do Sul. The claims filed in 1998 and 1999 allege (1) error in the sale of CRT's share capital; (2) the illegality of bidding procedure No. 04/98; (3) errors in the calculation of the number of shares offered; (4) procedural nonconformities in the shareholders' meeting that approved the sale of shares of CRT; and (5) errors in the valuation of the shares of CRT. The estimated amount of these contingencies as of December 31, 2008 is approximately R$663.2 million. Because BrT Part considers the risk of loss in these proceedings as remote, BrT Part had not recorded provisions for these amounts.

  BrT, as successor to CRT, is a defendant in several claims filed by users of telephone lines in the State of Rio Grande do Sul. The claimants allege that CRT did not grant them the shares they were entitled to because of the execution of participation agreements entered into with the company. As of the date of this offering memorandum, BrT has been ordered to pay certain claimants. As of December 31, 2008, the total estimated contingency in connection with these claims totaled R$583.5 million, and BrT Part had recorded provisions in the amount of R$260.6 million in respect of the portion it considered as having a probable risk of loss.

  BrT, as successor to CRT, is a defendant in an action brought by the Attorney General of the State of Rio Grande do Sul seeking compensation arising out of alleged abusive commercial practices in connection with CRT's provision of "900" services. An unfavorable final decision was rendered against BrT prohibiting it from providing "900" services and from disconnecting non-paying "900" service users. In order for clients to receive compensation, each client must file a separate lawsuit. BrT's final liability will depend on the number of clients who actually file lawsuits and are successful.

- *Splice do Brasil — Telecomunicações e Eletrodomésticos Ltda*: Splice do Brasil — Telecomunicações e Eletrodomésticos Ltda. has brought an action against BrT in connection with a contractual dispute over pricing terms. The lower courts rendered a decision favorable to the claimant; however, the lower court decision is limited to the determination of the method of calculation, which will be calculated by a court-appointed accountant. This decision nevertheless clarifies how much money the claimant would be entitled to if the claimant ultimately prevails. BrT has appealed the lower court's decision. As of the date of this offering memorandum a final decision has not been rendered. As of December 31, 2008, BrT Part considered its risk of loss as probable and therefore had recorded provisions amounting to R$55.8 million in connection with this claim.

- *Community Telephone Program — Telems:* BrT, as successor to Telems, is subject to various civil claims in connection with a telephone program established in the State of Mato Grosso do Sul. As of December 31, 2008, BrT Part had classified claims in the amount of R$85.6 million as having a possible risk of loss for which no provisions had been made by BrT Part. As of that date, BrT Part had recorded provisions in the amount of R$46.2 million for those claims in respect of which it deemed the risk of loss as probable. In addition, BrT Part was subject to claims relating to the Community Telephone Program as successor to Telegóias and Telemat. As of December 31, 2008, BrT Part had classified claims by customers of Telegóias and Telemat in the amount of R$308.9 million as having a possible risk of loss for which no provisions had been made by BrT Part. As of that date, BrT Part had recorded provisions in the amount of R$24.4 million for those claims by customers of Telegóias and Telemat in respect of which it deemed the risk of loss as probable.

- *Telephone Directories:* BrT is a defendant in 18 civil class actions filed by the Attorney General of the National Treasury demanding the publication and delivery of free directories for its customers. Eleven of these actions were settled on December 19, 2006. As of December 31, 2008, BrT Part had recorded provisions in the amount of R$5.3 million in connection with the remaining proceedings.

- *Customer Service Centers*: BrT is a defendant in 39 civil class actions filed by the Attorney General of the National Treasury jointly with certain consumer agencies demanding the re-opening of customer service centers. The lower courts rendered decisions unfavorable to BrT in 24 of these civil class actions,

and BrT has filed appeals. BrT Part had recorded provisions in the amount of R$17.9 million in relation to these proceedings.

- *Subscription fees*: BrT is a defendant in several class actions and individual claims which contest the legality of the subscription fees charged for fixed-line services. BrT has been temporarily prohibited from charging certain monthly fees with respect to 15,674 of the 66,769 claimants. Notwithstanding this temporary prohibition, the superior courts have been rendering decisions that uphold the right to charge subscription fees.

BrT and BrT Part have been party to a number of legal proceedings involving them and their former shareholders and directors and executive officers.

- *Proceedings against the ex-officers of BrT.* Former officers of BrT and BrT Part initiated internal investigations of the previous officers of both companies that had been appointed by the Opportunity Fund, a previous shareholder of the companies. These investigations uncovered indications of abuse of control, non-compliance with fiduciary obligations, conflicts of interest, violations of law and of such companies' bylaws. Consequently, BrT and BrT Part filed a claim with the CVM against certain previous officers, the Opportunity Fund as well as other parties.

  In April 2008, a Public Instrument of Resignation and Termination was executed, through which BrT, BrT Part and Opportunity Fund agreed upon terms to settle ongoing claims in the amount of R$175.5 million. On April 25, 2008, we, BrT, BrT Part and its affiliates, the Opportunity Fund and certain other parties from the Opportunity group entered into an agreement to settle all pending judicial claims and release the parties from current and future claims.

- *Claims regarding BrT Trust.* In September 2003, BrT's management entered into an Irrevocable Trust Agreement and Declaration ("Trust Agreement") to constitute a trust for the benefit of BrT and transfer to it the rights arising from certain proceedings disclosed on BrT's financial statements. Mr. Roberto Mangabeira Unger, the trustee, was appointed to represent BrT's interests, the sole beneficiary of the trust, in any such proceedings.

  In September 2004, a division of the CVM granted a favorable decision on behalf of BrT and BrT Part recognizing the effectiveness of the trust in Brazil. An appeal was filed by the Administrative Council of the CVM, which is pending as of the date of this offering memorandum.

  In July 2006, BrT filed a claim with the Probate Court of the Commonwealth of Massachusetts requesting that Professor Claudio M. Considera substitute Mr. Roberto Mangabeira Unger as agent of the trust. CVC/Opportunity Equity Partners Administradora de Recursos Ltda. opposed the request stating that they were entitled to nominate the successor to the trustee. In March 2007, BrT filed a second claim before the Probate Court of the Commonwealth of Massachusetts against CVC/Opportunity Equity Partners Administradora de Recursos Ltda. and Mr. Roberto Mangabeira Unger, which was consolidated with the first. The second claim also requested that BrT be granted the authority to unilaterally amend the Trust Agreement in order to eliminate Opportunity's right to nominate the successor to the trust's agent. Mr. Unger filed an appeal, which was contested by BrT, in order to reaffirm its claims against Mr. Unger.

  On April 25, 2008, we, BrT, BrT Part and its affiliates, Opportunity Fund and others parties from the Opportunity Bank group entered into an agreement to settle all pending judicial claims related to the Trust Agreement. Mr. Unger resigned on August 28, 2008, and BrT appointed Mr. Filipe Laudo de Camargo as its new trustee. As of the date of this offering memorandum, the trust is in the process of being terminated.

Labor claims

BrT is party to a large number of labor claims arising in the ordinary course of its businesses. As of December 31, 2008, the total estimated contingency in connection with labor claims against BrT in respect of which the risk of loss was deemed possible or probable totaled R$1,062 million, and BrT had recorded provisions of R$427 million related to these claims. A majority of these claims relate to:

- performance-based bonus plans;

- promotions;
- wage parity claims seeking equal pay among employees who do the same kind of work, within a given period of time, and have the same productivity and technical performance;
- risk premium payments sought by employees working in dangerous conditions;
- overtime wages;
- joint liability allegations by employees of third-party service providers;
- productivity in terms of quality and quantity of work;
- claims by employees of third parties seeking to establish a direct employer-employee relationship with BrT;
- claims seeking rehiring; and
- voluntary retirement programs and other worker indemnification claims.

BrT is also subject to the following claims:

- BrT is the defendant in a public class action filed by the Ministry of Labor of Curitiba in relation to a reorganization process involving the dismissal of 648 employees. The Superior Labor Court confirmed the decision rendered by the lower courts which provided for the rehiring of such employees. BrT filed an appeal before the Supreme Court, and, as of the date of this offering memorandum, such appeal is pending. If the opinion of the lower courts is upheld on appeal, we will have to rehire such employees. We have not recorded any provisions in relation to these proceedings.
- In 1984, 1,478 employees filed a wage parity claim against Telesc, a predecessor of BrT. In 1998, the lower courts allowed the claim to proceed and thereafter the parties have been litigating amounts in connection therewith. BrT, through an appeal, successfully excluded those employees hired before 1976, consequently reducing the total number of claimants to 818. As of the date of this offering memorandum, BrT had entered into agreements with 634 employees which involve a total amount of R$63.6 million, and BrT Part has established reserves amounting to R$19.2 million for the remaining employees.
- In 1984, 1,480 employees filed a claim against Telesc whereby they challenged amounts paid as part of a profit sharing program. The lower courts found that 1,088 employees had the right to receive additional amounts. As of December 31, 2008, BrT had entered into agreements with 1,057 claimants involving a total amount of R$50 million, and BrT Part has recorded provisions in the amount of R$3.8 million for the remaining agreements.

Claims relating to Telebrás

The legality of the breakup and privatization of Telebrás has been challenged in numerous legal proceedings, a large majority of which have now been dismissed. A few, however, are still pending. We believe that the final resolution of these proceedings will not have a material adverse effect on our business, financial condition and results of operations.

Telebrás is party to various judicial proceedings and subject to certain other claims and contingencies. Under the terms of the breakup and privatization of Telebrás, Telebrás remains liable for acts committed by Telebrás prior to the date of its breakup and privatization, except for labor and tax related claims, for which Telebrás and its successors (including Telemar and BrT) are jointly and severally liable. We believe that the risk that one of these claims would have a material adverse effect on either us or BrT is remote.

MANAGEMENT

Directors and senior management of Telemar

Our board of directors (*conselho de administração*) and our board of executive officers (*diretoria*) are responsible for operating our business. Our controlling shareholder, TNL, is entitled to appoint all of the members of our board of directors and has the power to determine the decisions to be taken by our shareholders' meetings on matters of our management that require the prior authorization of our shareholders. See "Risk Factors — Risks relating to our company and the Brazilian telecommunications industry — Our controlling shareholder, TmarPart, has control over us and our controlled companies."

Board of directors

Our board of directors is a decision-making body responsible for, among other things, determining policies and guidelines for our business and our wholly-owned subsidiaries and controlled companies. Our board of directors also supervises our board of executive officers and monitors its implementation of the policies and guidelines that are established from time to time by the board of directors. Under the Brazilian Corporation Law, our board of directors is also responsible for hiring independent accountants.

Our bylaws provide for a board of directors of between three and seven members and a corresponding number of alternate members. During periods of absence or temporary unavailability of a regular member of our board of directors, the corresponding alternate member substitutes for the absent or unavailable regular member.

The members of our board of directors are elected at general meetings of shareholders for three-year terms and are eligible for reelection. The terms of all current members expire at our annual shareholders' meeting in August 2011. Members of our board of directors are subject to removal at any time with or without cause at a general meeting of shareholders. Although our bylaws do not contain any citizenship or residency requirements for members of our board of directors, the members of our board of directors must be shareholders of our company. Our board of directors is presided over by the chairman of the board of directors, and, in his absence, on an interim basis, by another member appointed by the chairman. The chairman of our board of directors is elected at a general meeting of shareholders from among the members of our board of directors, serves for one-year terms and is eligible for reelection.

Our board of directors ordinarily meets four times a year and extraordinarily when a meeting is called by the chairman or any two other members of our board of directors. Decisions of our board of directors require a quorum of a majority of the directors and are taken by majority vote.

The following table sets forth certain information with respect to the current members of our board of directors and their alternates.

Name	Member Since	Position Held	Age
José Mauro Mettrau Carneiro da Cunha	2007	Chairman	59
Júlio César Pinto	2007	Member	57
Luiz Eduardo Falco Pires Corrêa	2005	Member	48
João Carlos de Almeida Gaspar	2008	Member	45
José Augusto da Gama Figueira	2002	Alternate member	61
Otávio Marques de Azevedo	2002	Alternate member	57
João José de Araújo Pereira Pavel	2008	Alternate member	26
Pedro Jereissati	2002	Alternate member	30
Cláudio José Carvalho de Andrade	2008	Alternate member	38

We summarize below the business experience, areas of expertise and principal outside business interests of our current directors and their alternates. Except as otherwise set forth below, the business address of

- each of our current directors is as follows: (i) José Mauro Mettrau Carneiro da Cunha, Praia de Botafogo 300, 11th floor, room 1101, Botafogo, Rio de Janeiro, RJ, Brazil; (ii) Julio César Pinto and Luiz Eduardo Falco Pires Corrêa, Rua Humberto de Campos 425, 8th floor, Leblon, Rio de Janeiro, RJ, Brazil; and (iii) João Carlos de Almeida Gaspar, Rua Joaquim Floriano 100, 19th floor, suite 191, Itaim Bibi, São Paulo, SP, Brazil; and
- each of our alternate directors is as follows: (i) José Augusto da Gama Figueira, Praia de Botafogo 300, 11th floor, room 1101, Botafogo, Rio de Janeiro, RJ, Brazil; (ii) Otávio Marques de Azevedo, Rua Dr. Geraldo Campos Moreira 375 — 9th floor, Brooklin Novo, São Paulo, SP, Brazil; (iii) João José de Araújo Pereira Pavel, Rua Praia de Botafogo, 300, 4th floor, Botafogo, Rio de Janeiro, RJ, Brazil; (iv) Pedro Jereissati, Av. Dr. Chucri Zaidan, 920 Torre I, 16th floor, Vila Cordeiro, SP, Brazil; and (v) Cláudio José Carvalho de Andrade, Av. Ataulfo de Paiva, 204, 10th floor, Leblon, Rio de Janeiro, RJ, Brazil.

Directors

José Mauro Mettrau Carneiro da Cunha

Mr. Cunha is a member of our board of directors. Mr. Cunha has held several executive positions at BNDES and was a member of its board of executive officers from 1991 to 2002. He was the vice president of strategic planning of Braskem S.A. from 2003 to 2005. He was a member of the board of directors of Light Serviços de Eletricidade S.A. from 1997 to 2000, Aracruz Celulose S.A. from 1997 to 2002, FUNTTEL-Fundo para o Desenvolvimento Tecnológico das Telecomunicações from 2000 to 2002 and FUNCEX- Fundação Centro de Estudos do Comércio Exterior from 1997 to 2002. He served as a member of the board of directors of Politeno Indústria e Comércio S.A. from 2003 to 2005 and has served as an alternate board member since 2005. Mr. Cunha holds a bachelor's degree in mechanical engineering from the Universidade Católica de Petrópolis in Rio de Janeiro and a master's degree in industrial and transportation projects from COPPE/Universidade Federal do Rio de Janeiro. He attended the Executive Program in Management at the Anderson School at the University of California in Los Angeles.

Júlio César Pinto

Mr. Pinto is an executive officer of our company and a member of our board of directors. He was appointed both as an executive officer and as the officer responsible for our internal audit function in 2002. Mr. Pinto has held several positions in the financial areas of large companies including MRS Logística S.A., ATL — Algar Telecom Leste S.A. (Claro), Globex Utilidades S.A., Aracruz Celulose S.A., Xerox do Brasil S.A. and Minerações Brasileiras Reunidas S.A. He holds a bachelor's degree in accounting from the Faculdade Morães Júnior, and he completed several courses in the United States, including the Stanford University Financial Management Program, the Xerox Corporation Middle Management Program and the Bourse Game for Citibank N.A.

Luiz Eduardo Falco Pires Corrêa

Mr. Falco is our chief executive officer and a member of our board of directors. Previously, he was the chief executive officer of our subsidiary Oi. He worked for TAM S.A. in several capacities, including production manager, technology officer and as vice president of marketing and sales. Mr. Falco holds a bachelor's degree in aviation engineering from the Instituto Tecnológico da Aeronáutica and has completed continuing education courses in marketing and finance from Fundação Getúlio Vargas.

João Carlos de Almeida Gaspar

Mr. Gaspar is a member of our board of directors. He worked as an investment manager of a "Family Office" from 1998 until 2003 when he founded Unity Capital Gestão de Investimentos. He has worked for the capital markets areas of several companies, including Supra Corretora de Valores, Banco Iochpe de Investimentos and Itaú CCVM. He was a member of the boards of directors and audit committees for several telecommunications companies, including Telepará S.A., CRT S.A., Telesc Celular S.A., Telepar Celular S.A. and Brasil Telecom. He holds a law degree and an MBA from IBMEC.

Alternate directors

José Augusto da Gama Figueira

Mr. Figueira is an alternate member of our board of directors. He has also served as a member of the board of directors of TNL since 2003 (as a nominee of TNL's controlling shareholder), president of Instituto Telemar since 2001 and an officer of TmarPart since 1999. He was an executive officer of Pegasus, an Andrade Gutierrez company, from 1997 to 1999, and a member of the fiscal council of Telecomunicações do Espírito Santo S.A., Telecomunicações do Piauí S.A. and Telecomunicações do Amazonas S.A. in 1999. He holds a bachelor's degree in electrical engineering from the Universidade do Estado do Rio de Janeiro and an MBA from Fundação Getúlio Vargas.

Otávio Marques de Azevedo

Mr. Azevedo is an alternate member of our board of directors. He served as an executive vice president of TNL from 1998 to 1999 and was responsible for the implementation of TNL's first business plan. He was the chairman of ANATEL's consulting board from 2001 to 2002. He is also the chief executive officer of AG Telecom S.A., one of the major shareholders of TmarPart. He has served as president of Grupo Andrade Gutierrez S.A. and Andrade Gutierrez Telecomunicações Ltda. since 1993, and was the vice president of Telebrás S.A. from 1991 to 1993. Mr. Azevedo holds a bachelor's degree in electrical engineering from Pontifícia Universidade Católica de Minas Gerais.

João José de Araújo Pereira Pavel

Mr. Pavel is an alternate member of our board of directors. He worked in the investment area for Grupo Andrade Gutierrez and became a manager of financial projects in 2006. He returned to the investment area of Grupo Andrade Gutierrez in 2008. He holds a degree in economics from IBMEC in Rio de Janeiro.

Pedro Jereissati

Mr. Jereissati is an alternate member of our board of directors. He is also a member of the board of directors of TmarPart, Contax Participações S.A. and an officer of Instituto Telemar. He has served as a director of Iguatemi Empresa de Shopping Centers S.A. since 2007 and as that company's investor relations officer and chief financial officer since 2005. He joined the Jereissati Group in 1995 and worked in the operational area in

Empresa de Shopping Centers S.A. In 1998, after the acquisition of TNL by TmarPart, he was transferred to LF Tel S.A., the telecommunications company of the Jereissati Group. He became the new business officer of La Fonte Participações in 2001. He was appointed as a member of the Brazilian Economic and Social Council in 2003. Mr. Jereissati holds a degree in business administration from Fundação Armando Álvares Penteado and has an MBA from Kellogg School of Management of Northwestern University.

Cláudio José Carvalho de Andrade

Mr. Andrade is an alternate member of our board of directors. He co-founded Polo Capital in 2002, where he is responsible for the banking sector and the risk area. He began his career at Banco de Investimento Garantia

S.A. in 1993, and was responsible for the proprietary equities portfolio from 1997 to 2002. He has a degree in business administration from Fundação Getúlio Vargas in São Paulo.

Board of executive officers

Our board of executive officers is our executive management body. Our executive officers are our legal representatives and are responsible for our internal organization and day-to-day operations and the implementation of the general policies and guidelines established from time to time by our board of directors.

Our bylaws require that the board of executive officers consist of a chief executive officer, a finance director and an investor relations director and up to eight additional members, each responsible for business areas that our board of directors assigns to them. The members of our board of executive officers, other than our chief executive officer, finance director and an investor relations director, have no formal titles (other than the title of executive officer or "*Diretor*").

The members of our board of executive officers are elected by our board of directors for three-year terms, corresponding to the terms of the members of our board of directors, and are eligible for reelection. The current term of all of our executive officers ends at our annual shareholders' meeting in August 2011. Our board of directors may remove any executive officer from office at any time with or without cause. According to the Brazilian Corporation Law, executive officers must be residents of Brazil but need not be shareholders of our company. Our board of executive officers holds meetings when called by our chief executive officer.

The following table lists the current members of our board of executive officers:

Name	First Year of Appointment	Position Held	Age
Luiz Eduardo Falco Pires Corrêa	2005	Chief Executive Officer	48
Alex Waldemar Zornig	2008	Chief Financial and Investor Relations Officer	50
Júlio César Pinto	2002	Officer	57
Paulo Altmayer Gonçalves	2006	Officer	57

We summarize below the business experience, areas of expertise and principal outside business interests of our current executive officers. The business address of each of our current executive officers is Rua Humberto de Campos 425, 8th Floor, Leblon, Rio de Janeiro, RJ, Brazil.

Luiz Eduardo Falco Pires Corrêa. See "— Board of directors."

Alex Waldemar Zornig. Mr. Zornig was appointed our chief financial officer and investor relations director in November 2008. He began his career at PriceWaterhouse where he worked for 14 years (including three years in London) and last served in the capacity of an officer. He served as chief financial officer — head of corporate administrative services at BankBoston, where he worked for 13 years (including two years in Boston). He has also served as an officer at Banco Itaú. Prior to joining our company, Mr. Zornig was an executive vice president at Banco Safra, where he was in charge of all support areas of the bank. Mr. Zornig holds a degree in accounting from the University of São Paulo, an MBA from Fudação Getúlio Vargas and a post-graduate degree from the London Business School.

Júlio César Pinto. See "— Board of directors."

Paulo Altmayer Gonçalves

Mr. Gonçalves is our technology officer in charge of the engineering, operations, information technology and administrative services. Mr. Gonçalves started his professional career as a computer programmer in the data processing center of the Universidade Federal do Rio Grande do Sul where he was professor of programming

techniques. He has worked for companies such as Crefisul S.A., Companhia de Processamento de Dados do Estado do Rio Grande do Sul S.A., Hewlett Packard HP S.A. and Digitel S.A. Indústria Eletrônica. He participated in the start-up operations of trunking, digital and pager companies linked to MCOM such as, Kathrein Mobilcom Brasil Ltda. and Mcomcast Ltda. He has also served as sales and marketing officer for the Band B mobile services provider, Telet S.A. (Claro). He was appointed as a member of our board of executive officers with the mission to acquire a Band D mobile license in Region I. In 2001, after the company obtained its Band D license, Mr. Gonçalves helped to build our GSM services. He holds a bachelor's degree in electrical engineering from the Universidade Federal do Rio Grande do Sul.

Fiscal council of Telemar

The Brazilian Corporation Law requires us to establish a permanent or non-permanent fiscal council (*conselho fiscal*). Our bylaws provide for a permanent fiscal council composed of between three and five members and their respective alternate members. The fiscal council is a separate corporate body independent of our management and our independent accountants. The primary responsibility of the fiscal council is to review our management's activities and our financial statements and to report their findings to our shareholders.

The members of our fiscal council are elected by our shareholders at the annual general shareholders' meeting for one-year terms and are eligible for reelection. The terms of the members of our fiscal council expire at the next annual general shareholders' meeting. Under the Brazilian Corporation Law, the fiscal council may not contain members who are members of our board of directors or our board of executive officers or are employees or spouses or relatives of any member of our management. To be eligible to serve on our fiscal council, a person must be a resident of Brazil and either be a university graduate or have been a company officer or fiscal council member of another Brazilian company for at least three years prior to election to our fiscal council. Holders of preferred shares without voting rights and non-controlling common shareholders that together hold at least 10.0% of our voting share capital are each entitled to elect one member and his or her respective alternate to the fiscal council.

The following table lists the current members of our fiscal council and their alternates:

Name	First Year of Appointment
Sérgio Bernstein (President)	2008
Fernando Linhares Filho (Member)	2002
Marcos Duarte Santos (Member)	2007
Sidnei Nunes (Alternate Member)	2007
Denis Kleber Gomide Leite (Alternate Member)	2008
Gustavo Fernandes Morães (Alternate Member)	2008

We summarize below the business experience, areas of expertise and principal outside business interests of the current members of our fiscal council and their alternates.

Members of fiscal council

Sérgio Bernstein

Mr. Bernstein is the president of our fiscal council. He has served as an alternate member of the board of directors and vice president of the Jereissati companies since 1990. He has extensive experience serving as an officer of Brazilian companies. Mr. Bernstein started his career as a trainee in finance at General Electric S.A. in Brazil in 1961 where he held several managerial positions and was elected vice president of finance in 1984. Mr. Bernstein holds a degree in civil engineering from the National School of Engineering in Rio de Janeiro.

Fernando Linhares Filho

Mr. Linhares is a member of our fiscal council. He has worked as a trader for various brokerage firms including CAPTA S.A. and Lincoln Rodrigues S.A., among others. He held various executive positions in companies such as Guanaminas S.A., SoValores S.A. and Patriarca Assessoria e Consultoria Ltda. He has served as a member of the fiscal council of Telesp S.A. and Telerj S.A. He is also a member of the board of directors of TNL. Mr. Linhares holds an MBA from the Faculdade Nacional de Ciências Econômicas.

Marcos Duarte Santos

Mr. Santos is a member of our fiscal council. He was a vice president in Rio de Janeiro for Bankers Trust Company from 1994 to 1996 and a vice president in New York from 1996 to 1997. He was a vice president and fixed income trader at CSFBGarantia from 1997 to 1998. He served as a member of the fiscal councils of Tele Norte Celular S.A., Tele Ceará S.A. and Tele Espírito Santo S.A. from 2001 to 2002. He graduated with a degree in production engineering from the Universidade Federal do Rio de Janeiro.

Sidnei Nunes

Mr. Nunes is a member of our fiscal council. Mr. Nunes is currently a member of the boards of directors of Iguatemi Empresa de Shopping Centers S.A., LFTEL S.A. and Grande Moinho Cearense S.A. Mr. Nunes is a financial officer and controller of several companies of the Jereissati Group. Mr. Nunes was a member of the fiscal council of some of our subsidiaries in the states of Ceará and Sergipe from 2000 to 2001. Mr. Nunes holds a degree in business administration and accounting from the Faculdade de Administração Paulo Eiró and an MBA from the University of São Paulo.

Denis Kleber Gomide Leite

Mr. Leite is a member of our fiscal council. Mr. Leite is a member of the board on economic matters for the commercial trade association of the State of Minas Gerais (*Conselho de v.c. Assuntos Econômicos da Associação Comercial de Minas Gerais*); the infrastructure board of the National Industry Confederation in Brazil (*Conselho de Infraestrutura da CNI — Confederação Nacional da Indústria*); the commission for technical and political matters of TELEXPO; and the São Paulo Chamber of Telecommunications and Information Technology Chamber (*Câmara Paulista de Telecomunicações e Informática*). He also has professional experience in commercial, general, financial and human resources administration, and he has held senior management positions in the following companies: Cia. de Tecnologia da Informação do Estado de Minas Gerais; Sociedade Mineira de Engenheiros; Fertilizantes Fosfatados — Fosfértil — Grupo Petrobrás Fertilizantes; Federação das Indústrias de Minas Gerais; and Instituto Horizontes e Instituto Brasileiro para o Desenvolvimento das Telecomunicações. Mr. Leite holds a degree in law from the Universidade Federal de Minas Gerais, a degree in business administration from the União de Negócios e Administração and a master's degree in financial administration from the Fundação Getúlio Vargas.

Gustavo Fernandes Morães

Mr. Morães is a member of our fiscal council. He is a partner at Unity Capital Asset Management Ltda. He worked as a financial analyst at Cotia Trading S.A. and at Banco BBA Creditanstalt S.A. as trainee and as an analyst. He also worked as a financial analyst at Enron South America S.A. and as a trader at Banco Itaú S.A. Mr. Morães is a member of the board of Medial Saúde S.A. Mr. Morães holds a bachelor's degree in business administration from Fundação Getúlio Vargas and has a master's degree in applied mathematics from the Universidade de São Paulo.

Compensation of directors and senior management of Telemar

According to our bylaws, our shareholders are responsible for establishing the aggregate compensation we pay to the members of our board of directors, our board of executive officers and our fiscal council.

Our shareholders determine this aggregate compensation at the general shareholders' meeting each year. Once aggregate compensation is established, the members of the board of directors are responsible for distributing such aggregate compensation individually to the members of our board of directors, our board of executive officers and our fiscal council in compliance with our bylaws. Our board of directors does not have a compensation committee.

Compensation and benefits

The aggregate compensation paid by us to all members of our board of directors, board of executive officers and our fiscal council for services in all capacities was R$30.5 million in 2007 and R$38.4 million in 2008.

We compensate our alternate directors for each meeting of our board of directors that they attend. We also compensate alternate members of our fiscal council for each meeting of our fiscal council that they attend.

Our executive officers receive the same benefits generally provided to our employees, such as medical (including dental) assistance, private pension plan and meal vouchers. Like our employees, our executive officers also receive a yearly bonus equal to one month's salary (known as the "thirteenth" (monthly) salary in Brazil), an additional one-third of one month's salary for vacation, and contributions of 8.0% of their salary into a defined contribution pension fund known as the Guarantee Fund for Time of Service (*Fundo de Garantia por Tempo de Serviço*). Members of our board of directors and fiscal council are not entitled to these benefits. We made contributions into the Guarantee Fund for Time of Service for our executive officers in an aggregate amount of R$3.1 million during 2008.

Members of our board of directors, board of executive officers and fiscal council are not parties to contracts providing for benefits upon the termination of employment other than, in the case of executive officers, the benefits described above.

Share ownership of directors and officers of Telemar

As of April 3, 2009, the aggregate number of our common shares and preferred shares owned by our directors and executive officers represented less than 1.0% of our total share capital.

PRINCIPAL SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Principal shareholders

Telemar has two outstanding classes of equity capital stock: common shares and preferred shares with no par value. Generally, only Telemar's common shares have voting rights. Telemar's preferred shares have voting rights in exceptional circumstances only.

As of the date of this offering memorandum, the issued share capital of Telemar totaled R$7,425,505,769.63, of which R$7,418,989,126.96 is fully paid. The issued share capital is divided into 238,614,355 shares, of which 107,063,093 are common shares and 131,551,262 are preferred shares.

As of February 28, 2009, TmarPart held indirectly 97.35% of Telemar's common shares. As a result, TmarPart is able to cause the election of the majority of Telemar's board of directors and to determine Telemar's overall strategy.

TmarPart

TmarPart has two outstanding classes of share capital: common shares and preferred shares with no par value. Generally, only TmarPart's common shares have voting rights. TmarPart's preferred shares have voting rights only in exceptional circumstances.

Certain of TmarPart's shareholders are parties to shareholders' agreements that address, among other matters, (1) voting rights at TmarPart shareholders' meetings and (2) rights of first refusal and preemptive rights in respect of TmarPart shares. See "— TmarPart Shareholders' Agreements."

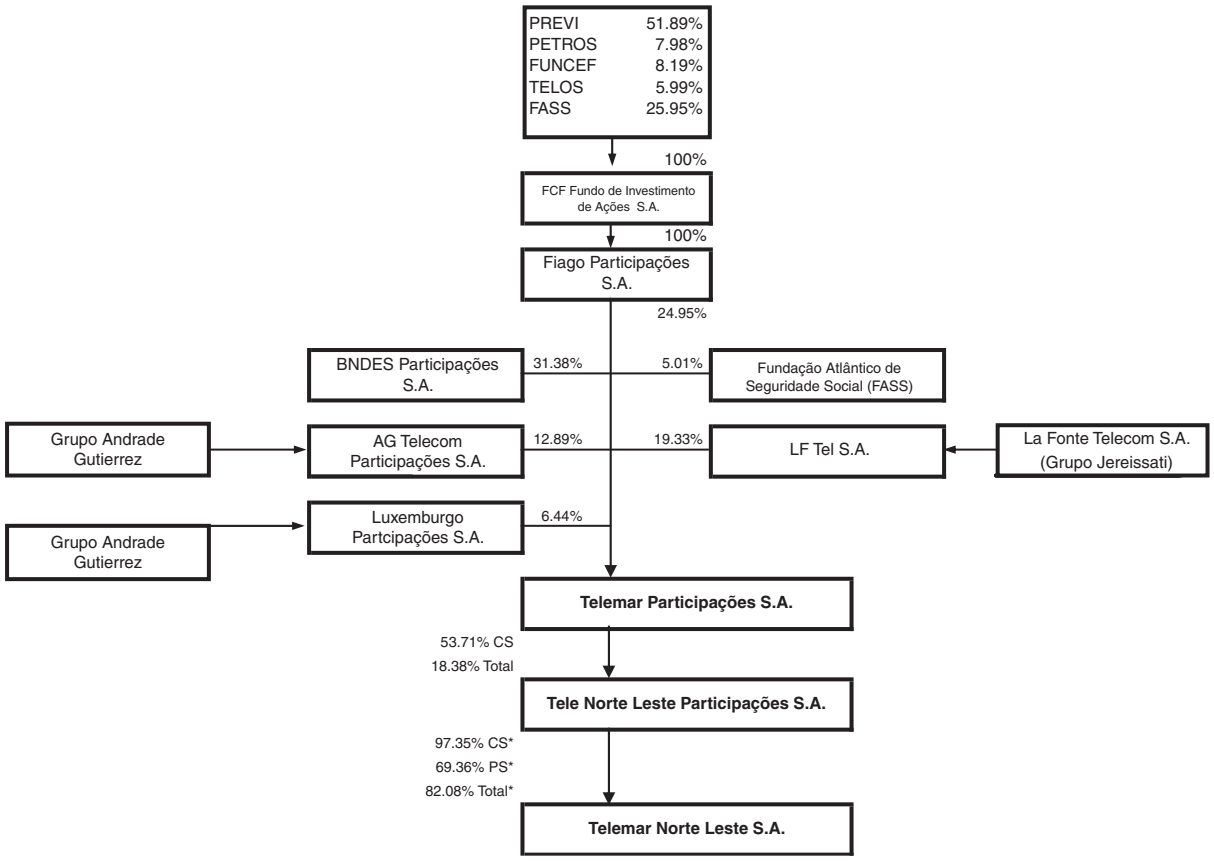
The following table sets forth information concerning the ownership of the common shares and preferred shares of TmarPart as of January 31, 2009.

	Common Shares		Preferred Shares		Total	
Name	Number of Shares	%	Number of Shares	%	Number of Shares	%
BNDES Participações S.A.	858,225,280	31.4	1,000,000	100.0	859,225,280	31.4
Fiago Participações S.A.(1)	683,147,324	25.0	—	—	683,147,324	25.0
L.F. Tel S.A.	529,095,885	19.3	—	—	529,095,885	19.3
AG Telecom Participações S.A.	352,730,590	12.9	—	—	352,730,590	12.9
Luxemburgo Participações S.A.(2)	176,365,295	6.4	—	—	176,365,295	6.4
Fundação Atlântico de Seguridade Social.	137,316,044	5.0	—	—	137,316,044	5.0

(1) Fiago Participações S.A. is a party to TmarPart's Shareholders' Agreement but does not exercise its voting rights.

(2) Luxemburgo Participações S.A. is a subsidiary of AG Telecom Participações S.A.

The chart below shows the corporate structure of TmarPart as of January 31, 2009:



* CS represents the percentage of total outstanding common shares owned by the relevant entity. PS represents the percentage of total outstanding preferred shares owned by the relevant entity. Total represents the percentage of the total outstanding share capital (common shares and preferred shares) owned by the relevant entity.

The following is a brief description of the principal shareholders of TmarPart:

BNDES Participações S.A., or BNDESPar, is a subsidiary of BNDES, which offers long-term financing to Brazilian companies to contribute to the country's development. BNDESPar is dedicated to strengthening the capital structure of private companies in Brazil and developing the capital markets in Brazil in a manner that is consistent with the operational priorities and policies established by BNDES. See "— Related party transactions — BNDES facilities."

Fiago Participações S.A., or Fiago, is a holding company that invests in other companies. Fiago was established on January 23, 1998 to invest in companies emerging from the privatization of Telebrás. Fiago is owned by five Brazilian pension funds: Caixa de Previdência dos Funcionários do Banco do Brasil — PREVI, or PREVI; Fundação Petrobras de Seguridade Social — PETROS, or PETROS; Fundação dos Economiários Federais — FUNCEF, or FUNCEF; FASS; and Fundação Embratel de Seguridade Social — TELOS, or TELOS.

L.F. Tel S.A., or L.F. Tel, is a subsidiary of La Fonte Telecom S.A., a holding company that is part of the Jereissati Group. The Jereissati Group partially owns and manages nine shopping malls in the Southern and

Southeastern regions of Brazil. In 1997, the Jereissati Group made its first investment in the telecommunications sector by acquiring a small stake in the Band B telephone mobile operators Americel and Telet, which it sold in 2001. L.F. Tel has since been investing in telecommunications in Brazil through TNL and TMAR.

AG Telecom Participações S.A., or AG Telecom, is a subsidiary of Andrade Gutierrez S.A. responsible for managing the telecommunications business of the Andrade Gutierrez Group. This Group is focused on three core businesses: (1) engineering and construction work in Brazil and abroad; (2) public concessions in Brazil; and (3) telecommunications in Brazil.

Fundação Atlântico de Seguridade Social, or FASS, is a private supplementary pension entity that we incorporated in August 2004, and which manages private pension plans for the benefit of our employees.

TmarPart shareholders' agreements

On April 25, 2008, TmarPart's shareholders entered into two shareholders' agreements. We refer to the Shareholders' Agreement among AG Telecom, L.F. Tel, Asseca, BNDESPar, Fiago, and FASS as parties, with TmarPart, PREVI, PETROS, FUNCEF and Andrade Gutierrez Investimentos Em Telecomunicações S.A., as intervening parties, as the Global Shareholders' Agreement. We refer to the Shareholders' Agreement among AG Telecom, L.F. Tel, Asseca and FASS as parties, with TmarPart and Andrade Gutierrez Investimentos Em Telecomunicações S.A., as intervening parties, as the Control Group Shareholders' Agreement.

Global Shareholders' Agreement

The initial term of the Global Shareholders' Agreement expires on the later of April 25, 2048 and the expiration date of the last to expire of the concessions or authorizations held by TmarPart or its subsidiaries. The term of the Global Shareholders' Agreement may be extended for successive periods of 10 years with the consent of each of the parties thereto.

The parties to the Global Shareholders' Agreement have agreed to the following provisions with respect to elections of members of the boards of directors and executive officers, and the voting of their shares, of TNL, TMAR, Brt Part and BrT and each of TNL's other subsidiaries that have annual net operating revenues equal to or greater that R$100 million, which we refer to as the controlled subsidiaries:

- AG Telecom, L.F. Tel and FASS will together have the right to designate a majority of the members of the board of directors of each of the controlled subsidiaries.
- Each increment of 9% of the voting share capital of TmarPart held by each of AG Telecom, L.F. Tel, Asseca, BNDESPar, Fiago and FASS will entitle that party to designate one member of the board of directors of each of the controlled subsidiaries and his or her alternate.
- AG Telecom, L.F. Tel, Asseca, BNDESPar, Fiago and FASS will together, through rules outlined in the Global Shareholders' Agreement, select the chief executive officers of each of the controlled subsidiaries.
- The chief executive officer of TNL will select the other executive officers of TNL.
- The chief executive officer of TNL in conjunction with the chief executive officer of each of the other controlled subsidiaries will select the other executive officers of that controlled subsidiary.
- BNDESPar and Fiago will together have the right to designate one member to the Fiscal Council of each of the controlled subsidiaries.
- Following the anticipated distribution of the TmarPart shares held by Fiago to PREVI, PETROS and FUNCEF, these pension funds will be entitled to aggregate their shares with BNDESPar to determine their eligibility to exercise the rights described above.

- AG Telecom, L.F. Tel, Asseca, BNDESPar, Fiago, and FASS will hold pre-meetings prior to meetings of shareholders and of the boards of directors of the controlled subsidiaries and will vote their TmarPart shares and instruct their representatives on the these boards of directors to vote in accordance with the decisions made at the pre-meetings.

Under the Global Shareholders' Agreement, each of the parties has agreed:

- not enter into other shareholders' agreements with respect to its TmarPart shares, other than the Control Group Shareholders' Agreement, and not to amend the Control Group Shareholders' Agreement without the consent of all parties to the Global Shareholders' Agreement;
- not to grant any liens on any of its TmarPart shares;
- to grant a right of first refusal and tag-along rights to the other parties to the Global Shareholders' Agreement with respect to any sale of its TmarPart shares; and
- to sell its TmarPart shares to the other parties to the Global Shareholders' Agreement in the event of a transfer of control of such shareholder.

Control Group Shareholders' Agreement

The initial term of the Control Group Shareholders' Agreement expires on April 25, 2048 and may be extended for successive periods of 10 years with the consent of each of the parties thereto.

Under the Control Group Shareholders' Agreement, each of the parties has agreed:

- to hold pre-meetings prior to the pre-meetings to be held pursuant to the Global Shareholders' Agreement and to vote their TmarPart shares in accordance with the decisions made at such pre-meetings;
- not to enter into other shareholders' agreements, other than the Global Shareholders' Agreement; and
- that any TmarPart shares sold by a party to the Control Group Shareholders' Agreement to any other party to this agreement will remain subject to this agreement.

Related party transactions

The following summarizes the material transactions that we have engaged in with our principal shareholders and their affiliates since January 1, 2006.

BNDES facilities

For a description of our credit facilities with BNDES, see "Management's Discussion and Analysis of Financial Condition and Results of Operations — Telemar — Indebtedness and financing strategies — Long-term indebtedness." For other information about these agreements, see note 19 to our consolidated financial statements at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008.

Non-convertible debentures

In December 2008, we established a private non-convertible debenture program in an aggregate principal amount of up to R$3,500 million, which amount can be increased by 20%. In December 2008, we issued non-convertible subordinated debentures in an aggregate principal amount of R$1,500 million to our parent, TNL. These debentures will mature in December 2013 and bear interest of the CDI rate plus 4.0% per annum, payable upon maturity.

Rental of transmission infrastructure

AIX, one of our joint ventures, renders services to us relating to the rental of ducts for transmission of traffic originated outside our local network in Region I. In 2006, 2007 and 2008, such costs totaled up to R$28 million, R$27 million and R$28 million, respectively.

Contax agreement

On November 30, 2004, Telemar and Oi entered into a call center services agreement with Contax, a call center business owned by related parties of Telemar, according to which Contax renders call center services to Oi on a fully outsourced basis. Telemar and Oi agreed to pay an estimated amount of R$550 million per year, subject to adjustment based on services actually rendered at the request of Telemar and Oi. This agreement was negotiated on an arm's-length basis.

Prior to such contracts, Contax performed all call center activities for Telemar and Oi, under various contracts, both on a fully outsourced as well as on a partially outsourced basis. Such partial outsourcing services were usually performed at facilities, and with equipment, owned by Telemar. Telemar was also responsible for all facilities costs incurred by Contax in connection with those services, such as general maintenance expenses and electricity.

Our relationship with Contax is currently represented by several distinct and independent services, such as customer services for our fixed-line business, outbound telemarketing to attract additional mobile customers, customer support for pre-paid and post-paid mobile telephone users, technical support for ADSL subscribers and debt collection services.

In 2006, 2007 and 2008, our total consolidated expenses for services rendered by Contax amounted to R$605 million, R$570 million and R$719 million, respectively.

DESCRIPTION OF THE NOTES

The following is a description of certain provisions of the notes offered hereby. The following information does not purport to be a complete description of the notes and is subject and qualified in its entirety by reference to the provisions of the notes and the Indenture. The notes and the Indenture, and not this description, control your rights as a noteholder. Capitalized terms used in the following summary and not otherwise defined herein shall have the meanings ascribed to them in the Indenture. Copies of the Indenture and specimen notes may be obtained, upon written request, from the Issuer, the trustee, The Bank of New York Mellon, or the Luxembourg paying agent, transfer agent and listing agent, The Bank of New York (Luxembourg) S.A.

General

Indenture

The notes will be governed by an Indenture, dated as of April 23, 2009, among the Issuer and The Bank of New York Mellon, as trustee, registrar, paying agent and transfer agent, The Bank of New York Mellon Trust (Japan), Ltd., as principal paying agent, and The Bank of New York (Luxembourg) S.A., as Luxembourg paying agent, transfer agent and listing agent. The Issuer will issue the notes under the Indenture. The trustee has the following two principal roles under the Indenture:

- First, the trustee can enforce the rights of noteholders against the Issuer if it defaults in respect of the notes. There are some limitations on the extent to which the trustee acts on behalf of the noteholders, as described under "— Remedies upon occurrence of an event of default" below.
- Second, the trustee performs administrative duties for us, such as processing debt service payments and sending notices to noteholders.

Principal, maturity and interest

The notes will initially be issued in an aggregate principal amount of US$750,000,000 and will mature at par on April 23, 2019. The principal amount of the notes will be payable in full in a single payment upon maturity unless redeemed or repurchased earlier pursuant to the terms of the Indenture.

The notes will bear interest at a fixed rate of 9.500% per annum, in each case, from the date of issuance until all required amounts due in respect thereof have been paid. Interest on the notes will be paid semi-annually in arrears on April 23 and October 23 of each year, commencing on October 23, 2009, to the persons in whose name a note is registered at the close of business, New York City time, on the preceding April 8 or October 8 (each a "Record Date"), as the case may be. Interest for the first interest period will accrue from April 23, 2009. Interest on the notes will be computed on the basis of a 360-day year of twelve 30-day months.

The principal of, premium, if any, and interest on the notes will be paid in U.S. dollars.

For purposes of all payments of interest, principal or other amounts contemplated herein, "business day" means a day, other than a Saturday or Sunday, on which commercial banks and foreign exchange markets are open, or not authorized to close, in the City of New York or São Paulo, Brazil.

Ranking

The notes will be general unsecured and unsubordinated obligations of the Issuer, will rank *pari passu* among themselves and will be:

- equal in right of payment to all other existing and future unsecured and unsubordinated debt of the Issuer;

- senior in right of payment to the Issuer's subordinated debt;
- effectively subordinated to certain obligations of the Issuer that benefit from priority of payment under applicable law; and
- effectively subordinated to secured debt of the Issuer to the extent of such security.

As of December 31, 2008, on a consolidated basis, the Issuer had R$20,408 million (US$8,733 million) aggregate principal amount of debt outstanding, of which R$3,204 million (US$1,371 million) was secured. The notes are structurally subordinated to debt and other liabilities (including trade payables) of the Issuer's subsidiaries. As of December 31, 2008, such subsidiaries had R$636 million (US$272 million) aggregate principal amount of debt outstanding (included as part of the Issuer's consolidated debt) and approximately R$1,972 million (US$844 million) of trade payables (net of intercompany trade payables).

On a pro forma basis, giving effect to the BrT Transaction, the Issuer would have had R$25,483 million (US$10,904 million) aggregate principal amount of debt outstanding as of December 31, 2008. As of that date, on a pro forma basis, giving effect to the BrT Transaction, the Issuer's subsidiaries would have had R$5,711 million (US$2,444 million) aggregate principal amount of debt outstanding and approximately R$4,416 million (US$1,890 million) of trade payables (net of intercompany trade payables).

Listing

Application has been made to list the notes on the Luxembourg Stock Exchange and to trade the notes on the Euro MTF Market. The Issuer will use commercially reasonable efforts to obtain and maintain listing of the notes on the Luxembourg Stock Exchange; however, the notes are not yet listed, and the Issuer cannot assure the holders of the notes that they will be accepted for listing.

Luxembourg paying agent, transfer agent and listing agent

The Bank of New York (Luxembourg) S.A. shall be the Luxembourg paying agent, transfer agent and listing agent in respect of the notes. The Issuer will maintain such appointments so long as the notes are listed on the Luxembourg Stock Exchange, and the rules of the exchange so require.

Further issuances

Under the Indenture, the Issuer may from time to time, without the consent of the holders of the notes, issue additional notes on terms and conditions identical to those of the notes, which additional notes shall increase the aggregate principal amount of, and shall be consolidated, form a single series and vote together with, the notes, provided that no default or event of default under the Indenture shall have occurred and then be continuing or shall occur as a result of such additional issuance.

Payments of principal and interest

Payment of the principal of the notes, together with accrued and unpaid interest thereon, or payment upon redemption prior to maturity, will be made only:

- following the surrender of the notes at the office of the trustee or any other paying agent; and
- to the person in whose name the note is registered as of the close of business, New York City time, on the business day prior to the due date for such payment.

Payments of interest on a note, other than the last payment of principal and interest or payment in connection with a redemption of the notes prior to maturity, will be made on each payment date to the person in whose name the note is registered at the close of business, New York City time, on the relevant Record Date.

Payments of principal and interest shall be made by depositing immediately available funds in U.S. dollars into an account maintained by, or on behalf of, the trustee, acting on behalf of the noteholders.

The notes will initially be represented by two or more global notes, as described herein. Payments of principal and interest on the global notes will be made by wire transfer of U.S. dollars to DTC or to its nominee as the registered holder of the notes, which will receive the funds for distribution to the owners of beneficial interests in the notes. All such amounts will be payable by one or more paying agents upon receipt of the amount due in respect of each global note. DTC will credit DTC participants' accounts in amounts proportionate with their respective ownership of beneficial interests as shown in the records of DTC and its participants, including Euroclear Bank S.A./N.V. ("Euroclear") and Clearstream Banking, société anonyme ("Clearstream"). It is expected that payments by participants to owners of beneficial interests held through such participants or indirect participants will be governed by standing customer instructions and customary practices and will be the responsibility of such participants or indirect participants. None of the Issuer, the trustee, registrar, transfer agent or any paying agent shall have any responsibility or liability for any of the records of, or payments made by, DTC or its nominee.

If any scheduled interest or principal payment date or any date for early redemption of the notes is not a business day, the payment will be made on the next business day. No interest on the notes will accrue as a result of this delay in payment.

Subject to applicable law, the trustee and the paying agents will pay to the Issuer upon request any monies held by them for the payment of principal or interest that remains unclaimed for two years. Thereafter, noteholders entitled to these monies must seek payment from the Issuer.

Absence of restrictive covenants

The Indenture will not contain any covenants restricting the ability of the Issuer to (i) make payments, (ii) incur Indebtedness (as defined herein), (iii) dispose of assets, (iv) issue and sell capital stock, (v) create or incur liens on its property, except as noted below, or (vi) engage in business other than its present business.

Certain covenants

For so long as any of the notes are outstanding and the Issuer has obligations under the Indenture or the notes, the Issuer will, and will cause each of its subsidiaries to, comply with the terms of the covenants, among others, set forth below:

Payment obligations under the notes and the Indenture

The Issuer shall duly and punctually pay all amounts owed by it under the terms of the notes and the Indenture.

Performance obligations under the notes and the Indenture

The Issuer will duly and punctually perform, comply with and observe all obligations and agreements to be performed by it set forth under the terms of the notes and the Indenture (collectively, the "transaction documents").

Maintenance of corporate existence

The Issuer will, and will cause each of its Material Subsidiaries to, maintain in effect its corporate existence and all registrations necessary therefor and take all actions to maintain all rights, privileges, titles to property, franchises and the like necessary or desirable in the normal conduct of its businesses, activities or operations,

provided that this covenant shall not require the Issuer or any of its Material Subsidiaries to maintain any such right, privilege, title to property, franchise or the like or require the Issuer to preserve the corporate existence of any of its Material Subsidiaries, if the failure to do so would not have a material adverse effect on the Issuer and its Material Subsidiaries taken as a whole or have a material adverse effect on the rights of the noteholders.

Maintenance of government authorizations

The Issuer will, and the Issuer will cause its subsidiaries to, duly obtain and maintain in full force and effect all consents, concessions, authorizations, approvals or licenses of any government or governmental agency or authority under the laws of Brazil or any other jurisdiction having jurisdiction over the Issuer or any of its subsidiaries, as the case may be, necessary in all cases for the Issuer or any of its subsidiaries, as the case may be, (i) to operate the business of offering telecommunications services in Brazil, including without limitation any concession (each, a "Concession") and any authorization or approval (each, an "Authorization") granted by the Brazilian government to offer telecommunications services in Brazil, and (ii) to perform its obligations under the transaction documents, including, without limitation, any authorization that may be required to obtain and transfer U.S. dollars or any other currency which at that time is legal tender in the United States out of Brazil in connection with the notes and the Indenture, except, in the case of both (i) and (ii) above, where the failure to do so would not have a material adverse effect on the Issuer and its subsidiaries taken as a whole or have a material adverse effect on the rights of the noteholders.

Maintenance of office or agency

The Issuer will maintain an office or agency in the Borough of Manhattan, the City of New York, where notices to and demands upon the Issuer in respect of the Indenture and the notes may be served. Initially this office will be at the offices of CT Corporation System located at 111 Eighth Avenue, New York, NY 10011, and the Issuer will agree not to change the designation of such office without prior written notice to the trustee and designation of a replacement office in the same general location.

Ranking

The Issuer will ensure that the notes will constitute general senior, unsecured and unsubordinated obligations of the Issuer, and will rank *pari passu*, without any preferences among themselves, with all other present and future unsecured and unsubordinated obligations of the Issuer, and senior in right of payment to the Issuer's subordinated debt (other than obligations preferred by statute or by operation of law).

Notice of certain events

The Issuer will give written notice to the trustee, as soon as is practicable and in any event within ten calendar days after the Issuer becomes aware, or should reasonably become aware, of the occurrence of any event of default or an event which with the passage of time or notice may become an event of default (a "default"), accompanied by a certificate of a responsible officer of the Issuer setting forth the details of such event of default or default and stating what action the Issuer proposes to take with respect thereto.

Limitation on consolidation, merger, sale or conveyance

Other than as provided below, the Issuer will not, in one or a series of transactions, consolidate or amalgamate with or merge into any Person or convey, lease or transfer all or substantially all of its assets to any person or permit any person to merge with or into it unless:

(a) the Issuer is the continuing entity, or the Person formed by such consolidation or into which the Issuer is merged or that acquired or leased such property or assets of the Issuer will be a company organized and validly existing under the laws of Brazil or the United States and shall assume (jointly and severally with the Issuer unless the Issuer shall have ceased to exist as part of such merger,

consolidation or amalgamation), by a supplemental indenture (the form and substance of which shall be previously approved by the trustee), all of the Issuer's obligations under the notes and the Indenture;

(b) the successor company (jointly and severally with the Issuer unless the Issuer shall have ceased to exist as part of such merger, consolidation or amalgamation) agrees to indemnify each noteholder against any tax, assessment or governmental charge thereafter imposed on such noteholder solely as a consequence of such consolidation, merger, conveyance, transfer or lease with respect to the payment of principal of, or interest on, the notes;

(c) immediately after giving effect to the transaction, no event of default, or default has occurred and is continuing;

(d) the Issuer has delivered to the trustee an officer's certificate and an opinion of counsel, each stating that the transaction and the supplemental indenture, if applicable, comply with the Indenture and that all conditions precedent provided for in the Indenture and relating to such transaction have been complied with; and

(e) the Issuer shall have delivered notice of any such transaction to Fitch and Moody's (each as defined below) (which notice shall contain a description of such merger, consolidation or conveyance).

Notwithstanding anything to the contrary in the foregoing, so long as no default or event of default shall have occurred and be continuing at the time of such proposed transaction or would result therefrom:

(1) the Issuer may merge or consolidate with or into, or convey, transfer, lease or otherwise dispose of assets to a subsidiary of the Issuer in cases when the Issuer is the surviving entity in such transaction and such transaction would not have a material adverse effect on the Issuer and its subsidiaries taken as a whole, it being understood that if the Issuer is not the surviving entity, the Issuer shall be required to comply with the requirements set forth in the previous paragraph; or

(2) any subsidiary of the Issuer may merge or consolidate with or into, or convey, transfer, lease or otherwise dispose of assets to, any Person in cases when such transaction would not have a material adverse effect on the Issuer and its subsidiaries taken as a whole; or

(3) any subsidiary of the Issuer may merge or consolidate with or into, or convey, transfer, lease or otherwise dispose of assets to the Issuer or any other subsidiary of the Issuer.

Limitation on liens

The Issuer will not, and will not cause or permit any of its Material Subsidiaries (as defined below) to, issue, be liable in respect of, assume or guarantee any Indebtedness, if that Indebtedness is secured by a Lien upon any property of any such Person now owned or hereafter acquired, unless, together with the issuance, assumption or guarantee of such Indebtedness, the notes shall be secured equally and ratably with (or prior to) such Indebtedness.

This restriction does not apply to:

(a) any Lien in existence on the date of the Indenture;

(b) any Lien on any property acquired, constructed or improved by the Issuer or any of its subsidiaries after the date of the Indenture, which is created, incurred or assumed contemporaneously with, or within 12 months after, that acquisition (or in the case of any such property constructed or improved, after the completion or commencement of commercial operation of such property, whichever is later) to secure or provide for the payment of any part of the purchase price of such property or the costs of that construction or improvement (including costs such as escalation, interest during construction and finance costs); provided that in the case of any such construction or improvement the Lien shall not apply to any other property owned by the Issuer or any of its subsidiaries, other than any unimproved real property on which the property so constructed, or the improvement, is located;

(c) any Lien on any property which secures Indebtedness owing to an Official Lender;

(d) easements, rights-of-way and other encumbrances ("real property encumbrances") on title to real property that do not render title to the property encumbered thereby unmarketable, materially reduce the value thereof or materially adversely affect the use of such property for its intended purposes either individually or in the aggregate when taken together with all such real property encumbrances in existence at such time;

(e) any Lien on any property existing at the time of its acquisition and which is not created as a result of or in connection with or in anticipation of that acquisition (unless such Lien was created to secure or provide for the payment of any part of the purchase price of such property);

(f) any Lien on any property acquired from a corporation or any other Person which is merged with or into the Issuer or its subsidiaries, or any Lien existing on property of a corporation or any other Person which existed at the time such corporation becomes a subsidiary of the Issuer and, in either case, which is not created as a result of or in connection with or in anticipation of any such transaction (unless such Lien was created to secure or provide for the payment of any part of the purchase price of such corporation);

(g) any Lien which secures only Indebtedness owing by any of the Issuer's subsidiaries, to one or more of the Issuer's subsidiaries or to the Issuer and one or more of the Issuer's subsidiaries;

(h) any extension, renewal or replacement (or successive extensions, renewals or replacements), in whole or in part, of any Lien referred to in the foregoing paragraphs (a) through (g) inclusive; provided that the principal amount of Indebtedness secured thereby shall not exceed the principal amount of Indebtedness so secured at the time of such extension, renewal or replacement, and that such extension, renewal or replacement shall be limited to all or a part of the property which secured the Lien so extended, renewed or replaced (plus improvements on such property);

(i) any Lien arising by operation of law (including a decision by a court) in the ordinary course of business;

(j) any Lien on cash or cash equivalents securing Hedging Agreements or other similar transactions; and

(k) any Lien of the Issuer or any of its subsidiaries that does not fall within paragraphs (a) through (j) above and that secures an aggregate amount of Indebtedness which, when aggregated with then outstanding Indebtedness secured by all other Liens of the Issuer and its subsidiaries permitted under this paragraph (k) (together with any Sale and Lease-Back Transaction (as defined below) that would otherwise be prohibited by the provisions of the Indenture described below under "— Limitations on sale and lease-back transactions") does not exceed 10% of Consolidated Total Assets.

Notwithstanding the foregoing, the Issuer will not create any Liens on the capital stock of any of its Material Subsidiaries.

As used herein, the following terms have the respective meanings set forth below:

"Consolidated Total Assets" means the total amount of assets of the Issuer and its consolidated subsidiaries other than goodwill appearing on the most recently available annual or quarterly consolidated financial statements of the Issuer and its subsidiaries prepared in accordance with Brazilian GAAP.

"Hedging Agreements" mean any interest rate protection agreements, interest rate swaps, cap or collar agreements, interest rate future or option contracts, currency swap agreements, currency future or option contracts and other similar agreements so long as such agreements are entered into solely for the purpose of managing the Issuer's consolidated borrowings or investments, hedging the Issuer's consolidated underlying assets or liabilities or in connection with the Issuer's and its subsidiaries' line of business, and not for the purposes of speculation.

"Indebtedness" of any Person means, without duplication,

(i) all obligations of such Person for borrowed money;

(ii) all obligations of such Person evidenced by bonds, debentures, notes or other similar instruments;

(iii) all obligations of such Person to pay the deferred purchase price of property or services, except trade and commercial accounts payable arising in the ordinary course of business and repaid within 90 calendar days of the provision of such property or services and except obligations arising under indefeasible rights of use and other telecommunications capacity agreements entered into in the ordinary course of business;

(iv) all obligations of such Person as lessee which are capitalized (or, if such Person is not subject to Brazilian GAAP, would be capitalized) in accordance with Brazilian GAAP;

(v) all obligations of such Person in respect of letters of credit, bankers' acceptances or other similar instruments, excluding (a) obligations in respect of trade letters of credit or bankers' acceptances issued in respect of trade accounts payable to the extent not drawn upon or presented, or, if drawn upon or presented, to the extent the resulting obligation of such Person is paid in accordance with its respective terms and (b) letters of credit, bankers' acceptance or other similar instruments other than those in respect of trade amounts payable issued in respect of obligations of any Person that are not Indebtedness by reason of clauses (i) to (iv) or (vi) to (viii) of this definition;

(vi) all capital stock of such Person or any of its Material Subsidiaries that, by its terms is mandatorily redeemable or subject to repurchase or a sinking fund on or before April 23, 2019;

(vii) all Indebtedness pursuant to any of the foregoing clauses secured by a Lien on any asset of such Person, whether or not such Indebtedness is otherwise Indebtedness of such Person (and to the extent not otherwise included in items (i) through (vi) above); and

(viii) all guarantees by such Person of Indebtedness of another Person (each such guarantee to constitute Indebtedness in an amount equal to the amount of such other Person's Indebtedness guaranteed thereby to the extent not otherwise included in items (i) through (vii)).

"Lien" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including, without limitation, any conditional sale or other title retention agreement or lease in the nature thereof or any agreement to give any security interest).

"Material Subsidiary" means, in respect of any Person, any direct or indirect "significant subsidiary" thereof as such term is defined in Rule 12b-2 of the Exchange Act.

"Official Lender" means (i) any Brazilian governmental financial institution, agency or development bank (or any other bank or financial institution representing or acting as agent for any of such institutions, agencies or banks), including, without limitation, Banco Nacional de Desenvolvimento Econômico e Social, FINAME (Agência Especial de Financiamento Industrial), Banco do Nordeste S.A. and the related system, (ii) any multilateral or foreign governmental financial institution, export credit agency or other agency or development bank (or any other bank or financial institution representing or acting as agent for any such institutions, agencies or banks), including, without limitation, the World Bank, the International Finance Corporation and the Inter-American Development Bank and (iii) any governmental authority of jurisdictions where the Issuer or any of its subsidiaries conducts business (or any bank or financial institutions representing or acting as agent for such governmental authority).

"Person" means an individual, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture or any nation or government, any state, province or other political subdivision thereof, any central bank (or similar monetary or regulatory authority) thereof, and any entity exercising executive, legislative, judicial, regulatory or administrative functions of or pertaining to government.

"Sale and Lease-Back Transaction" means any transaction or series of related transactions pursuant to which the Issuer or any of its subsidiaries sells or transfers any property to any Person with the intention of taking back a lease of such property.

Limitations on sale and lease-back transactions

The Issuer will not, and will not permit any of its subsidiaries to, enter into any Sale and Lease-Back Transaction with respect to any property of such person, unless either:

(a) the Issuer or that subsidiary would be entitled pursuant to the provisions of the Indenture described above under "— Limitation on liens" (including any exception to the restrictions set forth therein) to issue, assume or guarantee Indebtedness secured by a Lien on any such property without equally and ratably securing the notes, or

(b) the Issuer or that subsidiary shall apply or cause to be applied, in the case of a sale or transfer for cash, an amount equal to the net proceeds thereof and, in the case of a sale or transfer otherwise than for cash, an amount equal to the fair market value of the property so leased, to the retirement, within 12 months after the effective date of the Sale and Lease-Back Transaction, of any of the Issuer's Indebtedness ranking at least *pari passu* with the notes and owing to a person other than the Issuer or any of its subsidiaries or to the construction or improvement of real property or personal property used by the Issuer or any of its subsidiaries in the ordinary course of business.

These restrictions will not apply to:

(1) transactions providing for a lease term, including any renewal, of not more than three years;

(2) transactions between the Issuer and any of its subsidiaries or between the Issuer's subsidiaries; and

(3) transactions involving sales outlets or similar properties or other properties the sale of which is not restricted by any governmental concession or authorization.

Transactions with affiliates

The Issuer shall not, and shall not permit any of its subsidiaries to, enter into or carry out (or agree to enter into or carry out) any transaction or arrangement with any affiliate, except for any transaction or arrangement entered into or carried out on terms no less favorable to the Issuer or such subsidiary than those which could have been obtained on an arm's-length basis with a person that is not an affiliate; provided, however, that the foregoing shall not apply to transactions between the Issuer and any of its subsidiaries not involving any other person so long as consummation of any such transaction will not have a material adverse effect on the Issuer and its subsidiaries taken as a whole or have a material adverse effect on the rights of the noteholders.

Provision of financial statements and reports

The Issuer, on a consolidated basis, will provide the trustee and upon written request, the holders of notes, with the following reports:

(a) an English language version of the Issuer's annual audited consolidated financial statements prepared in accordance with Brazilian GAAP, no more than 15 days after such statements become publicly available but not later than 120 days after the close of the Issuer's fiscal year;

(b) an English language version of the Issuer's unaudited quarterly consolidated financial statements prepared in accordance with Brazilian GAAP, no more than 30 days after such statements become publicly available but not later than 60 days after the close of each fiscal quarter (other than the last fiscal quarter of the Issuer's fiscal year); and

(c) without duplication, English language versions or summaries of such other reports or notices of the Issuer as may be filed with or submitted or furnished to (within 30 calendar days of the date of such

filing, submission or furnishing) (i) the CVM, (ii) the Euro MTF Market (or any other stock exchange on which the notes may be listed) or (c) the SEC (in each case, to the extent that any such report or notice is generally available to the Issuer's security holders or the public in Brazil or elsewhere and, in the case of clause (iii), is filed or submitted pursuant to Rule 12g3-2(b) under, or Section 13 or 15(d) of, the Exchange Act).

Available information

For as long as the notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, the Issuer will, to the extent required, furnish to any noteholder holding an interest in a restricted global note, or to any prospective purchaser designated by such noteholder, upon request of such noteholder, financial and other information described in paragraph (d)(4) of Rule 144A with respect to the Issuer to the extent required in order to permit such noteholder to comply with Rule 144A with respect to any resale of its note, unless during that time, the Issuer is subject to the reporting requirements of Section 13 or 15(d) of the Exchange Act, or is exempt from reporting pursuant to Rule 12g3-2(b) under the Exchange Act and no such information about the Issuer is otherwise required pursuant to Rule 144A.

Further actions

The Issuer will, at its own cost and expense, and the Issuer will cause its subsidiaries to, at their own cost and expense, satisfy any condition or take any action (including the obtaining or effecting of any necessary consent, approval, authorization, exemption, filing, license, order, recording or registration) at any time required, as may be necessary or as may be required by applicable laws and/or regulations, to be taken, fulfilled or done in order (a) to enable the Issuer to lawfully enter into, exercise its rights and perform and comply with its obligations under the notes or the Indenture, as the case may be, (b) to ensure that the Issuer's obligations under the notes and the Indenture are legally binding and enforceable, (c) to make the notes and the Indenture admissible in evidence in the courts of the State of New York and Brazil, (d) to enable the trustee to exercise and enforce its rights under and carry out the terms, provisions and purposes of the Indenture, (e) to take any and all action necessary to preserve the enforceability of, and maintain the trustee's rights under the Indenture and (f) to assist the trustee, to the extent reasonably practicable, in the trustee's performance of its obligations under the Indenture.

Appointment to fill a vacancy in the office of the trustee

The Issuer, whenever necessary to avoid or fill a vacancy in the office of the trustee, will appoint in the manner set forth in the Indenture, a successor trustee, so that there shall at all times be a trustee with respect to the notes.

Payment of additional amounts

Any and all payments of principal, premium, if any, and interest in respect of the notes shall be made free and clear of, and without withholding or deduction for, any taxes, duties, assessments or governmental charges of whatsoever nature imposed, levied, collected, withheld or assessed by Brazil or by the jurisdictions in which any paying agents appointed by the Issuer are organized or the location where payment is made, or any political subdivision or any authority thereof or therein having power to tax, unless such withholding or deduction is required by law. In the event that any such withholding or deduction is required, the Issuer shall pay such additional amounts as additional interest, or additional amounts, as will result in the receipt by the noteholders of such amounts as would have been received by them if no such withholding or deduction had been required, except that no such additional amounts shall be payable in respect of any note:

(a) to the extent that such taxes in respect of such note would not have been imposed but for the existence of any current or former connection of the noteholder with Brazil other than the mere holding of such note or the receipt of payments thereon or enforcement of rights thereunder;

(b) in respect of any estate, inheritance, gift, sales, transfer or personal property taxes imposed with respect to such notes, except as otherwise provided in the Indenture;

(c) to the extent that such holder would not be liable or subject to such withholding or deduction of taxes but for the failure to make a valid declaration of non-residence or other similar claim for exemption if:

(i) the making of such declaration or claim is required or imposed by statute, treaty, regulation, ruling or administrative practice of the relevant taxing authority as a precondition to an exemption from, or reduction in, the relevant taxes; and

(ii) at least 60 days prior to the first payment date with respect to which the Issuer shall apply this clause (c), the Issuer has notified the holders of notes in writing that they shall be required to provide such declaration or claim; or

(d) where (in the case of a payment of principal or interest on redemption) the relevant note is surrendered for payment more than 30 days after the Relevant Date except to the extent that the relevant holder would have been entitled to such additional amounts if it had surrendered the relevant note on the last day of such period of 30 days.

"Relevant Date" means whichever is the later of (i) the date on which the payment in question first becomes due and (ii) if the full amount payable has not been received in New York City by the trustee on or prior to such due date, the date on which (the full amount having been so received) notice to that effect has been given to the noteholders.

Any reference to principal or interest shall be deemed to include any additional amounts in respect of principal or interest (as the case may be) which may be payable under this section or under "— General — Payments of principal and interest" above.

If at any time the Issuer becomes a resident for tax purposes of any taxing jurisdiction other than Brazil, references to Brazil shall be construed as references to Brazil and/or such other jurisdiction.

Redemption and repurchase

The notes will not be redeemable prior to maturity, except as described below.

Tax redemption

The notes may be redeemed at the option of the Issuer in whole, but not in part, at 100% of their principal amount plus accrued and unpaid interest and additional amounts, if any, at any time upon giving not less than 30 nor more than 60 days' written notice to the noteholders (which notice shall be irrevocable) if the Issuer certifies in writing to the trustee that the Issuer has or will become obliged to pay additional amounts reflecting a withholding tax rate in excess of 15% as provided or referred to under "— Certain covenants — Payment of additional amounts" above as a result of any change in, or amendment to, the laws or regulations of Brazil or any political subdivision or any authority thereof or therein having power to tax, or any change in the official application or interpretation of such laws or regulations (including a determination by a court of competent jurisdiction), which change or amendment becomes effective on or after the issue date of the notes and, in any such case, such obligation cannot be avoided by the Issuer taking reasonable measures available to it; provided that no such notice of redemption shall be given to redeem the notes earlier than 90 days prior to the earliest date on which the Issuer would be obliged to pay such additional amounts if a payment in respect of the notes were then due. Prior to the giving of any notice of redemption pursuant to this paragraph, the Issuer shall deliver to the trustee:

(1) an Officers' Certificate (as defined in the Indenture) stating that the Issuer is entitled to effect such redemption and setting forth a statement of facts showing that the conditions precedent to the right of the Issuer so to redeem have occurred; and

(2) an opinion of independent legal advisors of recognized standing, in form and substance satisfactory to the trustee, to the effect that the Issuer has or will become obliged to pay such additional amounts as a result of such change or amendment.

The trustee shall be entitled to accept such Officers' Certificate and opinion as sufficient evidence of the satisfaction of the circumstances, as the case may be, set out in paragraph (1) or (2) above, in which event it shall be conclusive and binding on the noteholders. Upon the expiry of any such notice as is referred to in this paragraph, the Issuer shall be bound to redeem the notes in accordance with this paragraph.

In any redemption pursuant to the foregoing, the Issuer shall pay the principal paying agent on the business day prior to the date fixed for redemption an amount in U.S. dollars equal to the sum of (i) the then outstanding principal amount of the notes, (ii) all unpaid interest accrued to the date fixed for redemption and (iii) all other amounts owed to noteholders under the terms of the Indenture or the notes. No such redemption shall be effective unless and until the trustee receives the amount payable upon redemption on the payment date from the principal paying agent.

Optional redemption with "make-whole" amount

The notes will be redeemable, at the option of the Issuer, in whole or in part, upon giving not less than 30 nor more than 60 days' notice to the holders (which notice will be irrevocable), at a redemption price equal to the greater of (a) 100% of the principal amount of such notes and (b) the sum of the present values of each remaining scheduled payment of principal and interest thereon (exclusive of interest accrued to the date of redemption) discounted to the redemption date on a semiannual basis (assuming a 360-day year comprised of twelve 30-day months) at the Treasury Rate plus 50 basis points (the "make-whole amount"), plus in each case accrued interest (including additional interest, if any), and any additional amounts, on the principal amount of the notes to the date of redemption.

The following terms are relevant to the determination of the redemption price:

"Comparable Treasury Issue" means the United States Treasury security or securities selected by an Independent Investment Banker as having an actual or interpolated maturity comparable to the remaining term of the notes to be redeemed that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of a comparable maturity to the remaining term of such notes.

"Comparable Treasury Price" means, with respect to any redemption date (a) the average of the Reference Treasury Dealer Quotations for such redemption date, after excluding the highest and lowest such Reference Treasury Dealer Quotations or (b) if the Independent Investment Banker obtains fewer than four such Reference Treasury Dealer Quotations, the average of all such quotations.

"Independent Investment Banker" means one of the Reference Treasury Dealers appointed by the Issuer.

"Reference Treasury Dealer" means each of Citigroup Global Markets Inc. and Banco Itaú Europa, S.A. or their respective affiliates which are primary United States government securities dealers and two other leading primary United States government securities dealers in New York City reasonably designated by the Issuer; provided, however, that if any of the foregoing shall cease to be a primary United States government securities dealer in New York City (a "Primary Treasury Dealer"), the Issuer will substitute therefor another Primary Treasury Dealer.

"Reference Treasury Dealer Quotation" means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in

writing to the Independent Investment Banker by such Reference Treasury Dealer at 3:30 pm New York time on the third business day preceding such redemption date.

"Treasury Rate" means, with respect to any redemption date, the rate per annum equal to the semi-annual equivalent yield to maturity or interpolated maturity (on a day count basis) of the Comparable Treasury Issue, assuming a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

On and after the redemption date, interest will cease to accrue on the notes or any portion of the notes called for redemption (unless the Issuer defaults in payment of the redemption price and accrued interest (including additional interest or additional amounts, if any)). On or before the business day prior to the redemption date, the Issuer will deposit with the principal paying agent money sufficient to pay the redemption price of and any accrued interest (including additional interest or additional amounts, if any) to the redemption date on the notes to be redeemed on such date. If less than all of the notes are to be redeemed, the notes to be redeemed shall be selected by the trustee as outlined in the Indenture.

Repurchase of the notes upon a change of control

No later than 30 days following a Change of Control that results in a Ratings Decline, the Issuer will make an Offer to Purchase all outstanding notes of the affected series at a purchase price equal to 101% of the principal amount plus accrued but unpaid interest to the date of purchase.

An "Offer to Purchase" must be made by written offer, which will specify the principal amount of notes subject to the offer and the purchase price. The offer must specify an expiration date (the "Expiration Date") not less than 30 days or more than 60 days after the date of the offer and a settlement date for purchase (the "Purchase Date") not more than five Business Days after the Expiration Date. The offer must include information which the Issuer believes will enable the holders to make an informed decision with respect to the Offer to Purchase. The offer will also contain instructions and materials necessary to enable holders to tender notes pursuant to the offer. The Issuer will comply with Rule 14e-1 under the Exchange Act (to the extent applicable) and all other applicable laws in making any Offer to Purchase, and the above procedures will be deemed modified as necessary to permit such compliance.

A noteholder may tender all or any portion of its notes pursuant to an Offer to Purchase, subject to the requirement that any portion of a note tendered must be in a multiple of US$1,000 principal amount and that the minimum tender of any noteholder must be no less than US$100,000. No such purchase in part shall reduce the outstanding principal amount at maturity of the notes held by any holder to below US$100,000. Noteholders shall be entitled to withdraw notes tendered up to the close of business on the Expiration Date. On the Purchase Date, the purchase price will become due and payable on each note accepted for purchase pursuant to the Offer to Purchase, and interest on the notes purchased will cease to accrue on and after the Purchase Date.

The Issuer agrees to obtain, in a timely manner and prior to making any Offer to Purchase, all necessary consents and approvals from all appropriate Brazilian and other governmental authorities or agencies having jurisdiction over it and the Offer to Purchase for the remittance of funds outside of Brazil.

The following terms are relevant to the repurchase of the notes upon a change of control.

"Change of Control" means (i) any "person" or "group" (as such terms are used for purposes of Sections 13(d) and 14(d) of the Exchange Act), other than a person or group that includes any one or more of the Permitted Holders, is or becomes after the date hereof the "beneficial owner" (as such term is used in Rule 13d-3 under the Exchange Act), directly or indirectly, of more than 50% of the total voting power of the outstanding Voting Securities of the Issuer or (ii) any "person" or "group" (as such terms are used for purposes of Sections 13(d) and 14(d) of the Exchange Act), other than a person or group that includes any one or more of the Permitted Holders, after the date hereof has or acquires the power to direct or cause the direction of the

management and policies of the Issuer. In the event that there shall at any time be a Substituted Debtor pursuant to the "Substitution of the Issuer" provision below, this provision shall be interpreted by the substitution of the "Guarantor" for the "Issuer."

"Fitch" means Fitch Inc., a subsidiary of Fimalac, S.A., and its successors.

"Investment Grade Rating" means a rating equal to or higher than Baa3 (or the equivalent) by Moody's or BBB- (or the equivalent) by Fitch.

"Moody's" means Moody's Investors Service, Inc., a subsidiary of Moody's Corporation, and its successors.

"Permitted Holders" means AG Telecom Participações S.A., Luxemburgo Participações S.A., BNDES Participações S.A. — BNDESPAR, Fiago Participações S.A., Fundação Atlantico de Seguridade Social, L.F. Tel S.A., Caixa de Previdência dos Funcionários do Banco do Brasil — PREVI, Fundação Petrobrás de Seguridade Social — PETROS and Fundação dos Economiários Federais — FUNCEF, or any subsidiary of any such person, any holding company of any such person or any other subsidiary of such holding company.

"Rating Agency" means each of Moody's and Fitch, provided that if either of Moody's or Fitch ceases to rate the notes or fails to make a rating on the notes publicly available, the Issuer will appoint a replacement for such Rating Agency that is a "nationally recognized statistical rating organization" within the meaning of Rule 15c3-1(c)(2)(vi)(F) under the Exchange Act.

"Rating Date" means the date which is 90 days prior to the earlier of (i) a Change of Control and (ii) public notice of the occurrence of a Change of Control or of the intention of the Issuer to effect a Change of Control.

"Ratings Decline" means, in respect of a particular series, the occurrence of the following on, or within 90 days after, the date of public notice of the occurrence of a Change of Control or of the intention by the Issuer to effect a Change of Control (which period shall be extended so long as the rating of such notes is under publicly announced consideration for possible downgrade by either of the Rating Agencies): (i) in the event the notes of such particular series are assigned an Investment Grade Rating by each of the Rating Agencies on the Rating Date, the rating of the notes of such series by either of the Rating Agencies shall be below an Investment Grade Rating; or (ii) in the event the notes of such series are rated below an Investment Grade Rating by either of the Rating Agencies on the Rating Date, the rating of the notes of such series by either of the Rating Agencies shall be decreased by one or more gradations (including gradations within rating categories as well as between rating categories). The Issuer will provide the trustee with prompt written notice of any Ratings Decline, and the trustee shall not be deemed to have knowledge of any Ratings Decline until it receives such notice.

"Voting Securities" of any specified person at any time means the capital stock or other securities of such person that is at the time entitled to vote generally in the election of the board of directors or similar managerial controlling body of such person.

Cancellation

Any notes redeemed by the Issuer will be immediately cancelled and may not be reissued or resold.

Purchases of notes by the Issuer or any of its subsidiaries or affiliates

The Issuer or any of its subsidiaries or affiliates may at any time purchase any notes in the open market or otherwise at any price; provided that, in determining whether noteholders holding any requisite principal amount of notes have given any request, demand, authorization, direction, notice, consent or waiver under the Indenture, notes owned by the Issuer or any of its subsidiaries or affiliates shall be deemed not outstanding for purposes thereof. All notes purchased by the Issuer or any of its subsidiaries or affiliates may, at the option of the Issuer, continue to be outstanding or be cancelled.

Substitution of the Issuer

(a) The Issuer may, without the consent of the noteholders (and by purchasing or subscribing for any notes, each noteholder expressly consents to it), be replaced and substituted by any company of which at least 99% but, as required under Brazilian law, less than 100% of the shares or other equity interests (as the case may be) carrying the right to vote are directly or indirectly owned by the Issuer as principal debtor (in such capacity, the "Substituted Debtor") in respect of the notes provided that:

(i) such documents shall be executed by the Substituted Debtor, the Issuer and the trustee as may be necessary to give full effect to the substitution, including a supplemental Indenture whereby the Substituted Debtor assumes all the Issuer's obligations under the Indenture (together, the "Issuer Substitution Documents"), and (without limiting the generality of the foregoing) pursuant to which the Substituted Debtor shall undertake in favor of each noteholder, the trustee and the agents to be bound by the terms and conditions of the notes and the provisions of the Indenture as fully as if the Substituted Debtor had been named in the notes and the Indenture as the principal debtor in respect of the notes in place of the Issuer (or any previous substitute) and pursuant to which the Issuer shall unconditionally and irrevocably guarantee (the "Guarantee") in favor of each noteholder the payment of all sums payable by the Substituted Debtor as such principal debtor on the same terms *mutatis mutandis* as the notes, and the covenants, events of default and other relevant provisions shall continue to apply to the Issuer in respect of the notes as if no such substitution had occurred, it being the intent that the rights of noteholders in respect of the notes shall be unaffected by such substitution.

(ii) without prejudice to the generality of the preceding paragraph, where the Substituted Debtor is incorporated, domiciled or resident for taxation purposes in a territory other than Brazil, the Issuer Substitution Documents shall contain a covenant by the Substituted Debtor and/or such other provisions as may be necessary to ensure that each noteholder has the benefit of a covenant in terms corresponding to the obligation of the Issuer in respect of the payment of additional amounts set forth in "Certain covenants — Payment of additional amounts" above, with the substitution for the references to Brazil of references to the territory in which the Substituted Debtor is incorporated, domiciled and/or resident for taxation purposes. The Issuer Substitution Documents shall also contain a covenant by the Substituted Debtor and the Issuer to indemnify and hold harmless each noteholder against all taxes or duties which arise by reason of a law or regulation having legal effect or being in reasonable contemplation thereof on the date such substitution becomes effective, which may be incurred or levied against such holder as a result of any substitution pursuant to the conditions set forth in this section and which would not have been so incurred or levied had such substitution not been made (and, without limiting the foregoing, any and all taxes or duties which are imposed on any such noteholder by any political subdivision or taxing authority of any country in which such noteholder resides or is subject to any such tax or duty and which would not have been so imposed had such substitution not been made).

(iii) the Issuer Substitution Documents shall contain a warranty and representation by the Substituted Debtor and the Issuer that the Substituted Debtor and the Issuer have obtained all necessary governmental and regulatory approvals and consents for such substitution and for the giving by the Issuer of the Guarantee in respect of the obligations of the Substituted Debtor on the same terms *mutatis mutandis* as the notes, that each of the Substituted Debtor and the Issuer has obtained all necessary governmental and regulatory approvals and consents for the performance by each of the Substituted Debtor and the Issuer of its obligations under the Issuer Substitution Documents and that all such approvals and consents are in full force and effect;

(iv) each stock exchange which has the notes listed thereon shall have confirmed in writing that following the proposed substitution of the Substituted Debtor the notes would continue to be listed on such stock exchange;

(v) the Issuer shall have delivered, or procured the delivery to the trustee of, a legal opinion addressed to the Issuer and the Substituted Debtor from a leading firm of lawyers in the country of incorporation of the Substituted Debtor, to the effect that the Issuer Substitution Documents constitute legal, valid and binding

obligations of the Substituted Debtor, such opinion(s) to be dated not more than seven days prior to the date of substitution of the Substituted Debtor for the Issuer and to be available for inspection by noteholders at the specified offices of the trustee;

(vi) the Issuer shall have delivered, or procured the delivery to the trustee of, a legal opinion addressed to the Issuer and the Substituted Debtor from a leading firm of Brazilian lawyers acting for the Issuer to the effect that the Issuer Substitution Documents (including the Guarantee given by the Issuer in respect of the Substituted Debtor) constitute legal, valid and binding obligations of the Issuer, such opinion to be dated not more than seven days prior to the date of substitution of the Substituted Debtor for the Issuer and to be available for inspection by noteholders at the specified offices of the trustee;

(vii) the Issuer shall have delivered, or procured the delivery to the trustee of, a legal opinion addressed to the Issuer and the Substituted Debtor from a leading firm of New York lawyers to the effect that the Issuer Substitution Documents (including the Guarantee given by the Issuer in respect of the Substituted Debtor) constitute legal, valid and binding obligations of the parties thereto under New York law, such opinion to be dated not more than seven days prior to the date of substitution of the Substituted Debtor for the Issuer and to be available for inspection by noteholders at the specified offices of the trustee;

(viii) the Substituted Debtor shall have appointed a process agent in the Borough of Manhattan, the City of New York to receive service of process on its behalf in relation to any legal action or proceedings arising out of or in connection with the notes or the Issuer Substitution Documents;

(ix) there is no outstanding Event of Default in respect of the notes;

(x) any credit rating assigned to the notes will remain the same or be improved when the Substituted Debtor replaces and substitutes the Issuer in respect of the notes (as confirmed in writing by the respective Rating Agencies); and

(xi) the substitution complies with all applicable requirements established under Brazilian law.

(b) Upon effectiveness of the substitution, the Substituted Debtor and the Issuer shall deliver to the trustee an Officers' Certificate, executed by authorized officers, certifying that the terms of this section have been complied with and attaching copies of all documents contemplated herein.

(c) Upon the execution of the Issuer Substitution Documents as referred to in paragraph (a) (i) above, the Substituted Debtor shall be deemed to be named in the notes as the principal debtor in place of the Issuer (or of any previous substitute under these provisions) and the notes shall thereupon be deemed to be amended to give effect to the substitution. Except as set forth above, the execution of the Issuer Substitution Documents shall operate to release the Issuer (or such previous substitute as aforesaid) from all its obligations, other than its Guarantee, in respect of the Notes and its obligation to indemnify the trustee and agents under the Indenture.

(d) The Issuer Substitution Documents shall be deposited with and held by the trustee for so long as any note remains outstanding and for so long as any claim made against the Substituted Debtor or the Issuer by any noteholder in relation to the notes or the Issuer Substitution Documents shall not have been finally adjudicated, settled or discharged. The Substituted Debtor and the Issuer shall acknowledge in the Issuer Substitution Documents the right of every noteholder to the production of the Issuer Substitution Documents for the enforcement of any of the notes or the Issuer Substitution Documents.

(e) Not later than 10 business days after the execution of the Issuer Substitution Documents, the Substituted Debtor shall give notice thereof to the noteholders in accordance with the provisions described in this section.

Events of default

The following events will each be an "event of default" under the terms of the Indenture:

(a) The trustee shall not receive any amount due from the Issuer under the notes and the Indenture in respect of principal on any of the notes, whether upon redemption or on the maturity date or otherwise by the due date therefor;

(b) The trustee shall not receive any payment in respect of any interest or other amounts due on or with respect to the notes (including additional amounts, if any), from the Issuer in accordance with the terms of the notes and the Indenture by the due date therefor and, solely in the case of any such payment due on a date prior to the maturity date for the notes, such non-receipt shall continue for a period of 30 calendar days from such due date;

(c) The Issuer shall fail to perform, observe or comply with any term, covenant, agreement or obligation contained in any transaction document and such failure (other than any failure to make any payment contemplated in clause (a) or (b) hereof) is either incapable of remedy or continues for a period of 60 calendar days (inclusive of any time frame contained in any such term, covenant, agreement or obligation for compliance thereunder) after the Issuer becomes aware of such failure, whether by notice or otherwise;

(d) (i) The acceleration of any Indebtedness of the Issuer or any of its Material Subsidiaries by reason of default, unless such acceleration is at the option of the Issuer or any such Material Subsidiary, as the case may be, or at the option of the holder of any such Indebtedness pursuant to any option to require the repurchase of such Indebtedness or (ii) the Issuer or any of its Material Subsidiaries fails to pay any amount in respect of principal, interest or other amounts due in respect of any existing Indebtedness on the date required for such payment (in each case after giving effect to any applicable grace period); provided, however, that the aggregate amount of any such Indebtedness falling within (i) above and any relevant payments falling within (ii) above (as to which the time for payment has not been extended by the relevant obligees) equals or exceeds US$50 million (or its equivalent in another currency);

(e) One or more final and nonappealable judgments or final decrees is entered against the Issuer or any of its Material Subsidiaries involving an aggregate liability (not yet paid or reimbursed by insurance) of US$50 million (or its equivalent in another currency) or more, and all such judgments or decrees shall not have been vacated, discharged or stayed within 180 calendar days after the applicable judgment or decree is entered;

(f) The Issuer or any of its Material Subsidiaries shall commence a voluntary case or other proceeding seeking liquidation, judicial or extrajudicial reorganization or other relief with respect to itself or its Indebtedness under any bankruptcy, insolvency or other similar law now or hereafter in effect, or seek the appointment of a trustee, receiver, judicial administrator (*administrador judicial*), liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment or conveyance for the benefit of creditors, or shall fail generally to pay its Indebtedness as it becomes due, or shall take any corporate action to authorize any of the foregoing;

(g) A court of competent jurisdiction enters an order or decree against the Issuer or any of its Material Subsidiaries for (i) liquidation, reorganization or other relief with respect to it or its Indebtedness under any bankruptcy, insolvency or other similar law now or hereafter in effect or (ii) the appointment of a trustee, receiver, judicial administrator (*administrador judicial*), liquidator, custodian or other similar official of it or any substantial part of its property; provided that such order or decree shall remain undismissed and unstayed for a period of 90 calendar days;

(h) The Issuer or any of its Material Subsidiaries shall admit in writing its inability to pay its Indebtedness generally as and when it falls due or shall become unable to pay its Indebtedness, or a resolution is passed at a meeting sanctioning any composition or arrangement with its creditors or any group or class

thereof, or anything analogous to, or having a substantially similar effect to, any of the events specified in this paragraph (h) or in paragraph (f) or (g) above or (i) below shall occur in any jurisdiction;

(i) The Issuer or any of its Material Subsidiaries shall cease or threaten to cease to carry out its business except (i) a winding-up, dissolution or liquidation for the purpose of and followed by a consolidation, merger, conveyance or transfer or, in the case of a Material Subsidiary, whereby the undertaking, business and assets of such Material Subsidiary are transferred to or otherwise vested in the Issuer or any of its subsidiaries, or the terms of which shall have been approved by a resolution of a meeting of the noteholders or (ii) a voluntary winding-up, dissolution or liquidation of a Material Subsidiary where there are surplus assets in such Material Subsidiary attributable to the Issuer and/or any other Material Subsidiary of the Issuer and such surplus assets are distributed to the Issuer and/or such Material Subsidiary;

(j) Any event occurs that under the laws of Brazil or any political subdivision thereof has substantially the same effect as any of the events referred to in any of paragraphs (f), (g), (h) or (i);

(k) Either (i) any transaction document, or any part thereof, shall cease to be in full force and effect or binding and enforceable against the Issuer or admissible in evidence in the courts of Brazil, or it becomes unlawful for the Issuer to perform any obligation under any of the foregoing transaction documents to which it is a party, unless the Issuer shall have provided to the trustee an officer's certificate executed by the chief executive officer or the chief financial officer of the Issuer, specifying that such failure does not, or could not, have either a material adverse effect on the Issuer and the Issuer's subsidiaries taken as a whole or a material adverse effect on the rights of the noteholders under such transaction documents, or (ii) the Issuer shall contest the enforceability of any such transaction documents or deny that it has liability under any such transaction documents to which it is party; or

(l) All or substantially all of the assets of the Issuer or any of its Material Subsidiaries shall be condemned, seized or otherwise appropriated, or custody of such assets shall be assumed by any governmental authority or court or any other person purporting to act under the authority of the government of any jurisdiction, or the Issuer or any of its Material Subsidiaries shall be prevented from exercising normal control over all or substantially all of their assets and such action is not fully rescinded within 45 calendar days after it occurs.

The trustee shall not be deemed to have any knowledge of an event of default specified in subsections (j) or (l) above unless it is notified, in writing, by holders of at least 25% in aggregate principal amount of the then outstanding notes.

Remedies upon occurrence of an event of default

All notes outstanding, regardless of maturity date, shall vote together as a single class.

If an event of default occurs, and is continuing, the trustee shall, upon the request of noteholders holding not less than 25% in principal amount of the notes then outstanding, by written notice to the Issuer (and to the trustee if given by noteholders), declare the principal amount of all of the notes and all accrued interest thereon immediately due and payable; provided that if an event of default described in paragraphs (f), (g), (h), (i) or (j) above occurs and is continuing, then and in each and every such case, the principal amount of all of the notes and all accrued interest thereon shall, without any notice to the Issuer or any other act by the trustee or any noteholder, become and be accelerated and immediately due and payable. Upon any such declaration of acceleration, the principal of the notes so accelerated and the interest accrued thereon and all other amounts payable with respect to the notes shall be immediately due and payable. If the event of default or events of default giving rise to any such declaration of acceleration shall be cured following such declaration, such declaration may be rescinded by noteholders holding a majority of the notes.

The noteholders holding at least a majority of the aggregate principal amount of the outstanding notes may direct the time, method and place of conducting any proceeding for any remedy available to the trustee or exercising any trust or power conferred on the trustee. However, the trustee may refuse to follow any direction

that conflicts with law or the Indenture, or that the trustee determines in good faith may involve the trustee in personal liability, or for which the trustee reasonably believes it will not be adequately indemnified against the costs, expenses or liabilities, which might be incurred, or that may be unduly prejudicial to the rights of noteholders not taking part in such direction, and the trustee may take any other action it deems proper that is not inconsistent with any such direction received from noteholders. A noteholder may not pursue any remedy with respect to the Indenture or the notes directly against the Issuer (without the trustee) unless:

(a) the noteholder gives the trustee written notice of a continuing event of default;

(b) noteholders holding not less than 25% in aggregate principal amount of outstanding notes make a written request to the trustee to pursue the remedy;

(c) such noteholder or noteholders offer the trustee adequate security and indemnity satisfactory to the trustee against any costs, liability or expense;

(d) the trustee does not comply with the request within 60 calendar days after receipt of the request and the offer of indemnity; and

(e) during such 60-calendar-day period, noteholders holding a majority in aggregate principal amount of the outstanding notes do not give the trustee a direction that is inconsistent with the request.

However, such limitations do not apply to the right of any noteholder to receive payment of the principal of, premium, if any, interest on or additional amounts related to such note or to bring suit for the enforcement of any such payment, on or after the due date expressed in the notes, which right shall not be impaired or affected without the consent of the noteholder.

Modification of the Indenture

All notes outstanding, regardless of maturity date, shall vote together as a single class. The Issuer and the trustee may, without the consent of the noteholders, amend, waive or supplement the Indenture for certain specific purposes, including, among other things, curing ambiguities, defects or inconsistencies, or making any other provisions with respect to matters or questions arising under the Indenture or the notes or making any other change that will not adversely affect the interest of the noteholders.

In addition, with certain exceptions, the Indenture may be modified by the Issuer and the trustee with the consent of the holders of a majority of the aggregate principal amount of the notes then outstanding. However, no modification may, without the consent of the noteholder of each outstanding note:

(a) change the maturity of any payment of principal of or any installment of interest on any note;

(b) reduce the principal amount or the rate of interest, or change the method of computing the amount of principal or interest payable on any date;

(c) change any place of payment where the principal of or interest on the notes is payable;

(d) change the coin or currency in which the principal of or interest on the notes is payable;

(e) impair the right of the noteholders to institute suit for the enforcement of any payment on or after the date due;

(f) reduce the percentage in principal amount of the outstanding notes, the consent of whose noteholders is required for any modification or the consent of whose noteholders is required for any waiver of compliance with certain provisions of the Indenture or certain defaults under the Indenture and their consequences provided for in the Indenture; or

(g) modify any of the provisions of certain sections of the Indenture, including the provisions summarized under this heading, “Modification of the Indenture,” except to increase any percentage or to provide that certain other provisions of the Indenture cannot be modified or waived without the consent of each noteholder.

Defeasance and covenant defeasance

The Issuer may, at its option, elect to be discharged from the Issuer's obligations with respect to the notes ("defeasance"). In general, upon a defeasance, the Issuer will be deemed to have paid and discharged the entire Indebtedness represented by the notes and to have satisfied all of the Issuer's obligations under the notes, and the Indenture except for (i) the rights of the noteholders to receive payments in respect of the principal of and interest and additional amounts, if any, on the notes when the payments are due, (ii) certain provisions of the Indenture relating to ownership, registration and transfer of the notes, (iii) the covenant relating to the maintenance of an office or agency in New York and (iv) certain provisions relating to the rights, powers, trusts, duties and immunities of the trustee.

In addition, the Issuer may, at its option, and at any time, elect to be released with respect to the notes from the covenants described above under the heading "— Certain covenants" (covenant defeasance). Following such covenant defeasance, the occurrence of a breach or violation of any such covenant with respect to the notes will not constitute an event of default under the Indenture, and certain other events (not including, among other things, non-payment or bankruptcy and insolvency events) described under "— Events of default" also will not constitute events of default.

In order to exercise either defeasance or covenant defeasance, the Issuer will be required to satisfy, among other conditions, the following:

(a) The Issuer must irrevocably deposit with the trustee, in trust, for the benefit of the noteholders, cash in U.S. dollars or U.S. government obligations, or a combination thereof, in amounts sufficient, in the opinion of an internationally recognized firm of independent public accountants, to pay and discharge the principal of and each installment of interest on the notes on the stated maturity of such principal or installment of interest in accordance with the terms of the Indenture and the notes;

(b) in the case of an election to fully defease the notes, the Issuer must deliver to the trustee an opinion of counsel stating that (i) the Issuer has received from, or there has been published by, the U.S. Internal Revenue Service a ruling or (ii) since the date of the Indenture there has been a change in the applicable U.S. federal income tax law or the interpretation thereof, in either case to the effect that, and based thereon, the opinion of counsel shall confirm that, the noteholders will not recognize gain or loss for U.S. federal income tax purposes as a result of such deposit, defeasance and discharge and will be subject to U.S. federal income tax on the same amount, in the same manner and at the same time as would have been the case if such deposit, defeasance and discharge had not occurred;

(c) in the case of a covenant defeasance, the Issuer must deliver to the trustee an opinion of counsel to the effect that the noteholders will not recognize gain or loss for U.S. federal income tax purposes as a result of such deposit and covenant defeasance and will be subject to U.S. federal income tax on the same amount, in the same manner and at the same time as would have been the case if such deposit and covenant defeasance had not occurred;

(d) no default or event of default shall have occurred and be continuing, including certain events of bankruptcy or insolvency, at any time during the period ending on the 121st calendar day after the date of such deposit (it being understood that this condition shall not be deemed satisfied until the expiration of such period);

(e) such defeasance or covenant defeasance shall not (i) cause the trustee to have a conflicting interest for the purposes of the Trust Indenture Act with respect to any securities of the Issuer or (ii) result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Issuer is a party or by which it is bound;

(f) the Issuer must deliver to the trustee an opinion of counsel to the effect that payment of amounts deposited in trust with the trustee will not be subject to future taxes, duties, fines, penalties, assessments or other governmental charges imposed by a taxing jurisdiction, except to the extent that additional amounts in respect thereof shall have been deposited in trust with the trustee;

(g) the Issuer shall have delivered to the trustee an officer's certificate and an opinion of counsel stating that all conditions precedent provided for relating to either of defeasance or covenant defeasance, as the case may be, have been complied with; and

(h) such defeasance or covenant defeasance shall not result in the trust arising from such deposit constituting an investment company as defined under the Investment Company Act of 1940, as amended.

Transfer and exchange

A noteholder may transfer or exchange notes in accordance with the Indenture. The notes are subject to restrictions on transfer and may only be offered and sold in transactions exempt from or not subject to the registration requirements of the Securities Act. See "Notice to Investors." The registrar and the trustee may require a noteholder, among other things, to furnish appropriate endorsements and transfer documents (in addition to those required by the Indenture), and the Issuer may require a noteholder to pay any taxes and fees required by law or permitted by the Indenture. The Issuer is not required to transfer or exchange any note for a period of 15 days before the notes are to be redeemed for tax reasons. The registered noteholder will be treated as the owner of it for all purposes.

The trustee

The Bank of New York Mellon will be the trustee under the Indenture. The Issuer may have normal banking relationships with The Bank of New York Mellon or any of its affiliates in the ordinary course of business. The address of the trustee is 101 Barclay Street, Floor 4E, New York, NY 10286.

Registrar; paying agents; transfer agents

The Issuer has initially appointed The Bank of New York Mellon as registrar, paying agent and transfer agent, The Bank of New York Mellon Trust (Japan), Ltd. as principal paying agent, and The Bank of New York (Luxembourg) S.A. as Luxembourg paying agent, transfer agent and listing agent. The Issuer may at any time appoint new paying agents, transfer agents and registrars. However, the Issuer will at all times maintain a paying agent in New York City until the notes are paid.

In addition, the Issuer will maintain a paying agent and transfer agent in Luxembourg so long as the rules of the Luxembourg Stock Exchange so require. The Issuer will provide prompt written notice of the termination, appointment or change in the office of any Luxembourg paying agent or Luxembourg transfer agent acting in connection with the notes.

Notices

The Issuer will publish notices in a leading daily newspaper of general circulation in Luxembourg, which is expected to be the *Luxemburger Wort*, or on the Luxembourg Stock Exchange website, www.bourse.lu, for so long as the notes are listed on the Luxembourg Stock Exchange, and the rules of the Luxembourg Stock Exchange so require. A notice will be deemed given on the date of its first publication.

The Issuer will also mail notices to the registered address of the noteholders as provided in the register. So long as DTC or its nominee is the registered holder of a global note, each person owning a beneficial interest in such global note must rely on the procedures of DTC, Clearstream or Euroclear, as the case may be, to receive notices provided to DTC. Each person owning a beneficial interest in a global note who is not a participant in DTC must rely on the procedures of the participant through which the person owns its interest in such global note to receive notices provided to DTC.

Governing law

The Indenture and the notes are governed by the laws of the State of New York.

Jurisdiction

The Issuer has consented to the non-exclusive jurisdiction of any court of the State of New York or any U.S. federal court sitting in the Borough of Manhattan in the City of New York, New York, United States, and any appellate court from any thereof. The Issuer has appointed CT Corporation System, 111 Eighth Avenue, New York, NY 10011 as its authorized agent upon which service of process may be served in any action or proceeding brought in any court of the State of New York or any U.S. federal court sitting in the Borough of Manhattan in the City of New York in connection with the Indenture or the notes.

Waiver of immunities

To the extent that the Issuer may in any jurisdiction claim for itself or its assets immunity from a suit, execution, attachment, whether in aid of execution, before judgment or otherwise, or other legal process in connection with and as set out in the Indenture and the notes and to the extent that in any jurisdiction there may be immunity attributed to the Issuer or the Issuer's assets, whether or not claimed, the Issuer has irrevocably agreed for the benefit of the noteholders not to claim, and irrevocably waive, the immunity to the full extent permitted by law except for the immunity provided under Brazilian law to property of the Issuer that is considered essential for the rendering of public services under any concession agreement, authorization or license (*bens vinculados à concessão ou bens reversíveis*), to the extent such immunity cannot be waived or contested.

Currency rate indemnity

The Issuer has agreed that, if a judgment or order made by any court for the payment of any amount in respect of any notes is expressed in a currency other than U.S. dollars, the Issuer will indemnify the relevant noteholder against any deficiency arising from any variation in rates of exchange between the date as of which the denomination currency is notionally converted into the judgment currency for the purposes of the judgment or order and the date of actual payment. This indemnity will constitute a separate and independent obligation from the Issuer's other obligations under the Indenture, will give rise to a separate and independent cause of action, will apply irrespective of any indulgence granted from time to time and will continue in full force and effect notwithstanding any judgment or order for a liquidated sum or sums in respect of amounts due under the Indenture or the notes.

Form, denomination and registration

In the United States, the notes are being offered and sold to "qualified institutional buyers," as defined in Rule 144A, in reliance on Rule 144A. Notes also may be offered and sold in offshore transactions in reliance on Regulation S. Except as set forth below, notes will be issued in registered, global form in minimum denominations of US$100,000 and integral multiples of US$1,000 in excess thereof. Notes will be issued at the closing of the offering only against payment in immediately available funds. The notes will be issued in registered form without interest coupons. No notes will be issued in bearer form.

The notes will be represented by Regulation S global notes (as defined below) and restricted global notes (as defined below) (each sometimes referred to herein as a "global note" and together sometimes referred to herein as the "global notes").

Notes sold outside the United States in reliance on Regulation S will be represented by one or more global notes in definitive, fully registered form without interest coupons (collectively, "Regulation S global notes") and will be deposited with the trustee as custodian for DTC, and registered in the name of DTC or its nominee for the accounts of Euroclear and Clearstream (as indirect participants in DTC).

Notes sold in reliance on Rule 144A under the Securities Act initially will be represented by one or more global notes in definitive, fully registered form without interest coupons (collectively, "restricted global notes") and will be deposited with the trustee as custodian for DTC and registered in the name of DTC or its nominee.

Restricted global notes will be subject to certain restrictions on transfer and will bear a legend to that effect as described under "Notice to Investors."

Beneficial interests in Regulation S global notes may be transferred to a person who takes delivery in the form of an interest in restricted global notes only upon receipt by the trustee of a written certification from the transferor (in the form provided in the Indenture) to the effect that such transfer is being made to a person that the transferor reasonably believes is a qualified institutional buyer in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

Beneficial interests in restricted global notes may be transferred to a person who takes delivery in the form of an interest in Regulation S global notes only upon receipt by the trustee of a written certification from the transferor (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Rule 903 or Rule 904 of Regulation S or Rule 144 under the Securities Act. Any beneficial interest in one of the global notes that is transferred to a person who takes delivery in the form of an interest in the other global note will, upon transfer, cease to be an interest in such global note and become an interest in the other global note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other global note for as long as it remains such an interest.

Global notes

Upon the issuance of Regulation S global notes and restricted global notes, DTC or its custodian will credit, on its internal system, the respective principal amount of the individual beneficial interests represented by such global note to the accounts of persons who have accounts with DTC. Such accounts initially will be designated by or on behalf of the initial purchasers. Ownership of beneficial interests in a global note will be limited to persons who have accounts with DTC, to which we refer as DTC participants, or persons who hold interests through DTC participants. Ownership of beneficial interests in the global notes will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of DTC participants) and the records of DTC participants (with respect to interests of persons other than DTC participants).

So long as DTC or its nominee is the registered owner or holder of a global note, DTC, or such nominee, as the case may be, will be considered the sole owner or holder of the notes represented by such global note for all purposes under the Indenture. No beneficial owner of an interest in a global note will be able to transfer that interest except in accordance with DTC's applicable procedures, in addition to those provided for under the Indenture.

Investors may hold their interests in Regulation S global notes directly through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations that are participants in such systems. Euroclear and Clearstream will hold interests in the Regulation S global notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries, which in turn will hold such interests in Regulation S global notes in customers' securities accounts in the depositaries' names on the books of DTC. Investors that are qualified institutional buyers may hold their interests in restricted global notes directly through DTC if they are DTC participants, or indirectly through organizations that are DTC participants.

Payments of the principal and interest and any additional amounts on individual notes represented by a global note registered in the name of DTC or its nominee will be made to DTC or its nominee, as the case may be, as the registered owner of the global note representing such notes. None of the Issuer, the trustee, registrar, transfer agent or any paying agent will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the global notes or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests. The Issuer expects that DTC or its nominee, upon receipt of any payment of principal, interest or additional amounts, if any, in respect of a global note representing any notes held by it or its nominee, will credit DTC participants' accounts with payments in

amounts proportionate to their respective beneficial interests in the principal amount of such global note as shown on the records of DTC or its nominee. The Issuer also expects that payments by DTC participants to owners of beneficial interests in such global note held through such DTC participants will be governed by standing instructions and customary practices, as is now the case with securities held for the accounts of customers registered in the names of nominees for such customers. Such payments will be the responsibility of such DTC participants.

Transfers between DTC participants will be effected in accordance with DTC rules and procedures and will be settled in same-day funds. Transfers between participants in Euroclear and Clearstream will be effected in accordance with their respective rules and procedures.

The laws of some states require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer beneficial interests in a global note to such persons may be limited because DTC can only act on behalf of DTC participants, who in turn act on behalf of indirect participants and certain banks. Accordingly, the ability of a person having a beneficial interest in a global note to pledge such interest to persons or entities that do not participate in the DTC system, or otherwise take actions in respect of each interest, may be affected by the lack of a physical certificate for such interest.

Subject to compliance with the transfer restrictions applicable to the notes described above and under "Notice to Investors," cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream participants, on the other, will be effected in DTC in accordance with DTC rules and procedures on behalf of Euroclear or Clearstream, as the case may be, by its respective depositary; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with its rules and procedures and within its established deadlines (Brussels, Belgium time). Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depositary to take action to effect final settlement on its behalf by delivering or receiving interests in Regulation S global notes in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the depositaries for Euroclear or Clearstream.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a global note from a DTC Participant will be credited during the securities settlement processing day (which must be a business day for Euroclear or Clearstream, as the case may be) immediately following the DTC settlement date, and the credit of any transactions in interests in a global note settled during such processing will be reported to the relevant Euroclear or Clearstream participant on such day. Cash received in Euroclear or Clearstream as a result of sales of interests in a global note by or through a Euroclear or Clearstream participant to a DTC Participant will be received with value on the DTC settlement date but will be available in the relevant Euroclear or Clearstream cash account only as of the business day following settlement in DTC.

In order to ensure the availability of Rule 144 under the Securities Act, the Indenture will provide that all notes which are purchased or otherwise acquired by the Issuer may not subsequently be resold or otherwise transferred.

DTC has advised the Issuer that it will take any action permitted to be taken by a holder of notes (including, without limitation, the presentation of notes for transfer, exchange or conversion as described below) only at the direction of one or more DTC participants to whose account with DTC interests in the global notes are credited and only in respect of such portion of the aggregate principal amount of the notes as to which such participant or participants has or have given such direction. However, in the limited circumstances described herein, DTC will exchange the global notes for certificated notes in definitive form, which it will distribute to DTC participants and which, if representing interests in the restricted global note, will be legended as set forth under "Notice to Investors." See "— Certificated notes."

DTC has advised the Issuer as follows: DTC will act as the depositary for the notes. The notes will be issued as fully registered senior notes registered in the name of Cede & Co., which is DTC's nominee name. Fully registered global notes will be issued for the notes, in the aggregate principal amount of the issue, and will be deposited with the trustee, as custodian for DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC holds securities that its participants deposit with DTC. DTC also facilitates the settlement among participants of securities transactions, including transfers and pledges, in deposited securities through electronic computerized book-entry changes to participants' accounts, thereby eliminating the need for physical movement of certificates. Direct participants of DTC include securities brokers and dealers, including the initial purchasers of the notes, banks, trust companies, clearing corporations and certain other organizations. Access to DTC's system is also available to indirect participants, which includes securities brokers and dealers, banks and trust companies that clear through or maintain a custodial relationship with a direct participant, either directly or indirectly. The rules applicable to DTC and its participants are on file with the SEC.

To facilitate subsequent transfers, all global notes representing the notes which are deposited with, or on behalf of, DTC will be registered in the name of DTC's nominee, Cede & Co. The deposit of global notes with, or on behalf of, DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual beneficial owners of the global notes representing the notes; DTC's records reflect only the identity of the direct participants to whose accounts the notes are credited, which may or may not be the beneficial owners. The participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to direct participants, by direct participants to indirect participants, and by direct and indirect participants to beneficial owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Neither DTC nor Cede & Co. will consent or vote with respect to the global notes representing the notes. Under its usual procedure, DTC mails an omnibus proxy to the Issuer as soon as possible after the applicable record date. The omnibus proxy assigns Cede & Co.'s consent or voting rights to those direct participants to whose accounts the notes are credited on the applicable record date (identified in a listing attached to the omnibus proxy).

DTC may discontinue providing its services as securities depositary with respect to the notes at any time by giving reasonable notice to the Issuer or the trustee. Under such circumstances, in the event that a successor securities depositary is not appointed, certificated notes are required to be printed and delivered. See "— Certificated notes."

In limited circumstances as described below, the Issuer may decide to discontinue use of the system of book-entry transfers through DTC or a successor securities depositary. In that event, certificated notes will be printed and delivered. See "— Certificated notes."

Although DTC, Euroclear and Clearstream have agreed to the procedures described above in order to facilitate transfers of interests in the global notes among participants of DTC, Euroclear and Clearstream, they are under no obligation to perform or continue to perform these procedures, and these procedures may be discontinued at any time. None of the trustee, registrar, transfer agent, any paying agent or the Issuer will have any liability or responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants of their respective obligations under the rules and procedures governing their operations.

Certificated notes

If (i) DTC is at any time unwilling or unable to continue as a depositary for the global notes and a successor depositary is not appointed by the Issuer within 90 days or (ii) an Event of Default shall have occurred and be continuing and the beneficial holder of a note shall have requested that the Issuer issue to such beneficial holder its proportionate interest in a global note, the Issuer will issue certificated notes which may bear the legend referred to under "Notice to Investors," in exchange for the global notes. Holders of an interest in a global note may receive certificated notes, which may bear the legend referred to under "Notice to Investors," in accordance with DTC's rules and procedures in addition to those provided for under the Indenture; *provided*, *however*, that if the Issuer is issuing certificated notes pursuant to clause (ii) above, the Issuer shall only be required to issue certificated notes to the beneficial owners of the notes who request certificated notes.

The holder of a definitive note may transfer such note by surrendering it at the office or agency maintained by the Issuer for such purpose in the Borough of Manhattan, New York City, New York, which initially will be the office of the trustee. Upon the transfer, exchange or replacement of definitive notes bearing the legend, or upon specific request for removal of the legend on a definitive note, the Issuer will deliver only definitive notes that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Issuer such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Issuer, that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the provisions of the Securities Act.

None of the trustee, the principal paying agent, the Luxembourg paying agent or any other paying agent, registrar or transfer agent shall be required to register the transfer of or exchange definitive notes for a period from the record date to the due date for any payment of principal of, or interest on, the notes or register the transfer of or exchange any notes for 15 days prior to selection for redemption through the date of redemption. For so long as the notes are listed on the Luxembourg Stock Exchange and the rules of such exchange so requires, in the case of a transfer or exchange of definitive registered notes, a holder thereof may effect such transfer or exchange by presenting and surrendering such notes at, and obtaining new definitive registered notes from the office of the Luxembourg transfer agent. In the case of a transfer of only part of a definitive registered note, a new definitive note in respect of the balance of the principal amount of the definitive registered note transferred will be delivered at the office of the Luxembourg transfer agent, and in the case of any lost, stolen, mutilated or destroyed definitive registered note, a holder thereof may obtain a new definitive registered note from the Luxembourg transfer agent.

Prior to presentment of a note for registration of transfer (including a global note), the Issuer, the trustee and any agent of the Issuer or the trustee may treat the person in whose name such note is registered as the owner or holder of such note for the purpose of receiving payment of principal, interest and any additional amounts on such note and for all other purposes whatsoever, whether or not such note is overdue, and none of the Issuer, the trustee or any agent of the Issuer shall be affected by notice to the contrary.

Same day settlement and payment

Payments on the notes will be made at the office or agency of one or more paying agents unless the Issuer elects to make interest payments by check mailed to the holders at their address set forth in the register of holders. All payments on the notes will be made in U.S. dollars. The notes represented by the global notes are expected to be listed on the Luxembourg Stock Exchange, to trade on the Euro MTF Market and to trade in the same-day funds settlement systems of DTC, Euroclear and Clearstream, and any permitted secondary market trading activity in such notes will, therefore, be required by DTC, Euroclear and Clearstream to be settled in immediately available funds. We expect that secondary trading in any certificated notes will also be settled in immediately available funds.

TAXATION

The following discussion summarizes certain Brazilian, U.S. federal income and European Union tax considerations that may be relevant to you if you invest in the notes. This summary is based on laws, regulations, rulings and decisions now in effect in Brazil and the United States, and a directive of the European Union, in each case which may change. Any change could apply retroactively and could affect the continued validity of this summary.

This summary does not describe all of the tax considerations that may be relevant to you or your situation, particularly if you are subject to special tax rules. You should consult your tax advisors about the tax consequences of holding the notes, including the relevance to your particular situation of the considerations discussed below, as well as of state, local and other tax laws.

Brazilian taxation

The following discussion is a general description of certain Brazilian tax aspects of the notes applicable to a holder of the notes that is an individual, entity, trust or organization resident or domiciled outside Brazil ("Non-Resident Holder") and does not purport to be a comprehensive description of the tax aspects of the notes. The earnings of foreign companies and persons not resident in Brazil are generally taxed in Brazil when (i) paid, credited or otherwise received from Brazilian sources; (ii) the transaction giving rise to such earnings involves assets in Brazil; or (iii) the transaction giving rise to such earnings is carried out with persons and companies resident or domiciled in Brazil.

Investors should note that, as to the discussion below, other income tax rates or treatment may be provided for in any applicable tax treaty between Brazil and the country where the Non-Resident Holder is domiciled.

Interest payment under the notes

Interest (including original issue discount) payable by Telemar to a Non-Resident Holder is generally subject to withholding income tax at the rate of 15%, unless: (i) some other lower rate is provided for in a tax treaty between Brazil and the country where the Non-Resident Holder is domiciled; or (ii) the Non-Resident Holder is domiciled in a country or jurisdiction which does not impose any income tax or which imposes an income tax at a maximum rate of less than 20% (a "Low or Nil Tax Jurisdiction") and the notes are redeemed, liquidated or converted prior to 96 months after the date of issuance, in which case the applicable rate is 25%. In the event that notes held by a Non-Resident Holder domiciled in a Low or Nil Tax Jurisdiction are redeemed, liquidated or converted prior to 96 months after the date of issuance, Telemar shall be required to pay to the Brazilian tax authorities an amount equal to 10% of the amounts previously paid to such Non-Resident Holder (*i.e.,* the difference between the 25% rate and the 15% rate), plus applicable fines and interest.

Brazil and Japan are signatories to a treaty for the avoidance of double taxation that provides for a rate of 12.5% for withholding income tax in respect of interest payable under debt obligations. If Telemar is not entitled to rely on such treaty in connection with payments of interest under the notes, any such payments will be subject to Brazilian withholding tax at the rates indicated in the previous paragraph.

In the event that Telemar is required to make any payment under the notes to a Non-Resident Holder, Telemar will be allowed under Brazilian tax laws to pay such additional amounts as may be necessary to ensure that the net amounts receivable by the Non-Resident Holder after withholding taxes will equal the amounts that would have been payable in the absence of such withholding.

Capital gains

Capital gains generated outside Brazil as a result of a transaction between two non-residents of Brazil with respect to assets located in Brazil are subject to income tax in Brazil, according to Article 26 of Law No. 10,833, enacted on December 29, 2003.

Although we believe that the notes do not fall within the definition of assets located in Brazil for purposes of Law No. 10,833/03, considering the general and unclear scope of this legislation and the absence of judicial guidance in respect thereof, we are unable to predict how Law No. 10,833 would be interpreted in the Brazilian courts. If such courts were to determine that the notes constitute assets located in Brazil, gains realized by a Non-Resident Holder from the sale or other disposition of the notes to a Brazilian resident or even to a non-Brazilian resident would be subject to income tax in Brazil at a rate of 15% (or 25% if such Non-Resident Holder is located in a Low or Nil Tax Jurisdiction).

On June 24, 2008, Law No. 11,727 introduced the concept of "privileged tax regime," which is considered to be a regime that (i) does not tax income or taxes income at a maximum rate lower than 20%; (ii) grants tax advantages to a non-resident entity or individual (a) without the need to carry out a substantial economic activity in the country or dependency or (b) conditioned on the non-exercise of a substantial economic activity in the country or dependency; (iii) does not tax income generated outside the jurisdiction, or that taxes such income at a maximum rate lower than 20%; or (iv) does not provide access to information related to shareholding composition, ownership of goods and rights or the economic transactions carried out. We believe that the better interpretation of Law No. 11,727/08 is that the new concept of "privileged tax regime" shall be solely applied for purposes of the observance of transfer pricing rules in export and import transactions. However, due to the recent enactment of this law, no assurance can be given that the privileged tax regime concept will not be extended to the concept of Low or Nil Taxation Jurisdiction. The sections of Law No. 11,727/08 that refer to the "privileged tax regime" became effective as of January 1, 2009.

Other tax considerations

Pursuant to Decree No. 6,306, of December 14, 2007 (as amended from time to time), conversion into Brazilian currency of proceeds received in foreign currency by a Brazilian entity and the conversion into foreign currency of proceeds received in Brazilian currency are subject to the tax on foreign exchange transactions ("IOF/Exchange"). Currently, the IOF/Exchange related to payments under notes with an average term of more than 90 days is zero. However, the Brazilian government can increase such rate at any time up to a rate of 25%, but only with respect to future foreign exchange transactions. In addition, if the notes are redeemed within 90 days of their issuance, the applicable IOF/Exchange tax payable by us for the conversion of the proceeds received in foreign currency into Brazilian currency would increase to a rate of 5.38% plus interest and penalties.

Generally, there are no stamp, transfer or other similar taxes in Brazil applicable to the transfer, assignment or sale of the notes outside Brazil, nor any inheritance, gift or succession tax applicable to the ownership, transfer or disposition of the notes, except for gift and inheritance taxes imposed in some states of Brazil on gifts and bequests by a Non-Resident Holder to individuals or entities domiciled or residing within such Brazilian states.

The above description is not intended to constitute a complete analysis of all Brazilian tax consequences relating to the ownership of notes. Prospective purchasers of notes should consult their own tax advisors concerning the tax consequences of their particular situations.

U.S. federal income taxation

The following is a general summary of certain U.S. federal income tax consequences of the acquisition, ownership and disposition of notes by a holder thereof. This description only applies to notes held as capital assets within the meaning of Section 1221 of the Internal Revenue Code of 1986, as amended (the "Code") and does not address, except as set forth below, aspects of U.S. federal income taxation that may be applicable to holders that are subject to special tax rules, such as:

- financial institutions;
- insurance companies;
- real estate investment trusts;

- regulated investment companies;
- grantor trusts;
- tax-exempt organizations;
- persons that will own notes through partnerships or other pass-through entities;
- dealers or traders in securities or currencies;
- certain former citizens or long-term residents of the United States;
- holders that will hold a note as part of a position in a straddle or as part of a hedging, conversion or integrated transaction for U.S. federal income tax purposes; or
- holders that have a functional currency other than the U.S. dollar.

Moreover, this summary does not address the U.S. federal estate and gift tax or alternative minimum tax consequences of the acquisition, ownership or disposition of notes and does not address the U.S. federal income tax treatment of holders that do not acquire notes as part of the initial issuance at their initial offering price. Each prospective purchaser should consult its tax advisor with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, owning and disposing of notes.

This summary is based on the Code, existing and proposed U.S. Treasury Regulations, administrative pronouncements and judicial decisions, each as available and as of the date hereof. All of the foregoing are subject to change, possibly with retroactive effect, or differing interpretations which could affect the tax consequences described herein.

Internal Revenue Service Circular 230 disclosure

Pursuant to Internal Revenue Service Circular 230, we hereby inform you that the description set out herein with respect to U.S. federal tax issues was not intended or written to be used, and such description cannot be used, by any taxpayer for the purpose of avoiding any penalties that may be imposed on the taxpayer under the U.S. Internal Revenue Code. Such description was written in connection with the marketing of the notes. Taxpayers should seek advice based on the taxpayer's particular circumstances from an independent tax advisor.

For purposes of this summary, a U.S. Holder is a beneficial owner of notes who for U.S. federal income tax purposes is any of the following:

- an individual citizen or resident of the United States;
- a corporation (or any other entity that is treated as a corporation for U.S. federal income tax purposes) organized in or under the laws of the United States or any state thereof, including the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
- a trust (1) that validly elects to be treated as a U.S. person for U.S. federal income tax purposes or (2)(a) the administration over which a U.S. court can exercise primary supervision and (b) all of the substantial decisions of which one or more U.S. persons have the authority to control.

A Non-U.S. Holder is a beneficial owner of notes that is neither a U.S. Holder nor a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes).

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds the notes, the tax treatment of the partnership and a partner in such partnership generally will depend on the status of the partner and the activities of the partnership. Such partner or partnership should consult its own tax advisor regarding the U.S. federal income tax consequences of the purchase, ownership and disposition of the notes.

Interest

It is expected and this discussion assumes that either the issue price of the notes will equal the stated principal amount of the notes or the notes will be issued with no more than a *de minimis* amount of original issue discount, or "OID." Therefore, if you are a U.S. Holder, interest paid to you on a note, including any additional amounts with respect thereto as described under "Description of the Notes — Certain covenants — Payment of additional amounts," will be includible in your gross income as ordinary interest income in accordance with your usual method of tax accounting. In addition, interest on the notes will be treated as foreign source income for U.S. federal income tax purposes. Subject to certain conditions and limitations, foreign taxes, if any, withheld on interest payments may be treated as foreign taxes eligible for credit against your U.S. federal income tax liability. The limitation on foreign taxes eligible for the U.S. foreign tax credit is calculated separately with respect to specific "baskets" of income. Interest on the notes generally will constitute "passive category income," or, in the case of certain U.S. Holders, "general category income." As an alternative to the tax credit, a U.S. Holder may elect to deduct such taxes (the election would then apply to all foreign income taxes such U.S. Holder paid in that taxable year). The rules governing the foreign tax credit are complex. You are urged to consult your tax advisor regarding the availability of the foreign tax credit under your particular circumstances.

We may redeem all or part of the notes at any time, at a redemption price equal to 100% of the principal amount of notes redeemed plus the applicable make-whole premium (see "Description of the Notes — Redemption and repurchase — Optional redemption with "make-whole" amount"). In addition, we may redeem the notes in whole, but not in part, as described under "Description of the Notes — Redemption and repurchase — Tax redemption." Similarly, you may require us to redeem your notes in the event of a Change of Control (see "Description of the Notes — Redemption and repurchase — Repurchase of the notes upon a change of control"). Under the U.S. Treasury Regulations regarding notes issued with OID, if based on all the facts and circumstances as of the date on which the notes are issued there is a remote likelihood that a contingent redemption option will be exercised, it is assumed that such redemption will not occur and such option will not cause the notes to be treated as contingent payment debt instruments, or CPDIs. We believe that, as of the expected issue date of the notes, the likelihood of such events is for this purpose remote. Our determination is not binding on the U.S. Internal Revenue Service, or the IRS, and if the IRS were to challenge this determination, you may be required to accrue income on the notes that you own in excess of stated interest, and to treat as ordinary income rather than capital gain any income realized on the taxable disposition of such notes before the resolution of the contingency. In the event that such contingency were to occur, it would affect the amount and timing of the income that you recognize. U.S. Holders are urged to consult their own tax advisors regarding the potential application to the notes of the contingent payment debt instrument rules and the consequences thereof. The remainder of this discussion assumes that the notes will not be treated as CPDIs.

Subject to the discussion below under the caption "— U.S. backup withholding and information reporting," if you are a Non-U.S. Holder, payments to you of interest on a note generally will not be subject to U.S. federal income tax unless the income is effectively connected with your conduct of a trade or business in the United States (and, if a tax treaty applies, is attributable to a permanent establishment in the United States).

Sale, exchange, retirement or other disposition

U.S. Holders

If you are a U.S. Holder, upon the sale, exchange, retirement or other disposition of a note, you will recognize taxable gain or loss equal to the difference, if any, between the amount realized on the sale, exchange, retirement or other disposition, other than accrued but unpaid interest which will be taxable as interest, and your adjusted tax basis in the note. Your adjusted tax basis in a note generally will equal the cost of the note to you, and any such gain or loss will generally be capital gain or loss. If you are a non-corporate U.S. Holder, under current law, the maximum marginal U.S. federal income tax rate applicable to the gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income (other than certain dividends) if your holding period for the notes exceeds one year (*i.e.*, such gain is long-term capital gain). Any gain or loss

realized on the sale, exchange, retirement or other disposition of a note generally will be treated as U.S. source gain or loss, as the case may be. Consequently, you may not be able to claim a credit for any Brazilian or other foreign tax imposed upon a disposition of a note unless such credit can be applied (subject to applicable limitations) against tax due on other income treated as derived from foreign sources. The deductibility of capital losses is subject to limitations.

Non-U.S. Holders

Subject to the discussion below under the caption "— U.S. backup withholding and information reporting," if you are a Non-U.S. Holder, any gain realized by you upon the sale, exchange, retirement or other disposition of a note generally will not be subject to U.S. federal income tax, unless:

- the gain is effectively connected with your conduct of a trade or business in the United States (and, if a tax treaty applies, is attributable to a permanent establishment in the United States); or
- if you are an individual Non-U.S. Holder, you are present in the United States for 183 days or more in the taxable year of the sale, exchange or retirement or other disposition and certain other conditions are met.

U.S. backup withholding and information reporting

Backup withholding and information reporting requirements apply to certain payments of principal of, and interest (including OID, if any) on, an obligation and to proceeds of the sale or redemption of an obligation, to certain non-corporate holders of notes that are U.S. persons. Information reporting generally will apply to payments of principal of, and interest (including OID, if any) on, notes, and to proceeds from the sale or redemption of, notes within the United States, or by a U.S. payor or U.S. middleman, to a holder of notes that is a U.S. person (other than an exempt recipient, including a corporation, and certain other persons). The payor will be required to backup withhold on payments made within the United States, or by a U.S. payor or U.S. middleman, on a note to a holder of a note that is a U.S. person, other than an exempt recipient, such as a corporation, if the holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, the backup withholding requirements. Payments within the United States, or by a U.S. payor or U.S. middleman, of principal and interest to a holder of a note that is not a U.S. person will not be subject to backup withholding and information reporting requirements if an appropriate certification is provided by the holder to the payor and the payor does not have actual knowledge or a reason to know that the certificate is incorrect. The backup withholding rate is 28% for taxable years through 2010.

Backup withholding is not an additional tax. You generally will be entitled to credit any amounts withheld under the backup withholding rules against your U.S. federal income tax liability provided the required information is furnished to the IRS in a timely manner.

The above description is not intended to constitute a complete analysis of all tax consequences relating to the ownership of notes. Prospective purchasers of notes should consult their own tax advisors concerning the tax consequences of their particular situations.

European Union savings directive (Directive 2003/48/EC)

Under EC Council Directive 2003/48/EC on the taxation of savings income (the "EU Savings Directive"), member states are required to provide to the tax authorities of another member state details of payments of interest and other similar income paid by a person within its jurisdiction (a "paying agent") to or for an individual (or a non-corporate, "residual entity") in that other member state. However, for a transitional period, Belgium, Luxembourg and Austria are instead required (unless during that period they elect otherwise) to operate a withholding system in relation to such payments (the ending of such transitional period being dependent upon the conclusion of certain other agreements relating to information exchange with certain other countries). Also, a number of non-EU countries (e.g., Switzerland) and certain dependent or associated territories of certain member

states have adopted similar measures (either the provision of information or a transitional withholding tax) in relation to payments made by a "paying agent" within their jurisdictions to or for an individual in a member state. Therefore payments of interest on the notes that are made or collected through Belgium, Luxembourg, Austria or any other relevant country may be subject to withholding tax that would prevent holders of the notes from receiving interest on the notes in full.

Investors should note that the European Commission has proposed amendments (COM (2008) 727) to the EU Savings Directive. These proposed amendments, if implemented, would extend the scope of the EU Savings Directive so as to treat a wider range of income as similar to interest and to bring payments made through a wider range of collective investment undertakings wherever established (including partnerships) within the scope of the EU Savings Directive. The timing of the implementation of these proposed amendments is not yet known nor is its possible application.

ERISA AND CERTAIN OTHER CONSIDERATIONS

The discussion herein of the U.S. Employee Retirement Income Security Act of 1974, as amended ("ERISA") is general in nature and is not intended to be all inclusive. Any fiduciary of an ERISA plan, governmental plan, church plan, non-U.S. plan or other entity whose assets include plan assets subject to ERISA, Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "Code") or similar federal, state or local laws considering an investment in the notes should consult with its legal advisors regarding the consequences of such investment.

General

A fiduciary of an employee benefit plan subject to Title I of ERISA should consider fiduciary standards under ERISA in the context of the particular circumstances of such plan before authorizing an investment in the notes. Such fiduciary should consider ERISA's diversification and prudence requirements and whether the investment is in accordance with the documents and instruments governing the plan and the fiduciary. In addition, ERISA and the Code prohibit a wide range of transactions ("Prohibited Transactions") involving, on the one hand, the assets of a plan subject to ERISA or Section 4975 of the Code (including individual retirement accounts, individual retirement annuities and Keogh plans) or any entity in which such plan invests whose assets are deemed "plan assets" (each of the foregoing, an "ERISA Plan") and, on the other hand, persons who have certain specified relationships to the ERISA Plan ("parties in interest," within the meaning of ERISA, and "disqualified persons," within the meaning of the Code). If not covered by a statutory or administrative exemption, Prohibited Transactions may require "correction" and may cause the ERISA Plan fiduciary to incur certain liabilities and the parties in interest or disqualified persons to be subject to civil penalties and excise taxes.

Governmental plans, non-U.S. plans and certain church plans (each as defined under ERISA) are not subject to the prohibited transaction rules. Such plans may, however, be subject to substantially similar federal, state or local laws or regulations which may affect their investment in the notes. Any fiduciary of a governmental, non-U.S. or church plan considering an investment in the notes should determine the need for, and the availability, if necessary, of any exemptive relief under such laws or regulations.

Prohibited transactions

The acquisition or holding of notes by or on behalf of an ERISA Plan could be considered to give rise to a Prohibited Transaction if Telemar or any of its respective affiliates is or becomes a party in interest or a disqualified person with respect to such ERISA Plan. Before investing in the notes, any person who is, or who is acquiring the notes for, or on behalf of, an ERISA Plan must determine that the investment in, or acquisition of, the notes will not result in a Prohibited Transaction or that a statutory or administrative exemption from the prohibited transaction rules is applicable to the investment in the notes.

The statutory or administrative exemptions from the prohibited transaction rules under ERISA and the Code which may be available to an ERISA Plan which is investing in the notes include: (i) PTCE 90-1, regarding investments by insurance company pooled separate accounts; (ii) PTCE 91-38, regarding investments by bank collective investment funds; (iii) PTCE 84-14, regarding transactions effected by qualified professional asset managers; (iv) PTCE 96-23, regarding transactions effected by in-house managers; (v) PTCE 95-60, regarding investments by insurance company general accounts; and (vi) the statutory exemption under Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code for prohibited transactions between an ERISA Plan and a person or entity that is a party in interest to such ERISA Plan solely by reason of providing services to the ERISA Plan (other than a party in interest that is a fiduciary, or its affiliate, that has or exercises discretionary authority or control or renders investment advice with respect to the assets of the ERISA Plan involved in the transaction), provided that there is adequate consideration for the transaction (collectively referred to as the "ERISA Investor Exceptions"). The notes may not be acquired by any person who is, or who in acquiring such notes is using the

assets of, an ERISA Plan unless such person is eligible for, and satisfies all requirements for relief under one of the ERISA Investor Exemptions or another applicable exemption. The acquisition of the notes by any person or entity who is, or who in acquiring such notes is using the assets of, an ERISA Plan or other plan shall be deemed to constitute a representation by such person or entity to Telemar that the acquisition, holding and disposition of the notes is afforded exemptive relief from the restrictions of Section 406 of ERISA and Section 4975 of the Code (or any substantially similar applicable law) pursuant to the ERISA Investor Exemptions or another applicable exemption. Any person or entity who is, or who is acquiring such notes using the assets of, a governmental, non-U.S. or church plan shall be deemed to constitute a representation by such person or entity to Telemar that the acquisition and holding of such notes is not prohibited by any federal, state or local laws or regulations applicable to such plan.

NOTICE TO INVESTORS

The notes have not been registered, and will not be registered, under the Securities Act or any other applicable securities laws, and the notes may not be offered or sold except pursuant to an effective registration statement or pursuant to transactions exempt from, or not subject to, registration under the Securities Act. Accordingly, the notes are being offered and sold only:

- in the United States to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A under the Securities Act; and
- outside of the United States, to certain persons, other than U.S. persons, in offshore transactions meeting the requirements of Rule 903 or 904 of Regulation S under the Securities Act.

Purchasers' representations and restrictions on resale and transfer

Each purchaser of notes (other than the initial purchasers in connection with the initial issuance and sale of notes) and each owner of any beneficial interest therein will be deemed, by its acceptance or purchase thereof, to have represented and agreed as follows:

(1) It is purchasing the notes for its own account or an account with respect to which it exercises sole investment discretion, and it and any such account is either (a) a qualified institutional buyer and is aware that the sale to it is being made in reliance on Rule 144A or (b) a non-U.S. person that is outside the United States.

(2) It acknowledges that the notes have not been registered under the Securities Act or with any securities regulatory authority of any jurisdiction and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except as set forth below.

(3) It understands and agrees that notes initially offered in the United States to qualified institutional buyers will be represented by one or more global notes and that notes offered outside the United States in reliance on Regulation S will also be represented by one or more global notes.

(4) It will not resell or otherwise transfer any of such notes except (a) to Telemar, (b) within the United States to a qualified institutional buyer in a transaction complying with Rule 144A under the Securities Act, (c) outside the United States in compliance with Rule 903 or 904 under the Securities Act, (d) pursuant to the exemption from registration provided by Rule 144 under the Securities Act (if available) or (e) pursuant to an effective registration statement under the Securities Act.

(5) It agrees that it will give to each person to whom it transfers the notes notice of any restrictions on transfer of such notes.

(6) It acknowledges that prior to any proposed transfer of notes (other than pursuant to an effective registration statement or in respect of notes sold or transferred either pursuant to (a) Rule 144A or (b) Regulation S and listed on the Luxembourg Stock Exchange) the holder of such notes may be required to provide certifications relating to the manner of such transfer as provided in the Indenture.

(7) It acknowledges that the trustee, registrar or transfer agent for the notes will not be required to accept for registration transfer of any notes acquired by it, except upon presentation of evidence satisfactory to us and the trustee, registrar or transfer agent that the restrictions set forth herein have been complied with.

(8) Either that (a) it is not, and for so long as it holds the notes or interests in notes will not be, an ERISA Plan, an entity whose underlying assets include the assets of any such ERISA Plan or a governmental plan, church plan or foreign or other plan that is subject to any federal, state, local or non-U.S. law that is substantially similar to the provisions of Section 406 of ERISA or Section 4975 of the Code or (b) its acquisition, holding or disposition of the notes or interests in notes will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code (or, in the case of a governmental plan, church plan or non-U.S. or other plan, a violation of any substantially similar federal, state, local or foreign law).

(9) It acknowledges that we, the initial purchasers and other persons will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that if any of the acknowledgements, representations and agreements deemed to have been made by its purchase of the notes are no longer accurate, it will promptly notify us and the initial purchasers. If it is acquiring the notes as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each account.

Legends

The following is the form of restrictive legend which will appear on the face of the Rule 144A global note, and which will be used to notify transferees of the foregoing restrictions on transfer:

"This Note has not been registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or any other securities laws. The holder hereof, by purchasing this Note, agrees for the benefit of Telemar Norte Leste S.A. that this Note or any interest or participation herein may be offered, resold, pledged or otherwise transferred only (1) to Telemar Norte Leste S.A., (2) so long as this Note is eligible for resale pursuant to Rule 144A under the Securities Act ("Rule 144A"), to a person who the seller reasonably believes is a qualified institutional buyer (as defined in Rule 144A) in accordance with Rule 144A, (3) in an offshore transaction in accordance with Rule 903 or 904 of Regulation S under the Securities Act, (4) pursuant to an exemption from registration under the Securities Act afforded by Rule 144 under the Securities Act (if available) or (5) pursuant to an effective registration statement under the Securities Act, and in each of such cases in accordance with any applicable securities laws of any state of the United States or other applicable jurisdiction. The holder hereof, by purchasing this Note, represents and agrees that it shall notify any purchaser of this Note from it of the resale restrictions referred to above.

The foregoing legend may be removed from this Note on satisfaction of the conditions specified in the indenture referred to herein."

The following is the form of restrictive legend which will appear on the face of the Regulation S global note and which will be used to notify transferees of the foregoing restrictions on transfer:

"This Note has not been registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or any other securities laws. The holder hereof, by purchasing this Note, agrees that neither this Note nor any interest or participation herein may be offered, resold, pledged or otherwise transferred in the absence of such registration unless such transaction is exempt from, or not subject to, such registration.

The foregoing legend may be removed from this Note after 40 days beginning on and including the later of (a) the date on which the Notes are offered to persons other than distributors (as defined in Regulation S under the Securities Act) and (b) the original issue date of this Note."

For further discussion of the requirements (including the presentation of transfer certificates) under the Indenture to effect exchanges or transfers of interest in global notes and certificated notes, see "Description of the Notes — Form, denomination and registration."

ENFORCEMENT OF CIVIL LIABILITIES

Telemar is a corporation organized under the laws of Brazil. All of the directors and officers of Telemar and some of the advisors named herein reside in Brazil or elsewhere outside the United States, and all or a significant portion of the assets of such persons may be located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States or other jurisdictions outside Brazil upon such persons, or to enforce against such persons judgments predicated upon the civil liability provisions of the U.S. federal securities laws or the laws of such other jurisdictions.

In the Indenture relating to the notes, Telemar will (1) agree that the courts of the State of New York and the federal courts of the United States, in each case sitting in the Borough of Manhattan, The City of New York, will have jurisdiction to hear and determine any suit, action or proceeding, and to settle any disputes, which may arise out of or in connection with the notes and, for such purposes, irrevocably submit to the jurisdiction of such courts and (2) name an agent for service of process in the Borough of Manhattan, The City of New York. See "Description of the Notes."

We have been advised by Mattos Filho, Veiga Filho, Marrey Jr. e Quiroga, our Brazilian counsel, that judgments of non-Brazilian courts for the payment of money, including for civil liabilities predicated upon the securities laws of countries other than Brazil, including the U.S. securities laws, subject to certain requirements described below, may be enforced in Brazil. A judgment for the payment of a sum certain against either us or any other person described above obtained outside Brazil would be enforceable in Brazil against us or any such person without reconsideration of the merits, upon confirmation of that judgment by the Brazilian Superior Court of Justice. That confirmation, generally, will occur if the foreign judgment:

- fulfills all formalities required for its enforceability under the laws of the country where the foreign judgment is granted;
- is issued by a competent court after proper service of process is made in accordance with Brazilian legislation;
- is not subject to appeal;
- is authenticated by a Brazilian consular office in the country where the foreign judgment is issued and is accompanied by a sworn translation into Portuguese; and
- is not contrary to Brazilian national sovereignty, public policy or public morality.

The confirmation process may be time-consuming and may also give rise to difficulties in enforcing the foreign judgment in Brazil. Accordingly, we cannot assure you that confirmation would be obtained, that the confirmation process would be conducted in a timely manner or that a Brazilian court would enforce a monetary judgment, including for violation of the securities laws of countries other than Brazil, including the U.S. securities laws.

A plaintiff (whether Brazilian or non-Brazilian) who resides outside Brazil during the course of litigation in Brazil must provide a bond to guarantee court costs and legal fees if the plaintiff owns no real property in Brazil that may ensure such payment. This bond must have a value sufficient to satisfy the payment of court fees and defendant's attorneys' fees, as determined by the Brazilian judge, except in the case of the enforcement of foreign judgments that have been duly confirmed by the Brazilian Superior Court of Justice.

The ability of a judgment creditor to satisfy a judgment by attaching certain assets of the defendant is limited by provisions of Brazilian law. In particular, (i) under the terms of Telemar's concession, our subsidiaries' licenses from ANATEL and applicable law, shares held by us in our subsidiaries cannot be transferred (including upon attachment) without ANATEL's approval in cases where such transfer would result in a change of control as defined under Brazilian laws and regulations and (ii) property of Telemar that is considered essential for the rendering of public services under any concession agreement or license (*bens vinculados à concessão ou bens reversíveis*) is subject to immunity provided under Brazilian law and cannot be attached.

PLAN OF DISTRIBUTION

Citigroup Global Markets Inc., Banco Itaú Europa, S.A. — London Branch, Santander Investment Securities Inc., Banco Bradesco S.A. — Grand Cayman Branch and BB Securities Ltd., are acting as joint bookrunners and lead managers of this offering. Subject to the terms and conditions stated in the purchase agreement dated the date of this offering memorandum, each initial purchaser named below has agreed to purchase, and we have agreed to sell to that initial purchaser, the principal amount of the notes set forth opposite the initial purchaser's name.

Initial Purchasers	Principal Amount of Notes
Citigroup Global Markets Inc.	US$150,000,000
Banco Itaú Europa, S.A. — London Branch	150,000,000
Santander Investment Securities Inc.	150,000,000
Banco Bradesco S.A. — Grand Cayman Branch	150,000,000
BB Securities Ltd.	150,000,000
Total	US$750,000,000

The purchase agreement provides that the obligations of the initial purchasers to purchase the notes are subject to approval of legal matters by counsel and to other conditions. The initial purchasers must purchase all the notes if they purchase any of the notes.

We have been advised that the initial purchasers propose to resell the notes at the offering price set forth on the cover page of this offering memorandum within the United States to qualified institutional buyers (as defined in Rule 144A) in reliance on Rule 144A and outside the United States in reliance on Regulation S. See "Notice to Investors." The offering price at which the notes are offered may be changed at any time without notice.

Banco Itaú Europa, S.A. — London Branch is not a broker-dealer registered with the SEC and therefore may not make sales of any notes in the United States or to U.S. persons except in compliance with applicable U.S. laws and regulations. To the extent that such initial purchaser intends to effect any sales of the notes in the United States, such initial purchaser will do so only through one or more U.S. registered broker-dealers or otherwise as permitted by applicable U.S. law.

Banco Bradesco S.A. (sole controlling shareholder of Banco Bradesco BBI S.A. and Bradesco Securities Inc.), acting through its Grand Cayman Branch, is offering the notes in the United States through its broker dealer and selling agent Bradesco Securities Inc.

BB Securities Ltd. is not a broker-dealer registered with the SEC and therefore may not make sales of any notes in the United States or to U.S. persons except in compliance with applicable U.S. laws and regulations. To the extent that such initial purchaser intends to effect any sales of the notes in the United States, such initial purchaser will do so only through Banco do Brasil Securities LLC, its selling agent, or one or more U.S. registered broker-dealers or otherwise as permitted by applicable U.S. law.

Each purchaser of the notes will be deemed to have made acknowledgements, representations and agreements as described under "Notice to Investors."

We have agreed that, for a period of 60 days from the date of this offering memorandum, it will not, without the prior written consent of the initial purchasers, offer, sell or contract to sell, or otherwise dispose of, directly or indirectly, or announce the offering of, any debt securities issued or guaranteed by it and having a tenor of greater than one year.

The notes have not been and will not be registered under the Securities Act or any state securities laws and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except in transactions exempt from, or not subject to, the registration requirements of the Securities Act. See "Notice to Investors."

Accordingly, in connection with sales of notes outside the United States, each initial purchaser has agreed that, except as permitted by the purchase agreement and set forth in the "Notice to Investors," it will not offer or sell the notes within the United States or to, or for the account or benefit of, U.S. persons (1) as part of its distribution at any time, or (2) otherwise until 40 days after the later of the commencement of this offering and the closing date, and it will have sent to each dealer to which it sells notes during the 40-day distribution compliance period a confirmation or other notice setting forth the restrictions on offers and sales of the notes within the United States or to, or for the account or benefit of, U.S. persons.

In addition, until 40 days after the commencement of this offering, an offer or sale of notes within the United States by a dealer that is not participating in this offering may violate the registration requirements of the Securities Act if that offer or sale is made otherwise than in accordance with Rule 144A.

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "Relevant Member State"), each initial purchaser has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "Relevant Implementation Date") it has not made and will not make an offer of notes which are the subject of the offering contemplated by this offering memorandum to the public in that Relevant Member State other than:

(a) to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (i) an average of at least 250 employees during the last financial year; (ii) a total balance sheet of more than €43,000,000; and (iii) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive) subject to obtaining the prior consent of the initial purchasers for any such offer; or

(d) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of notes referred to in (a) to (d) above shall require the Issuer or any initial purchaser to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression an "offer of notes to the public" in relation to any notes in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the notes to be offered so as to enable an investor to decide to purchase or subscribe for the notes, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression "Prospectus Directive" means European Council Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Each initial purchaser has also represented and agreed that:

- it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the notes in circumstances in which Section 21(1) of the FSMA does not apply to Telemar;
- it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom;
- the offer in The Netherlands of the notes included in this offering is exclusively limited to persons who trade or invest in securities in the conduct of a profession or business (which include banks, stockbrokers, insurance companies, pension funds, other institutional investors and finance companies and treasury departments of large enterprises);

- (i) it has not offered or sold and will not offer or sell notes, directly or indirectly, in Hong Kong SAR by means of any document, other than to persons whose ordinary business involves buying or selling shares or debentures, whether as principal or agent or in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap. 32 of the Laws of Hong Kong SAR), and (ii) unless it is a person who is permitted to do so under the securities laws of Hong Kong SAR, it has not issued or held for the purpose of issue in Hong Kong SAR and will not issue or hold for the purpose of issue in Hong Kong SAR, directly or indirectly, any other offering material or any advertisement, invitation or document relating to the notes, otherwise than with respect to notes intended to be disposed of to persons outside Hong Kong SAR or only to persons whose business involves the acquisition, disposal or holding of securities, whether as principal or as agent;
- the notes offered in this offering memorandum have not been and will not be registered under the Financial Instruments and Exchange Law of Japan, and that it has not offered or sold, and it will not offer or sell, directly or indirectly, any of the notes in Japan or to or for the account of any resident of Japan, except (i) pursuant to an exemption from the registration requirements of the Financial Instruments and Exchange Law of Japan and (ii) in compliance with any other relevant laws of Japan;
- this offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, this offering memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of the notes, may not be circulated or distributed, nor may the notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an institutional investor or other person specified in Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"), (ii) to a sophisticated investor, and in accordance with the conditions, specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA; and
- it has not offered or sold, and will not offer or sell any notes in Brazil, except in circumstances that do not constitute a public offering or an unauthorized distribution of securities under Brazilian laws and regulations. The notes have not been, and will not be, registered with the CVM. Any public offering or distribution of the notes in Brazil would require prior registration with the CVM.

The notes will not be offered to the public in or from Luxembourg unless the requirements of Luxembourg law relating to the public offering of securities have been complied with.

The notes will constitute a new class of securities with no established trading market. Application has been made to admit the notes to listing on the Luxembourg Stock Exchange and to trade the notes on the Euro MTF Market. The notes are expected to be eligible for trading in The PORTAL Market, the National Association of Securities Dealers' screen-based automated market for trading of securities eligible for resale under Rule 144A. However, we cannot assure you that the prices at which the notes will sell in the market after this offering will not be lower than the initial offering price or that an active trading market for the notes will develop and continue after this offering. The initial purchasers have advised us that they currently intend to make a market in the notes. However, they are not obligated to do so and they may discontinue any market-making activities with respect to the notes at any time without notice. In addition, market-making activity will be subject to the limits imposed by the Securities Act and the Exchange Act. Accordingly, we cannot assure you as to the liquidity of or the trading market for the notes.

In connection with this offering, the initial purchasers may purchase and sell notes in the open market. These transactions may include overallotment, syndicate covering transactions and stabilizing transactions. Overallotment involves sales of notes in excess of the principal amount of notes to be purchased by the initial purchasers in this offering, which creates a short position for the initial purchasers. Covering transactions involve purchases of the notes in the open market after the distribution has been completed in order to cover short positions. Stabilizing transactions consist of certain bids or purchases of notes made for the purpose of preventing or retarding a decline in the market price of the notes while the offering is in progress. Any of these

activities may have the effect of preventing or retarding a decline in the market price of the notes. They may also cause the price of the notes to be higher than the price that otherwise would exist in the open market in the absence of these transactions. The initial purchasers may conduct these transactions in the over-the-counter market or otherwise. If the initial purchasers commence any of these transactions, they may discontinue them at any time.

We expect to deliver the notes against payment for the notes on or about the date specified in the last paragraph of the cover page of this offering memorandum, which will be the fifth business day following the date of the pricing of the notes. Since trades in the secondary market generally settle in three business days, purchasers who wish to trade notes on the date of pricing or the next succeeding business day will be required, by virtue of the fact that the notes initially will settle in "T+5," to specify alternative settlement arrangements to prevent a failed settlement.

The initial purchasers have performed investment banking and advisory services for us from time to time for which they have received customary fees and expenses. The initial purchasers may, from time to time, engage in transactions with and perform services for us in the ordinary course of their businesses.

We have agreed to indemnify the initial purchasers against certain liabilities, including liabilities under the Securities Act, or to contribute to payments that the initial purchasers may be required to make because of any of those liabilities.

Purchasers of any notes sold outside the United States may be required to pay stamp taxes and other charges in accordance with the laws and practices of the country of purchase in addition to the offering price paid by such purchasers for such notes.

LEGAL MATTERS

The validity of the notes will be passed upon for Telemar by Mayer Brown LLP, U.S. counsel to Telemar, and for the initial purchasers by Milbank, Tweed, Hadley & McCloy LLP, U.S. counsel to the initial purchasers.

Certain matters of Brazilian law relating to the notes will be passed upon for Telemar by Mattos Filho, Veiga Filho, Marrey Jr. e Quiroga Advogados, Brazilian counsel to Telemar. Pinheiro Guimarães – Advogados, Brazilian counsel to the initial purchasers, will pass upon certain matters of Brazilian law relating to the notes for the initial purchasers.

INDEPENDENT ACCOUNTANTS

Each of the consolidated financial statements of Telemar (1) at December 31, 2008 and 2007 and for each of the two years ended December 31, 2008 and (2) at December 31, 2007 and 2006 and for each of the two years ended December 31, 2007 have been audited by BDO Trevisan Auditores Independentes, independent accountants, as stated in their reports included herein.

Each of the consolidated financial statements of Brasil Telecom Participações (1) at December 31, 2008 and 2007 and for each of the three years ended December 31, 2008 and (2) at December 31, 2007 and 2006 and for each of the two years ended December 31, 2007 have been audited by Deloitte Touche Tohmatsu Auditores Independentes, independent accountants, as stated in their reports included herein.

The consolidated financial statements of Invitel at December 31, 2008 and for the year ended December 31, 2008 have been audited by Terco Grant Thornton Auditores Independentes, independent accountants, as stated in their report included herein.

AVAILABLE INFORMATION

To permit compliance with Rule 144A in connection with resales of the notes, for so long as the notes are "restricted securities" within the meaning of Rule 144(a)(3) under the Securities Act, we are required to furnish upon request of a holder of the notes and a prospective purchaser designated by such holder the information required to be delivered under Rule 144A(d)(4) if at the time of such request we are neither a reporting company under Section 13 or Section 15(d) of the Exchange Act nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder.

LISTING AND GENERAL INFORMATION

1. The notes have been accepted for clearance through DTC, Euroclear and Clearstream. The CUSIP and ISIN numbers for the notes are as follows:

	Rule 144A Global Note	Regulation S Global Note
CUSIP	87944L AD1	P9037H AK9
ISIN	US87944LAD10	USP9037HAK97

2. Copies of our latest audited annual financial statements and copies of our *estatuto social* (bylaws) in English, as well as the Indenture (including forms of notes), will be obtainable at the offices of the Luxembourg paying agent.

3. Except as disclosed in this offering memorandum, there has been no material adverse change in our financial position since December 31, 2008, the date of the latest audited financial statements included in this offering memorandum.

4. Except as disclosed in this offering memorandum, Telemar is not involved in any litigation or arbitration proceedings relating to claims or amounts that are material in the context of this offering, nor so far as Telemar is aware is any such litigation or arbitration pending or threatened.

5. BDO Trevisan Auditores Independentes, Deloitte Touche Tohmatsu Auditores Independentes and Terco Grant Thornton Auditores Independentes have agreed to the inclusion of their respective reports in this offering memorandum in the form and context in which they are included.

6. Application has been made to list the notes on the Official List of the Luxembourg Stock Exchange and to trade the notes on the Euro MTF Market.

7. The issuance of the notes was authorized by Telemar's board of directors on March 26, 2009.

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Telemar Norte Leste S.A.

Consolidated Financial Statements
at December 31, 2008 and 2007
and for the two years ended December 31, 2008
and Report of Independent Registered
Public Accounting Firm



BDO Trevisan

BDO Trevisan Auditores Independentes
Rua 7 de Setembro, 71
15º e 21º andares - Centro
Rio de Janeiro - RJ - Brasil
20050-005

Tel.: +55 (21) 3534-7500
Fax.: +55 (21) 2221-1395
www.bdotrevisan.com.br

(Convenience translation into English from the original previously issued in Portuguese)
INDEPENDENT AUDITORS' REPORT

To the Shareholders, Board Members and Management of
Telemar Norte Leste S.A.
Rio de Janeiro - RJ

1. We have audited the accompanying balance sheet of Telemar Norte Leste S.A. (Parent Company and Consolidated) as of December 31, 2008 and the respective statements of income, changes in shareholders' equity (Parent Company), cash flows and value added for the year then ended, all expressed in Brazilian reais and prepared under the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements. As described in note 15, the audit of the financial statements for the year ended December 31, 2008 of controlled companies TNL PCS S.A. (« Oi ») and Tele Norte Celular Participações S.A., used for purposes of consolidation and for calculating the carrying value of the investments in those companies, was under the responsibility of other independent auditors. Our report regarding the carrying value of these investments is exclusively based on the reports of those other independent auditors.

2. We conducted our audits in accordance with the auditing standards generally accepted in Brazil. Those standards require: a) that we plan and perform our work taking into consideration the significance of balances, the volume of transactions and the company's accounting and internal control systems; b) that we verify, on a test basis, evidence and records supporting the amounts and accounting information disclosed in the financial statements; and c) that we evaluate the accounting practices used and significant estimates made by the company's management, as well as the overall presentation of the financial statements.

3. In our opinion, based on our audits and on the reports of other independent auditors, the financial statements referred to above present fairly, in all material respects, the financial position of Telemar Norte Leste S.A. (Parent Company and Consolidated) as of December 31, 2008, the results of its operations, the changes in shareholders' equity (Parent Company), its cash flows and value added to its operations for the year then ended, in accordance with the accounting practices adopted in Brazil.

4. Formerly, we audited the financial statements (Company and Consolidated) of Telemar Norte Leste S.A. for the year ended December 31, 2007, consisting of the balance sheet, statement of income, statement of changes in shareholders' equity and statement of changes in financial position, in addition to the supplementary information consisting of the statements of cash flows (Consolidated) and of value added (Consolidated), on which we issued an unqualified opinion dated February 27, 2008.



BDO Trevisan

INDEPENDENT AUDITORS' REPORT

To the Shareholders, Board Members and Management of
Telemar Norte Leste S.A.
Rio de Janeiro - RJ

5. As explained in note 2(d), due to the changes in Brazilian accounting practices during 2008, the prior year's financial statements, presented for comparative purposes, were adjusted and are now being republished pursuant to NPC 12 — Accounting Practices, Changes in Accounting Estimates and Correction of Errors.

6. The statements of cash flows and value added (Company) for the year ended December 31, 2007, prepared in connection with the 2008 financial statements, were subjected to the same audit procedures described in paragraph 2 and, in our opinion, those statements are fairly stated, in all material respects, in relation to the financial statements mentioned in paragraph 4, taken as a whole.

7. The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

Rio de Janeiro, March 04, 2009

José Luiz de Souza Gurgel
Engagement Partner
CRC RJ-087339/O-4
BDO Trevisan Auditores Independentes
CRC 2SP013439/O-5 "S" RJ

Telemar Norte Leste S.A.

Consolidated Balance Sheets at December 31
Expressed in millions of Brazilian *Reais*

	Parent company		Consolidated	
	2008	2007	2008	2007
ASSETS				
Current assets				
Cash and cash equivalents	7,819	1,974	8,606	2,888
Financial investments	131	1,188	1,238	3,192
Trade accounts receivable, net	3133	3,018	3,897	3,278
Recoverable and deferred taxes	980	1,327	1,543	1,730
Prepaid expenses	173	83	593	341
Inventories	21	36	153	123
Other current assets	150	112	254	154
Total current assets	12,407	7,738	16,284	11,706
Non-current assets				
Long-term assets				
Loans to subsidiaries	21	2	450	195
Receivables	—	—	70	61
Recoverable and deferred taxes	1,261	1,129	2,211	2,012
Prepaid expenses	356	353	438	383
Judicial deposits and blockings	1,315	1,123	1,408	1,200
Fiscal incentives	54	54	54	54
Other long-term assets	10	25	12	28
Investments	12,542	8,630	3,313	35
Property, plant & equipment	8,289	8,258	12,831	11,790
Intangible assets	559	343	2,682	1,513
Deferred charges	—	—	333	297
	24,407	19,917	23,802	17,568
TOTAL ASSETS	36,814	27,655	40,086	29,274
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current liabilities				
Suppliers	1,496	1,418	2,015	1,770
Loans and financing	3,424	1,313	3,604	1,338
Debentures	98	76	98	76
Payroll and related accruals	212	152	271	195
Deferred and payable taxes	508	1,006	973	1,336
Tax financing program	127	119	127	119
Dividends and Interest on stockholders' capital	1,530	1,043	1,530	1,043
Authorizations payable	—	—	150	150
Other current liabilities	96	113	386	167
Total current liabilities	7,491	5,240	9,154	6,194
Long-term liabilities				
Loans and financing	13,296	3,971	13,766	4,363
Debentures	3,705	2,171	3,705	2,171
Deferred and payable taxes	98	77	100	79
Tax financing program	385	531	389	535
Provisions for contingencies	1,823	1,850	1,962	1,944
Authorizations payable	—	—	904	127
Other long-term liabilities	32	26	97	73
Total long-term liabilities	19,339	8,626	20,923	9,292
Minority's interest			25	
Stockholders' equity				
Capital stock	7,419	7,419	7,419	7,419
Capital reserves	2,199	2,169	2,199	2,169
Treasury stock	(17)	(170)	(17)	(170)
Retained earnings	383	4,304	383	4,393
Accumulated deficit	—	(23)	—	(23)
Total stockholders' equity	9,984	13,788	9,984	13,788
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	36,814	27,655	40,086	29,274

The accompanying notes are an integral part of these consolidated financial statements.

Telemar Norte Leste S.A.

Consolidated Statements of Income
Expressed in millions of Brazilian *Reais*

	Note	Years ended December 31,			
		Parent company		Consolidated	
		2008	2007	2008	2007
Gross operating revenues	4	20,583	20,397	27,103	25,138
Deductions from gross revenues	4	(6,072)	(6,100)	(8,438)	(7,566)
Net operating revenue	4	14,511	14,297	18,665	17,572
Cost of goods sold and services rendered	5	(7,845)	(7,448)	(9,600)	(9,247)
Gross profit		6,666	6,849	9,065	8,325
Operating expenses					
Equity method accounting adjustment	15	636	452	18	1
Selling expenses	5	(2,437)	(2,075)	(3,532)	(2,689)
General and administrative expenses	5	(1,222)	(940)	(1,582)	(1,192)
Other operating expenses, net	6	(502)	(376)	(692)	(577)
		(3,525)	(2,939)	(5,788)	(4,457)
Operating income		3,141	3,910	3,277	3,868
Interest income	7	851	651	1,283	920
Interest expenses	7	(2,368)	(1,061)	(2,622)	(1,225)
Financial result	7	(1,517)	(410)	(1,339)	(305)
Income from continuing operations before tax		1,624	3,500	1,938	3,563
Income tax and social contribution	8	(159)	(839)	(518)	(920)
Fiscal incentives	8	56	228	105	246
Income before minority interests		1,521	2,889	1,525	2,889
Minority interests		—	—	(4)	—
Net income		1,521	2,889	1,521	2,889
Stock outstanding at the balance sheet date (thousands of shares)		238,391	238,614	238,391	238,614
Net income per share outstanding at the balance sheet date (*Reais*)		6.38	12.11	6.38	12.11

The accompanying notes are an integral part of these consolidated financial statements.

Telemar Norte Leste S.A.

Consolidated Statements of Changes in Stockholders' Equity
Expressed in millions of Brazilian *Reais*

		Capital reserves							
	Capital stock	Donations and tax incentives	Capital surplus	Interest on work in progress	Special Reserve Law 8,200/1991	Stock options	Treasury stock	Legal reserve	Investment reserve
At December 31, 2006	7,419	388	86	1,417	7	41	(170)	328	2,454
Adjustments from adoption of Law 11,638/2007									
At December 31, 2006 (adjusted)	7,419	388	86	1,417	7	41	(170)	328	2,454
Dividends and interest on stockholders' equity prescribed									
Stock options						(12)			
Net income for the year									
Adjustments due to adoption of Law 11,638/2007									
Adjusted net income for the year									
Appropriation to fiscal incentives reserve		228							
Prior year adjustment		15							
Special reserve (Law 8,200/1991)					(2)				
Dividends proposed (R$1.3792 per share)									
Interest on stockholders' capital (R$3.1890 per share)									
Appropriation to investment reserve									1,612
At December 31, 2007	7,419	631	86	1,417	5	29	(170)	328	4,066
Dividends and interest on stockholders' equity prescribed									
Repurchase and cancellation of treasury stock							153		(170)
Stock options						32			
Special reserve (Law 8,200/1991)					(1)				
Extraordinary dividends (R$16.3437 per share)									(3,896)
Net income for the year									
Dividends proposed (R$3.4229 per share)									
Interest on stockholders' capital (R$2.7070 per share)									
Constitution of fiscal incentives reserve								328	
		631	86	1,417	4	61		328	
At December 31, 2008	7,419			2,199			(17)		383

Stockholders' equity per share

The accompanying notes are an integral part of these consolidated financial statements.

Telemar Norte Leste S.A.

Consolidated Statements of Cash Flows
Expressed in millions of Brazilian *Reais*

	Years ended December 31,			
	Parent company		Consolidated	
	2008	2007	2008	2007
Cash flow from operating activities				
Net income for the year	1,521	2,889	1,521	2,889
Adjustments to reconcile net income to cash provided by operating activities:				
Minority interests	—	—	4	—
Accrued interest	2,056	702	2,118	701
Depreciation	1,924	1,811	2,711	2,479
Provisions for contingencies	412	386	448	417
Amortization of deferred charges	—	—	68	66
Amortization of goodwill	65	137	77	137
Amortization of negative goodwill on AIX	(6)	(6)	(6)	(6)
Equity accounting adjustments	(636)	(452)	(5)	6
Loss on sale of property, plant and equipment	(46)	17	87	17
Provision/reversal for losses on discontinued assets	(1)	(3)	(1)	(3)
Atualização monetária de dividendos e juros sobre o capital próprio	22	6	22	6
Monetary correction of tax refinancing program	38	44	38	44
	5,348	5,531	7,082	6,753
(Increase) reduction in assets				
Accounts receivable	(115)	96	(619)	530
Credits receivable	—	71	(9)	57
Taxes deferred and recoverable	215	(852)	(12)	(971)
Prepaid expenses	(93)	(243)	(306)	(261)
Judicial deposits and blockings	(193)	(159)	(208)	(207)
Inventories	15	3	(30)	48
Other assets	(41)	(78)	(358)	(116)
Suppliers	78	119	246	81
Payroll and related accruals	60	38	75	59
Taxes payable and deferred	(293)	1,293	(1)	1,511
Tax refinancing program	(177)	(115)	(178)	(116)
Dividends and interest on capital	(439)	(592)	—	—
Provisions for contingencies	(137)	(91)	(430)	(625)
Other liabilities			916	(134)
	(1,120)	(511)	(914)	(144)
Cash flow from operating activities				
Interest paid	(605)	(624)	(651)	(628)
Income tax and social contribution paid	(183)	(913)	(342)	(975)
	(788)	(1,537)	(993)	(1,603)
Net cash provided by operating activities	3,440	3,484	5,175	5,006
Cash flow from investing activities				
Financial investments	1,057	(288)	1,973	(1,633)
Acquisition of property, plant and equipment	(2,126)	(1,809)	(5,009)	(2,381)
Investments, net	(3,341)	(138)	(3,348)	(102)
Deferred charges	—	—	(104)	(2)
Net cash used in investing activities	(4,409)	(2,235)	(6,488)	(4,118)
Cash flow from financing activities				
Proceeds from long-term loans, financing and debentures	13,193	1,914	13,082	1,925
Repayment of principal and interest on long-term loans, financing and debentures	(1,652)	(2,089)	(1,325)	(1,702)
Purchase of treasury stock by Parent Company	(17)	—	(17)	—
Payment of dividends and interest on stockholders' capital	(4,710)	(643)	(4,710)	(643)
Net cash used in financing activities	6,814	(818)	7,030	(420)
Net increase (reduction) in cash	5,845	431	5,717	468
Cash at the beginning of the year	7,819	1,975	8,606	2,889
Cash at the end of the year	1,975	1,544	2,889	2,420
Change in cash position	5,845	431	5,717	468

The accompanying notes are an integral part of these consolidated financial statements.

Telemar Norte Leste S.A.

Consolidated Statements of Added Value
Expressed in millions of Brazilian *Reais*

	Parent company		Consolidated	
	2008	2007	2008	2007
Revenues				
Sales of goods and services	20,583	20,397	27,103	25,138
Provision for doubtful accounts	(569)	(536)	(797)	(649)
Other operating income, net	130	367	253	404
	20,145	20,228	26,559	24,893
Third party services				
Interconnection costs	(3,271)	(3,058)	(3,371)	(3,332)
Materials and utilities (plus estimated ICMS 18% on amount of Nota 5)	(535)	(548)	(682)	(622)
Cost of goods and services sold (plus estimated ICMS 12% on amount of Nota 5)	(85)	(142)	(308)	(440)
Third party services (plus estimated ICMS 11% on amount of Nota 5)	(4,232)	(3,613)	(5,365)	(4,405)
Other	(202)	(145)	(567)	(426)
	(8,326)	(7,506)	(10,293)	(9,225)
Gross added value	11,819	12,722	16,266	15,668
Retentions				
Depreciation	(1,924)	(1,811)	(2,711)	(2,479)
Amortization of deferred charges	—	—	(68)	(65)
Amortization of goodwill	(65)	(137)	(77)	(137)
Amortization of negative goodwill(AIX)	7	7	6	6
Provisions for contingencies	(412)	(386)	(448)	(416)
	(2,394)	(2,328)	(3,298)	(3,091)
Net added value as produced by the company	9,425	10,394	12,968	12,577
Added value received in transfer				
Equity accounting	636	452	18	1
Financial income	851	651	1,283	919
	1,487	1,103	1,301	920
Added value to be distributed	10,912	11,498	14,269	13,497
Distribution of added value				
Payroll and related accruals	(646)	(552)	(828)	(685)
Taxes and social contributions (including interest on REFIS II)	(5,852)	(6,478)	(8,522)	(8,000)
Financial expenses (not including taxes)	(2,180)	(945)	(2,423)	(1,099)
Rental and insurance	(612)	(571)	(833)	(740)
Minority interests	—	—	(4)	—
Employees' profit sharing	(102)	(62)	(138)	(84)
Retained earnings	(1,521)	(2,889)	(1,521)	(2,889)
	10,912	11,498	14,269	13,497

The accompanying notes are an integral part of these consolidated financial statements.

Telemar Norte Leste S.A.

Notes to the Financial Statements
Years ended December 31, 2008, and 2007
Expressed in millions of Brazilian *Reais*

1 DESCRIPTION OF BUSINESS

Areas of operation and services provided

(a) Fixed-line telephone services

Telemar Norte Leste S.A. ("Telemar") and its subsidiaries are referred to as "the Company" in these financial statements. Telemar is controlled by Tele Norte Leste Participações S.A (TNL), which at December 31, 2008, held 81.92% (2007 — 80.89%) of total capital and 97.35% (2007 — 97.24%) of voting capital.

Telemar is registered with the "Comissão de Valores Mobiliários — CVM" (Brazilian securities and exchange commission) as a publicly held company whose stock is listed on the "Bolsa de Valores de São Paulo — Bovespa" (São Paulo stock exchange).

Telemar is the principal provider of fixed-line telecommunications services in its operation area — Brazil's Region I — comprising the states of Rio de Janeiro, Minas Gerais, Espírito Santo, Bahia, Sergipe, Alagoas, Pernambuco, Paraíba, Rio Grande do Norte, Ceará, Piauí, Maranhão, Pará, Amazonas, Roraima and Amapá (with the exception of this region's Sector 3, covering the 57 municipalities of the "Triângulo Mineiro" and "Alto Paranaíba" areas in the state of Minas Gerais, where "Companhia de Telecomunicações do Brasil Central — CTBC" (local telephone company), operates). These services are provided under the terms of the concessions granted by "Agência Nacional de Telecomunicações — Anatel" (national telecommunications agency), the regulatory body for the Brazilian telecom sector.

Telemar also holds the Anatel concession to provide national long distance services within Region I. Until July 20, 2002, this concession only allowed for the provision of outgoing and incoming calls within said operating area. As from that date, Telemar is also allowed to provide outgoing calls from Region I (excluding Sector 3) to other regions, due to Telemar's early meeting of its obligations under the "*Plano Geral De Metas de Universalização* — PGMU" (general plan for universalization targets), set for December 31, 2003.

On December 22, 2005, new concession contracts were signed, in effect from January 1, 2006 and valid until December 31, 2025. In return, the concession holder has to pay Anatel, every two years, the equivalent of 2% of the previous year's net revenue from telecom services. At the same time, new quality and universal access targets, defined under the new "Plano Geral de Metas de Qualidade — PGMQ" (general plan for quality targets) and PGMU, came into effect.

On July 9, 2007, the "*Diário Oficial da União* — D.O.U" (official federal government gazette) published contractual amendments covering the transfer of the authorization to provide "Serviço Telefônico Fixo Comutado — STFC" (fixed-line telephone services), from TNL PCS S.A. ("Oi") to Telemar. STFC has two formats: (i) "Longa Distância Nacional — LDN" (national long distance): in Region II, Region III and Sector 3 of Region I; and (ii) "Longa Distância Internacional — LDI" (international long distance), throughout Brazil.

(b) Telemar has seven directly controlled subsidiaries, as follows:

- The mobile telephone operator, Oi, 100% acquired by Telemar on May 30, 2003, has the corporate purpose of providing of "*Serviço Móvel Pessoal* — SMP" (personal mobile service) and acquired the rights to provide such services in Region I of the Plano Geral de Outorgas — PGO" (general licensing plan), for an unlimited period, as long as the authorization terms are met on Anatel's 001/200 auction. On March 12, 2001, Anatel granted Oi the right to use the corresponding radio frequencies for a period of 15 years, renewable for another 15 years, under onerous title, in return for the payment, every two years, of 2% of the previous year's net revenue from SMP.

Due to regulatory conditions, the SMP authorization, together with the associated radio frequency rights, only came into effect as from June 26, 2002, when Oi began its commercial operations.

As from November 30, 2005, with the incorporation of Pegasus Telecom S.A., Oi started to provide "Serviço de Comunicação Multimídia — SCM" (multimedia communication services) in Regions I, II and III of the PGO.

Along with the authorization for SMP, Oi was also authorized to provide STFC, for an unlimited period, in the following forms: (i) LDN services in Region II, which covers the states of Rio Grande do Sul, Santa Catarina, Paraná, Mato Grosso do Sul, Mato Grosso, Goiás, Tocantins, Rondônia and Acre and the Federal District; in Region III, which relates to the state of São Paulo; and in Sector 3 of Region I; and (ii) LDI services throughout Brazil. These authorizations were transferred to Telemar, by means of Appendix nº 1 to Anatel Authorization nº 205/2002/SPB and Appendix nº 1 to Anatel Authorization nº 206/2002/SPB, published in the D.O.U. of July 9, 2007.

On December 6, 2007, the D.O.U. published Act nº 68,982, of December 5, 2007, which partially ratifies the result of Anatel's Public Bid nº 001/2007/SPV, authorizing Oi to provide SMP services and use the corresponding radio frequencies in the state of São Paulo, as well as expanding the band range in certain states within Region I of the "Plano Geral de Autorizações — PGA" (general authorizations plan)., i.e.: Amazonas, Amapá, Pará, Maranhão, Roraima, Bahia, Espírito Santo, Sergipe, Alagoas, Paraíba, Piauí, Rio de Janeiro, Minas Gerais, Pernambuco, Ceará and Rio Grande do Norte, for the remaining term of the Authorization for the use of the radio frequencies associated with the authorization to provide SMP services, Authorization PVCP/SPV n°001/2001-ANATEL, being renewable for another 15 years according to a pre-established fee (see Note 18).

On March 7, 2008, the Oi's Extraordinary General Stockholders' Meeting approved the official document for incorporation and justification of Telemar Telecomunicações Ltda., by its holding Oi, considering the interest of Oi group's corporate reorganization.

On April 29, 2008, authorization terms were signed, which give Oi the authorization to use the 3G radio frequencies, to provide SMP services in the areas of Regions I and III of the PGA (except for the area which includes the Franca region, in the inland of the state of São Paulo), for a 15 year period, renewable for another 15 years according to a pre-established fee.

On September 8, 2008, new license terms were signed, giving Oi the authorization to use radio frequency blocks in the 2G (GSM) ranges, to provide the SMP services in the inland of the state of São Paulo and Regions II and III, for a period of 15 years, renewable for another 15 years, according to a pre-established fee.

- Companhia AIX de Participações ("AIX"), a joint venture acquired by Telemar on December 31, 2003, has the corporate purpose of providing infrastructure of ducts for the installation of fiber optic cables alongside highways in the state of São Paulo, as a service to Telemar;
- Telemar Internet Ltda. ("Oi Internet"), fully owned by Telemar, has the corporate purpose of providing Internet access services and started its operations in January 2005;
- Coari Participações S.A. ("Coari"), acquired by Telemar in December 2003, has the corporate purpose of acquiring stakeholdings in other companies, both commercial and civil, as a partner or stockholder, within Brazil or abroad. This company started operations as of April 25, 2008, when it acquired all shares of the companies Copart 1 Participações S.A. ("Copart 1") and Copart 2 Participações S.A. ("Copart 2"). On May 30, 2008, it also acquired all shares of the company Copart 3 Participações S.A. ("Copart 3");

- Calais Participações S.A. ("Calais"), acquired by Telemar in December 2004, has the corporate purpose of acquiring stakeholdings in other companies, both commercial and civil, as a partner or stockholder, within Brazil or abroad. This company has not started operations yet;
- Serede Serviços de Rede S.A. ("Serede"), acquired by Telemar on June 11, 2007, has the corporate purpose of constructing, setting up, maintaining and operating networks and buying and selling, importing and exporting equipment. Its operational start-up was in August 2007; and,
- Tele Norte Celular Participações S.A. (TNCP), acquired by Telemar on April 3, 2008. Telemar holds 81.17% of its total capital. TNCP has the corporate purpose of acquiring stakeholdings in other companies, both commercial and civil, as a partner or stockholder, within Brazil or abroad. This company is the holding of Amazônia Celular S.A. ("Amazônia") and is registered at the Bovespa and with the U.S. Securities and Exchange Commission ("SEC"). On September 15, 2008, the company's ADRs were cancelled and consequently 90 days afterwards, the registration with the SEC was cancelled as well.

(c) Indirectly controlled subsidiaries

- Copart 1, acquired by Coari on April 25, 2008, has the corporate purpose of acquiring stakeholdings in other companies, both commercial and civil, as a partner or stockholder, within Brazil or abroad. On May 2, 2008, Copart 1 started its operations by executing successive acquisitions of preferred shares of Brasil Telecom Participações S.A. (BRTP4), as well as, through the voluntary "Ofertas Públicas de Aquisição — OPAs" (public acquisition offerings) of July 22, 2008. On December 31, 2008, Copart 1 holds 21.1% of Brasil Telecom Participações S.A.'s total capital, without controlling it;
- Copart 2, acquired by Coari on April 25, 2008, has the corporate purpose of acquiring stakeholdings in other companies, both commercial and civil, as a partner or stockholder, within Brazil or abroad. On May 2, 2008, Copart 2 started its operations by executing successive acquisitions of preferred shares of Brasil Telecom S.A. (BRTO4), as well as, through the voluntary "Ofertas Públicas de Aquisição — OPAs" (public acquisition offerings) of July 22, 2008. On December 31, 2008, Copart 2 holds 10.5% of Brasil Telecom S.A.'s total capital, without controlling it;
- Copart 3, acquired by Coari on May 30, 2008, has the corporate purpose of acquiring stakeholdings in other companies, both commercial and civil, as a partner or stockholder, within Brazil or abroad. This company has not started operations yet.

- Paggo Empreendimentos S.A. ("Paggo"), acquired by Oi on December 17, 2007, has the corporate purpose of participating in other companies, both commercial and civil, and of buying, selling and administrating its own properties and real-estate enterprises. It has a controlling stake in two companies: Paggo Acquirer Gestão de Meios de Pagamentos Ltda. ("Paggo Acquirer") and Paggo Administradora de Crédito Ltda. ("Paggo Administradora").
  - Paggo Acquirer has the following corporate purposes: (i) the registration and administration of payment networks through retail outlets and service providers, using credit systems or some other available means of payment; (ii) obtaining, transmission, processing, guaranteeing and settlement of transactions carried out at approved establishments; and (iii) supplying the necessary technology and equipment for the suitable functioning of the credit systems;
  - Paggo Administradora has the following corporate purposes: (i) registration, analysis and approval of clients who seek to join this company's credit systems; (ii) coordinating the relations between all the integral parts of the credit systems, participating networks, retail establishments, service providers,

financial institutions and others; (iii) control and updating of data records and providing information on the transactions carried out using the credit systems; and (iv) providing administrative services for credit or other payment systems, including obtaining, transmission, processing, guaranteeing and settlement of transactions.

- Amazônia, which is controlled by TNCP, which holds 74.96% of its total capital.

Amazônia is indirectly controlled by Telemar, which holds 81.17% of TNCP's total capital and holds also directly 16.50% of Amazônia's total capital.

Amazônia owns five authorizations to provide mobile telephone services and activities necessary or useful to the execution of these services, in conformity with the respective authorizations, in the states of Amapá, Amazonas, Maranhão, Pará e Roraima.

The authorizations which refer to the use of the radio frequencies have the following maturities:

Region	Maturity
Setor 13 – Maranhão	April 2009
Setor 14 – Pará	March 2009
Setor 15 – Amapá	May 2009
Setor 16 – Amazonas	August 2009
Setor 17 – Roraima	July 2009

On march 5, 2008, Anatel published Act n° 1,261, which granted approval for the transfer of TNCP's corporate control and, consequently, of Amazônia to Telemar, and determined guidelines for the devolution of the radio frequencies owned by Amazônia. This Act established, among other issues, that:

i) Amazônia became part of Telemar, but the conditions for providing services to the clients should be maintained as before;

ii) Amazônia obtained Anatel's approval to use, for a period of 18 months, the radio frequencies as authorized to Oi to provide SMP services under the terms of the specific regulation, in the ranges of 900 Mhz and 1,800 Mhz.

iii) The authorizations to use the radio frequencies as owned by Amazônia were extinguished, and, consequently, its license to provide the SMP service, conceding a 90 day period (which already has been extended for another 90 days) for the users of Amazônia's radio frequencies 900 Mhz and 1,800 Mhz to be transferred to the corresponding radio frequencies as authorized to Oi, and a period 18 months for the occupation of a range of 10 Mhz of the radio frequency of 850 Mhz (the 15 Mhz which were left, already have been devolved); and,

iv) Permitted Oi to start using the numeration resources as attributed to Amazônia.

According to the above and in conformity with Anatel's decision, Amazônia already devolved the radio frequency range of 1,800 Mhz and 15 Mhz of the range of the radio frequency of 850 Mhz, leaving 10 Mhz in this range to be devolved. The range of the radio frequency of 900 Mhz was devolved on September 3, 2008.

Voluntary and obligatory OPAs of TNCP and Amazônia

Obligatory OPAs

On May 5, 2008, Telemar presented to the CVM, together with Credit Suisse Brasil S.A. Corretora de Títulos e Valores Mobiliários, in the function of institutional broker, the requests for registration of the obligatory OPAs up to the totality of TNCP's and Amazônia's outstanding ordinary shares, in conformity with the determinations of Article n° 254-A of Law n° 6,404/1976 and of CVM Instruction n° 361/2002.

On September 16, 2008, the memorandums of the obligatory OPAs were published to the shareholders of TNCP's ordinary shares, at a price of R$79,51 per ordinary share, and of Amazônia's ordinary shares at a price of R$121,61 per ordinary share. The prices which are to be offered for these shares in the Public Offerings correspond to 80% of the amount paid by Telemar to Vivo under the buy-and-sell contract of shares for TNCP's and Amazônia's ordinary shares, in conformity with the determinations of Article 254-A of Law n° 6,404/1976.

On October 14, 2008, Telemar, TNCP and Amazônia communicated, through a Relevant Fact release, that the OPAs were suspended and the auctions, scheduled for October 16, 2008, were postponed due to the cancellation of the OPAs by the CVM. In its decision, the CVM's technical area understood that the amount to be paid by Telemar to Vivo Participacões S.A. (and, consequently, the amount paid by Vivo Participacões S.A. to Telpart Participacões S.A.), for the subscription rights of TNCP's shares, in the amount of R$23, includes the price paid for the control of TNCP and should be extended to the minority shareholders with the right to vote through the OPAs. According to the terms of that decision, Telemar should realize the OPAs at a price of R$93.58 and R$143.13 per ordinary share of TNCP and Amazônia, respectivamente.

On December 16, 2008, the CVM's Council reformed the decision of the CVM's Superintendency for Registering Marketable Securities, attacking the commitment as proposed by Telemar. Telemar, TNCP and Amazônia disclosed the CVM's final decision through a Relevant Fact release on December 18, 2008.

On January 5, 2009, the memorandums of the respective obligatory OPAs were disclosed to the shareholders of TNCP's and Amazônia's ordinary shares, for the prices initially disclosed of R$79.51 per ordinary TNCP share and R$121.61 per ordinary Amazônia share, restated as foreseen in the respective OPA memorandums. The auction took place on January 16, 2008, at the BMF&Bovespa. Telemar acquired 1,175,018 ordinary TNCP shares and 80,868 ordinary Amazônia shares, representing 97.9% and 34.8% of the total outstanding ordinary shares, respectively. The Relevant Fact release about the consummation of the obligatory OPA was disclosed by Telemar, TNCP and Amazônia on January 20, 2009.

Voluntary OPAs

Telemar submitted for registration to the CVM and the SEC, the memorandums of the voluntary OPAs for up to the totality of TNCP's and Amazônia's preferred shares outstanding.

On July 18, 2008, Telemar disclosed the memorandum of the voluntary OPA of the TNCP preferred shares, for the price of R$33.00 per preferred share, which auction took place on August 19, 2008. Telemar acquired under the auction on the Bovespa the totality of the preferred shares as offered, which represent 93.9% of TNCP's preferred shares outstanding, including the ADSs. TNCP's shareholders, which own preferred shares still outstanding, became entitled to the right to execute the "right of sell" of their shares, according to the determinations of the OPA memorandum and in the Offer to Purchase as destined to the holders of ADSs, which term ended on November 19, 2008.

On October 1, 2008, TNCP released a Relevant Fact, which said that, as a result of the significant number of preferred shares acquired by Telemar through the voluntary OPA, the NYSE executed on September 15, 2008, the cancellation of the listing of TNCP's ADRs. Additionally, TNCP and the Bank of New York Mellon (BoNYM), issuer of TNCP'd ADRs, signed a clause which extinguished the Depositary Agreement of the issuance of ADRs. Due to that extinguishment of the Depositary Agreement, BoNYM made an effort to sell, before November 18, 2008, all preferred shares subject to ADRs, which had not been extracted from TNCP's ADR Program. On December 31, 2008, Telemar holds 4,147,288 preferred TNCP shares. On December 31, 2008, Telemar holds 4,147,288 preferred shares of TNCP.

On September 22, 2008, Telemar disclosed the memorandum of the voluntary OPA for up to the totality of Amazônia's preferred shares, at the price of R$38.00 per preferred share, which auction offering at the Bovespa took place on October 22, 2008. Telemar acquired 64,860 preferred class A shares, 113,571 preferred class B shares, 14,800 preferred class C shares, 174,875 preferred class D shares and 552,908 preferred class E shares, representing 74.1% of Amazônia's total preferred shares outstanding.

As a result of the acquisitions in the light of the Obligatory and voluntary OPAs, Telemar holds, as of January 16, 2009, 2,467,689 ordinary shares and 4,417,288 preferred shares of TNCP, as well as, 80,868 ordinary shares and 971,791 preferred shares of Amazônia, representing 98.7% of TNCP's total capital and 17.9% of Amazônia's total capital, respectively.

2 Presentation of financial statements and consolidation principles

(a) Preparation and presentation criteria

The financial statements were prepared and are presented in accordance with the accounting principles adopted in Brazil, based on the provisions of Brazilian corporate law and CVM regulations.

In preparing financial statements, it is necessary to use estimates in order to post the values of certain assets, liabilities and other transactions. The Company's financial statements therefore include estimates regarding the useful life of property, plant and equipment, provisions needed to cover contingent liabilities, the provision for corporate income tax and similar items. Realized values may differ from estimated ones.

TNCP and Amazônia have some accounting practices which differ from the ones adopted by the other Oi group companies.

Within the most significant differences between accounting practices we note:

(i) Amazônia registers the bonus granted to clients of the pre-paid segment upon the recharge of credits from special offers, according to consummation, as gross revenues as a contra-entry to gross revenue returns, while Oi registers this revenue at its net value;

(ii) The subsidy related to the sale of postpaid handsets is registered directly to income by Amazônia, and in Oi these costs are differed over the term as foreseen in the contractual clauses; and

(iii) The Fistel fee is due over new handset contracts and registered directly to income by Amazônia, and in Oi these amounts are registered as prepaid expenses and amortized over the minimum historical churn time of the client.

To eliminated the difference resulting from the accounting practice as described in item (i) above and improve the disclosure of the consolidated statement of operations for the period ended December 31, 2008, an amount of R$454 (relating to the months April through December 2008 of Amazônia), has been reclassified through a reduction of consolidated gross revenues (originated calls) as a contra-entry to returns of consolidated gross revenues. The other differences in accounting practices will be changed in a systematical and operational manner, when the consolidations are processed, giving the fact that management understands that the impact of those changes in accounting practices would not have any significant impact on Oi group's consolidated financial statements.

(b) Consolidation principles

The consolidated financial statements have been prepared according to CVM Instruction n° 247/1996 and include the financial statements of the directly and indirectly owned subsidiaries as mentioned in Note 1. Moreover, the financial statements of AIX, a company under joint control, were consolidated proportionally to Telemar's equity stake, which is 50% (Note 16). The principal consolidation procedures were:

- sum of the balances of asset, liability, revenue and expense accounts, according to their nature;
- eliminating the balances of the inter-company asset and liability accounts and significant inter-company revenues and expenses of the consolidated companies;
- eliminating Telemar's equity interest in its subsidiaries; and
- separate disclosure of the minority interests in shareholders' equity and net income for the period.

(c) Law n° 11,638/2007 and Provisional Measure n° 449/2008

On December 28, 2007, Law n° 11,638 was published, and modifies the determinations of Brazilian Corporate Law, n° 6,404/1976. This law, which has to be applied as of 2008, establishes several changes to the preparation of financial statements, having in mind the alignment with International Financial Reporting Standards — IFRS and gives the CVM the right to issue standards for public companies.

On December 3, 2008, Provisional Measure n° 449 was published, with force of law, and instituted the "Regime Tributário Transitório — RTT" (transitory tax-payer regime) for the determination of real net income, which treats the tax adjustments resulting from the new methods and accounting practices as introduced by Law n° 11,638/2007, as well as introducing some changes to Law n° 6,404/1976.

The most significant modifications as introduced by Law n° 11,638/2007 and by Provisional Measure n° 449/2008, which have to be applied as of 2008, are as follows:

(i) Extinction of the "Demonstração das Origins e Aplicações de Recursos — DOAR" (Statement of changes in financial position);

(ii) Standardization of the criteria for evaluation and classification of financial instruments;

(iii) Account for the assets and liabilities relating to financial lease operations;

(iv) An impairment test is obligatory to evaluate the degree of recoverability of long-term assets;

(v) Criteria for recognizing donations and fiscal incentives for investments;

(vi) Introduction of the concept of recording at present value for long-term operations, assets as well as liabilities, and for those short-term operations which are relevant;

(vii) Extinction of non-operating results; and

(viii) Extinction of deferred income.

(ix) Recognition of share-based payments

(d) Initial adoption of Law n° 11,638/2007

In conformity with Law n° 11,638/2007, the Provisional Measure n° 449/2008 and the standards as issued by the CVM, Telemar and its subsidiaries declared, clearly and without any exception, that, with the initial adoption of the Law as referred to above, opted for January 1, 2007 as the transition date.

The Company's management used CPC13's and MP 449/2008's option to restate its comparative financial statements, aligning accounting practices adopted for the year 2007 with Law 11,638/2007.

The following is a reconciliation of the balance and statement of operations as disclosed on December 31, 2007, according to the adoption of Law n° 11,638/2007, necessary for comparability purposes with the year ended December 31, 2008.

	Parent company		Consolidated	
	Shareholders' equity at December 31, 2007	Net income for the year 2007	Shareholders' equity at December 31, 2007	Net income for the year 2007
Balance before Law 11,638/2007	13,782	2,692	13,782	2,692
Financial instruments(i)	1	(7)	1	(7)
Financial lease(ii)	8	5	9	6
Fiscal incentives(iii)	—	228	—	246
Share based payment(iv)	—	(29)	—	(39)
Income tax and social contribution(v)	(3)	1	(3)	1
Equity accounting adjustment(vi)	—	(1)	(1)	(10)
Balance after Law 11,638/2007	13,788	2,889	13,788	2,889

Description of the adjustments relating to the initial adoption of Law n° 11,638/2007 — Transition date January 1, 2007.

(i) Financial instruments

According to CPC 14 (recognizing, measuring and documenting financial instruments), derivatives have been recorded at fair value.

The reconciliation reflects the difference between the book value and the fair value of the derivative contracts, considering the discounted cash flow of every single instrument, using the quotation of the market rates and actual exchange rates.

(ii) Financial lease contracts

According to CPC 06 (financial lease contracts), the assets related to the financial lease contracts, which control, risks and benefits are transferred to the entity (financial lease), are included in property, plant and equipment and the future lease payments are recorded in loans and financing.

The reconciliation considers the initial effect of the transition date, as well as, the depreciation of the leased asset and the appropriated financial expense, as generated by the financing.

(iii) Donations and fiscal incentives for investments

According to Technical Pronouncement CPC 07 (fiscal incentives and governmental aid), fiscal incentives should be recorded as revenue during the period and confronted with the expenses they pretend to compensate.

Telemar and its subsidiary Oi are beneficiaries of the reduction in income tax payable due to the income from exploitation, which attend to the concept of governmental fiscal incentives. The adjustment as presented reflects the amount of the benefit at December 31, 2007.

(iv) Share-based payment — Stock options

According to CPC 10 (share-based payment), the stock option plan has characteristics of transactions liquidated by the delivery of shares (equity instruments). The appropriated expense, based on the vesting period, is recognized the extent that the services are rendered, with a contra-entry to shareholders' equity.

(v) Deferred, recoverable and payable taxes

The adjustment represents the tax effects on the application of Law n° 11,638/2007 and Provisional Measure 449/2008.

(vi) Investments

Reflects the result of equity accounting on the initial adjustments of Law n° 11,638/2007, as realized in the financial statements of the subsidiaries.

3 Significant accounting policies

The most significant accounting policies used in the preparation of the financial statements are as follows:

(a) Cash and cash equivalents

This category is composed of the balances of cash, bank accounts and financial investments with maturity dates of less then 90 days as of the balance sheet date. They are all highly liquid investments and readily convertible into a known amount of cash and with an insignificant risk of change in value.

(b) Financial investments

Financial investments are classifies according to their nature: (i) Held for trading; (ii) held to maturity; and (iii) available for sale.

Financial investments held for trading are recorded at fair value and the effects are accounted for in income. Financial investments held to maturity are recorded at acquisition cost increased by incurred yield and reduced by the provision for the adjustment to the probable realization value, if applicable. Financial investments available for sale are recorded at fair value and the effects are accounted for as adjustment for equity valuation, if applicable.

(c) Trade accounts receivable

The accounts receivable from telecommunications services are assessed according to the prevailing tariffs on the date that the services were provided. Accounts receivable also include credits of services provided to customers but not yet billed up to the balance sheet date. The value of the unbilled services rendered is determined using the valuation of metered services based on previous month's performance. The respective taxes are similarly determined and are accounted for on an accrual basis.

Late payment interest is accounted for upon issue of the first bill following the payment of the overdue bill.

(d) Provision for doubtful accounts

This provision is recorded to recognize probable losses in relation to accounts receivable, considering measures that are taken to restrict services provided to customers whose bills are overdue, as well as to obtain settlement of these accounts, once delay exceeds 60 days, and which increase progressively, as follows:

Accounts in arrears	% loss provided for
up to 60 days	Zero
61 to 90 days	40
91 to 120 days	60
121 to 150 days	80
151 to 180 days	100

Accounts receivable more than 180 days overdue and the related provision for doubtful accounts are eliminated from the balance sheet.

(e) Inventories

The Company's inventories are separated and classified as follows:

- Inventories of maintenance materials, classified under current assets according to validity, are shown at the average acquisition cost, which is not to exceed replacement cost.
- Items that are to be used in the expansion of the telephone network, classified under property, plant & equipment, are recorded at average acquisition cost.
- Inventories of materials that are for sale, largely comprising mobile handsets and classified under current assets, are shown at average acquisition cost. Provisions for losses are made in relation to inventories that are considered to be obsolete. Potential losses arising from a difference between the cost to Oi of the mobile handsets and their eventual sale price are recognized at the moment of the effective sale, since such losses are considered part of the effort to attract new subscribers.

(f) Prepaid expenses

Discounts on the sale of postpaid handsets by Oi are considered as prepaid expenses, since they represent part of the effort to attract customers to the customer base for a minimum contractual period. These amounts are amortized over a period of twelve months, since these contracts provide for reimbursement in the event of disconnection or migration to a prepaid plan prior to completing one year. What is more, the handsets have no

economic value or other utility apart from enabling the providing of the services specified in the contracts entered into with Oi. Discounts for customers on prepaid plans are not deferred, as these contracts do not provide for an early cancellation fee.

The "Fundo de Fiscalização das Telecomunicações — Fistel" (telecommunications inspection fund) fee, paid by Oi upon enabling new users, net of cancelled users, is also recorded as prepaid expense and taken to income during the average customer retention period (churn), which management estimates at 24 months.

Financial charges paid in advance, with regard to loans and financing, are amortized over the period that the contract is in effect. Furthermore, premiums paid on insurance policies are also treated as prepaid expenses.

(g) Investments

Investments consist primarily of (i) investments in subsidiaries and jointly controlled companies, which are accounted for using the equity method and increased by amortizable goodwill, as far as supported by overvalue of the underlying assets; and (ii) tax incentives, which are accounted for using the acquisition cost method, less provisions for adjustment to realizable value, if applicable.

(h) Property, plant & equipment

Property, plant & equipment are stated at acquisition or construction cost, less accumulated depreciation.

Financial charges relating to the construction of fixed assets have been capitalized in accordance with the criteria set down in CVM Resolution no 193/1996. Such capitalization was effected by Telemar and Oi until September 2002, since which time there have been no further capitalizations by Telemar, due to the short duration of the work carried out and the fact that it was not directly financed by third parties. In the case of Oi, capitalization occurred until December 2002, when this practice was discontinued due to lack of work-in-progress of significant duration.

Spending incurred for maintenance and repairs is only capitalized when it clearly represents an increase in installed capacity or useful life of the item, while all other spending is recorded against income for the period. Up to the present date, the capitalization of these amounts has not had any significant impact on the financial statements, given that the greater part of the maintenance costs represents no real increase in useful life and obsolescence is the principal determinant in this regard.

Assets related to financial lease contracts are recorded in property, plant and equipment, according to CVM Deliberation n°554/2008, at fair value or, if less, present value of the minimum future lease payments, on the initial date of the contract.

Depreciation is calculated using the straight-line method, at rates that take into account the expected useful life of the item, based on wear and tear, technological obsolescence and reports by specialists.

Impairment tests are executed in case of any indication of decreased in recoverable value of the assets and at least at every year end. For the year 2008 no impairment losses have been recorded.

(i) Intangible assets

Intangible assets are shown at their acquisition cost, less provisions for adjustment to realizable value, if applicable

Intangible assets are basically composed of usage rights (authorizations for using radio frequencies and providing SMP services), software and goodwill acquired upon acquisition of investments, determined based on future profitability.

The amortization is calculated using the straight-line method, at rates that take into account, in case of usage rights the period of such authorization's contract, in case of software five years and for goodwill the expected future profitability for the next ten years.

(j) Deferred assets

Deferred assets are composed of pre-operating costs and recorded at acquisition cost.

The amortization is calculated using the straight-line method, at a rate that takes into account expected future profitability, with a maximum of ten years.

Although Law 11,638/2007 did not change in relation to deferred assets, Deliberation 553/2008 which is confirmed by Technical Pronouncement CPC 04 (Intangible assets) extinguished the registration of costs under deferred assets, a fact which is reinforced by Provisional Measure 449/2008. However, according to the option as offered by Deliberation 565/2008 which is confirmed by Technical Pronouncement CPC 13 (Intangible assets) and Provisional Measure 449/2008, Telemar and its subsidiaries opted to maintain this group of assets until its complete amortization.

(k) Loans and financing

Loans and financing are restated according to monetary and exchange variations plus accrued interest up to the balance sheet date. Derivatives are used with the purpose to reduce the exposure to the risk of exchange variations of the debt in foreign currencies and for that reason recorded in this account. Results from swap operations are recorded at fair value on a monthly basis, regardless of their settlement dates.

(l) Provisions for contingencies

Provisions are recorded to cover contingent risk of "probable losses", based on management's opinion and the opinion of its internal and external legal advisors. The amounts are recorded, based on estimates of costs of the claims' outcome. The bases, amounts involved and nature of the main provisions are described in Note 24.

(m) Employee benefits

- *Private pension plans* — The private pension plans and other retirement benefits are managed by two funds. The contributions are determined based on actuarial calculations, if applicable and recorded in income on an accrual basis (see note 27 for more detail).

The sponsored plans are defined benefit plans (close to new integrants) and defined contribution plans. A defined contribution plan is a pension plan for which the sponsor pays fixed contributions and is managed by a separate fund. The sponsor has no legal obligation to pay additional contributions, in case the fund does not dispose of sufficient resources to pay to all employees their benefits related to the services rendered in the current period and in prior periods. The contributions are recorded as expenses related to the benefits of the employees, when incurred.

- *Share-based payment plans (Stock options)* — Telemar and its subsidiary Oi offer to their executives stock option plans for ordinary as well as preferred shares. These options are priced at fair value at the grant date and recorded on a linear basis in income for the vesting period and liquidated with the delivery of shares. Accumulated balances on the balance sheet date are recorded as equity or liability according to the criteria as established by CVM Deliberation 562/2008 (see note 27 for more detail).
- *Employees profit sharing* — The provision for employees profit sharing is recorded on an accrual basis. All employees who were employed in the last six months of the year are eligible for profit sharing see note 27 for more detail).

(n) Operating revenue

Operating revenues are recognized at the time the services are rendered or the ownership of the goods is transferred. Services provided between the last billing date ("cycle") and the end of each month ("rendered but not yet billed") are measured based on the performance of the previous month and recognized in the month of accrual.

Operating revenues include network rental to other companies or providers, service tariffs based on the number and length of calls (tariffs for local and long-distance calls are based on the time and length of the calls and the distance involved) network services, interconnection, maintenance fees and other value-added services. They also include telephone installation fees and prepaid calling cards. Management believes that the installation fees should not be deferred since the margins are very low. Revenues from prepaid calling cards, used for public telephones, are recognized when the cards are sold and the related costs are recognized when incurred. Due to the turnover of these cards, their impact on the financial statements would not be material. Revenues from calls made by mobile prepaid handsets are recognized upon effective use of the credits.

Revenues from use of Telemar's and Oi's networks by other providers are recorded based on a "Documento de Declaração de Tráfego e Prestação de Serviço — Detraf" (document for declaration of traffic and rendering services) issued by a third party. Besides this, Anatel's rules on measuring revenues are followed.

(o) Recognition of expenses

Expenses are recorded at an accrual basis, relating them with the respective revenues. Prepaid expenses which refer to future periods are deferred.

(p) Interest income and expenses

Expenses are recorded at an accrual basis, relating them with the respective revenues. Prepaid expenses which refer to future periods are deferred

Interest income refers basically to interest on financial investments and on accounts receivable in arrears, which are calculated and accounted for on an accrual basis. Interest expense refers basically to interest and monetary and exchange variations on, loans, financing, debentures and derivatives, which are calculated and accounted for on an accrual basis.

Pursuant to law, interest on stockholders' capital to be applied to minimum and statutory dividends was accounted for as "Interest expenses" and "Interest income", and reversed to "Retained earnings", as it is in essence distribution of income. In order not to distort financial indices and enable the comparison between periods, these reversals are stated in the Interest income and expenses accounts together with the original accounts.

(q) Income tax and social contribution

Provisions for deferred and payable income tax and social contribution on temporary differences are recorded at the 34% combined base rate. Prepaid income tax and social contribution are recorded as "recoverable taxes" and "deferred taxes". The Company carries out technical studies that envisage the generation of future earnings in line with management's expectations, considering going concern and sustainment of earnings over an indefinite period, as far as in perpetuity. These future results are adjusted to present value and compared with the nominal amounts of tax credits recoverable over a ten-year period. These technical studies are updated annually and the tax credits are adjusted according to the results of these reviews. The studies have to be approved by the Statutory Audit Committee (for more details and the forecasts, see Note 14). The forecasts of future taxable income take into account estimates relating to, among other things, the Company's performance, the behavior of the market and certain economic factors. Realized amounts may differ materially from estimates used.

(r) Earnings per share

Earnings per share is computed based on Brazilian GAAP net income and the number of shares outstanding at the end of each year. The number of outstanding shares are obtained by deducting treasure shares from the number of total shares.

(s) Reclassifications

On December 31, 2007, an amount of R$276 as recorded under "Suppliers", has been reclassified, R$150 as current liability "Authorizations payable" and R$126 as long-term liability "Authorizations payable".

4 Net operating revenue

	Parent company				Consolidated			
	2008	**%**	**2007**	**%**	**2008**	**%**	**2007**	**%**
Fixed-line telephone services								
Local services:								
Monthly subscription fees	6,912	33.6	6,980	34.2	6,912	25.5	6,980	27.8
Metered Services	1,395	6.8	1,798	8.8	1,395	5.1	1,797	7.1
Fixed-line to mobile calls (VC1)	2,798	13.6	2,772	13.6	2,798	10.3	2,771	11.0
Collect calls	5	—	12	0.1	5	—	12	—
Installation fees	82	0.4	93	0.5	82	0.3	93	0.4
Other revenues	—	—	1	—	—	—	1	—
Intra-sectorial	1,738	8.4	1,617	7.9	1,735	6.4	1,630	6.5
Intersectorial	398	1.9	436	2.1	398	1.5	436	1.7
Interregional	806	3.9	607	3.0	805	3.0	629	2.5
International	63	0.3	36	0.2	63	0.2	76	0.3
Fixed-line to mobile calls (VC2 and VC3)	853	4.1	805	3.9	852	3.1	816	3.2
	3,858	18.6	3,501	17.1	3,853	14.2	3,587	14.2
Other fixed-line services:								
Prepaid calling cards for public telephones	656	3.2	1,106	5.4	656	2.4	1,106	4.4
Advanced voice (largely 0500/0800)	216	1.0	228	1.1	190	0.7	223	0.9
Additional services	673	3.4	646	3.2	667	2.6	643	2.7
	1,545	7.6	1,980	9.7	1,512	5.7	1,972	8.0
	16,595	80.6	17,137	84.0	16,558	61.1	17,213	68.5
Mobile telephone services								
Monthly subscription fees					1,399	5.2	937	3.7
Originating calls					2,691	9.9	1,658	6.6
Sale of mobile handsets and accessories					215	0.8	239	1.0
Roaming, national					68	0.3	51	0.2
Roaming, international					62	0.2	63	0.2
Additional services					555	2.0	335	1.3
					4,990	18.4	3,283	13.0
Remuneration for the use of the fixed-line network								
Fixed-line to fixed-line network use	490	2.4	491	2.4	470	1.7	503	2.0
Mobile to fixed-line network use	458	2.2	159	0.8	229	0.8	100	0.4
	948	4.6	650	3.2	699	2.5	603	2.4
Remuneration for the use of the mobile network								
Fixed-line to mobile network use					423	1.6	239	1.0
Mobile to mobile network use					988	3.6	914	3.6
					1,411	5.2	1,153	4.6
Data transmission services								
ADSL ("Oi Velox")	1,391	6.8	1,121	5.4	1,391	5.1	1,121	4.5
Transmission ("EILD")	602	2.9	509	2.5	630	2.3	526	2.1
Dedicated line services — SLD	179	0.9	202	1.0	228	0.8	244	1.0
Internet Protocol services	310	1.5	298	1.5	365	1.3	331	1.3
Switching packs and frame relay	242	1.2	217	1.1	289	1.1	286	1.1
Other services	314	1.5	260	1.3	500	2.0	372	1.5
	3,038	14.8	2,607	12.8	3,403	12.6	2,880	11.5
Other services	2	—	3	—	42	0.2	6	—
Gross operating revenue	20,583	100	20,397	100	27,103	100	25,138	100
Value added and other indirect taxes	(5,675)	27.6	(5,832)	28.6	(7,149)	26.4	(6,879)	27.4
Discounts and returns	(397)	1.9	(268)	1.3	(1,289)	4.8	(687)	2.7
Net operating revenue	14,511	70.5	14,297	70.1	18,665	68.8	17,572	69.9

Description of the services

(a) Fixed-line telephone services

(i) Local services

Local services also include subscriptions, local traffic, Fixed-line to mobile calls (VC1), collect calls, installation and some additional services. Local traffic includes calls originated and terminated in the same local area. Fixed-line to mobile calls (VC1) refer to calls made from customers' fixed phones to customers' mobile phones. These services also include collect calls made by mobile phone customers to fixed line customers

Telemar also provides business clients with PABX — Private Automatic Branch Exchange (switchboard) systems "Discagem Direta a Ramal — DDR", a direct dial service (automatic transfer of outside calls to extensions). For companies that need a large number of lines, Telemar offers digital trunk services, which optimize the client's telephone system.

Since August 2002, Telemar has been authorized to provide local services in Regions II and III and in Sector 3 of the PGO. However, the revenues from such services are not significant.

(ii) Long-distance services

- Intra-sectorial and intersectorial (intra-regional) long-distance services

Each state within Region I is divided into several local areas. Calls between these areas are called long-distance intra-regional. The long-distance intra-regional services include intrastate long-distance calls, called intra-sectorial (non-local calls within a certain state) and interstate long-distance calls, called inter-sectorial (calls between states in the same Region I).

- Inter-regional and international long-distance services

The inter-regional long-distance service corresponds to calls where origin and destination are in distinct Regions. The international long-distance services consist, basically, of calls between Region I and abroad.

In July 2002, when achieving certain universalization targets in the second quarter of 2002, Telemar acquired the right to provide long-distance inter-regional services, originated in Region I. In February 2003, also started to offer national long-distance services from Regions II and III of Sector 3 of the PGO and international long-distance services in the whole Brazilian territory, by means of the license as granted to Oi. Clients access these national and international long-distance services using the "Código de Seleção da Prestadora — CSP" (provider selection code) 31.

In July 2007, Anatel authorized the transfer to Telemar of the licenses initially granted to Oi, to provide national long-distance services from Regions II and III and international in all Regions.

(iii) Prepaid calling cards for public telephones

Telemar owns and operates public telephones throughout Region I, with the exception of PGO Sector 3. At December 31, 2008, Telemar had 577 thousand public telephones in service (2007 — 584 thousand), all of them using pre-paid cards (unaudited figures).

(iv) Advanced voice services

These comprise the 0300, 0500 and 0800 services, through which business deals can be arranged or problems solved by calling a number with one of these prefixes, at a predetermined tariff, to be paid either by the caller or by the company offering the service.

(v) Additional services

Other services that are provided include changing or reorganizing lines, 102 directory inquiries, call blocking, follow-me, messages, and call waiting, among others.

(b) Mobile telephone services

Revenue from wireless services comes from: (i) monthly subscriptions and use rates for outgoing calls and additional services, such as internet access, data transmission, short messages, call transfer, call waiting and call blocking; (ii) sale of handsets and accessories; (iii) roaming fees; and (iv) additional services, such as collect calls.

Customers on post-paid plans pay a monthly subscription fee and the services provided are billed on a monthly basis, while the customers of pre-paid plans purchase cards, the prices of which vary according to the number of minutes of use and type of services they allow. These cards have an expiration date, once the credit has been activated.

Mobile telephone services in Brazil are provided on a “caller pays” basis, meaning that the customer only pays for calls made, plus any applicable roaming fees.

Oi also earns revenue from roaming contracts with other operators providing domestic and international mobile telephone services.

(c) Remuneration for the use of the fixed-line network

Telemar has contracts with service providers to fixed and mobile (individual and special mobile services) customers covering interconnection and voice traffic. Operators are not allowed to discriminate in any way in providing interconnection services.

Telemar, as provider with a public concession for local telephone services within Region I, is authorized to charge per minute for the use of the local network, in all local and long-distance (national and international) calls, originated or finalized in its STFC network.

Telemar also charges for the use of the long-distance network of national and international long-distance calls terminated in Telemar’s network; (1) executed by a long-distance provider to complete in a local area which is different of the call’s final destination or (2) originated in Telemar’s network and patured to be completed by other long-distance providers in a local area different than in which the call was originated.

(d) Remuneration for use of the mobile network

Oi’s wireless network is directly interconnected with domestic and international long distance wireline networks of all companies operating in Region I and of all Band A, B and E mobile operators in Region I and Band D in Regions II and III.

Oi has contracts with all other mobile telephone operators in Brazil for roaming, thus providing its subscribers with automatic access to roaming services when traveling in areas of Brazil where mobile services using GSM (Global System for Mobile Communications) technology are available. Most of the revenue from the growth of pre-paid customer base represents interconnection tariffs charged when customers of other wireline or wireless operators use Oi's network to make calls to customers in Region I.

Up until July 12, 2006, in dealings between mobile operators within the same area, network usage fees would only become due when traffic originating from either of the two parties represented more than 55% (fifty-five percent) of total traffic between those two operators. With the publication of resolution nº 438 in the D.O.U. of July 10, 2006, there was a significant change in the system of remuneration for use of the mobile network. As from July 13, 2006, the system of full billing came into force, whereby the "Valor do Uso — Rede Móvel — VU-M" (mobile network usage fee) is due to a mobile operator whenever its network is used for the origin or destination of a call.

(e) Data transmission services

Telemar provides its clients with a variety of customized high speed data transmission services. These data communication services include interconnection between local area networks at transmission speeds of 34 Mbps or more, as well as videoconferencing, the transmission of video/still pictures, multimedia applications and dedicated internet access through internet service providers, and also private network services that allow clients to avail themselves of networks such as intranet or extranet.

Telemar also provides "Serviços de Linhas Dedicadas — SLD" (dedicated line services), leasing these lines to other operators, as well as internet providers and business clients.

Other operators, especially those providing wireless telephony services, also lease trunk lines from Telemar to use in their independent networks "Exploração Industrial de Linha Dedicada -EILD" (industrial exploitation of dedicated lines).

Data transmission services are provided using Telemar's regional data transmission network and multiple service network platform, in addition to Oi's national radio and fiber optic network.

Telemar provides its data communication services, in the main towns and cities of Region I, using ISDN and ADSL (Asymmetric Digital Subscriber Line) technology. Telemar has placed emphasis on commercializing its ADSL-based data communication service, sold under the brand name "Oi Velox", as a means for the residential segment to access the internet. The ADSL technology allows voice and data to be transmitted at high speed over a single pair of copper wires in the access network. Since voice transmission over telephone lines uses just one of the many possible band frequencies, the remaining frequencies can be used for data transmission. Customers can use the telephone line and the internet simultaneously.

Tariffs for data communication services are determined solely in accordance with market criteria, and are not regulated by Anatel.

5 Cost of services rendered and goods sold and operating expenses — by nature

Cost of services rendered and goods sold

	Parent company		Consolidated	
	2008	2007	2008	2007
Interconnection(i)	3,271	3,058	3,371	3,332
Depreciation	1,771	1,692	2,470	2,269
Network maintenance(ii)	1,403	1,282	1,467	1,363
Rentals and insurance(iii)	515	486	706	654
Third-party services(iv)	313	323	381	447
Personnel	250	234	289	253
Materials	186	256	257	280
Cost of handsets and accessories	—	—	195	262
Concession Contract renewal fee — Anatel (Note 1)	117	96	117	96
Other costs and expenses(v)	19	21	348	293
	7,845	7,448	9,600	9,247

Selling expenses

	Parent company		Consolidated	
	2008	2007	2008	2007
Third party services(iv)	1,098	1,005	1,932	1,488
Provision for doubtful accounts(vi)	569	536	797	650
Marketing(vii)	549	354	488	298
Personnel	163	137	203	167
Depreciation	19	23	30	34
Materials	3	—	11	3
Rentals and insurance	—	1	2	1
Other costs and expenses(v)	36	19	69	49
	2,437	2,075	3,532	2,689

General and administrative expenses

	Parent company		Consolidated	
	2008	2007	2007	2007
Third-party services(iv)	716	557	862	641
Personnel	233	182	336	265
Depreciation	134	96	212	176
Rental and insurance(iii)	96	84	125	85
Materials	12	12	13	12
Other costs and expenses(v)	31	9	34	13
	1,222	940	1,582	1,192

(i) Interconnection costs relate to fees charged by other mobile telephone operators for use of their networks, which substantially reduces the margin on fixed-line to mobile services (VC-1, VC-2 and VC-3). With the publication of Anatel Resolution No 438/2006, in July 2006, approving new regulations and was replaced by the process of full recognition of traffic revenues and expenses, known as the "full billing" system.

(ii) The cost of network maintenance is largely made up of spending on hiring services for network maintenance, without any increase in useful life. These expenses are mainly related to the expansion of "Oi Velox" installations and of Oi's network subscriber base, as well as spending on the external network, brought about by the changing profile of the engaged contractors, as contracts are renegotiated.

(iii) The increased cost of rentals and insurance is basically due to higher amounts being paid for leasing of circuits, mobile platforms, electricity poles, satellite, use of right of way and dedicated lines of other telephone service providers, as well as of areas used for installation of Oi transmission towers.

(iv) The increased cost of third-party services is basically due to higher energy costs, as a result of a tariff adjustment and the enlarged network, more sales commissions and agency fees, resulting from offers made to high-end post-paid customers, and spending on freight and data processing.

(v) This item largely refers to spending on the Fistel fee for activation of new clients (net of clients' disconnections) and maintaining network equipment, and to indemnifications, donations and sundry fines.

(vi) The increased provision for doubtful accounts is due to the Company's strategy of introducing a more flexible credit policy for lower income customers, while maintaining profitability.

(vii) Marketing expenditure is related to commercial campaigns carried out by the Company, particularly in regard to the product "Oi Velox", and to launching Oi Internet. Additionally, Oi has been strongly promoting its brand, through sponsorship and merchandising for a variety of sporting and fashion events, as well as through programs that are televised nationwide.

6 Other operating expenses, net

	Parent Company		Consolidated	
	2008	2007	2008	2007
Recovered expenses(i)	212	80	245	91
Rental of infrastructure(ii)	151	137	226	211
Late-payment charges (Note 12)	142	147	202	179
Gain on asset disposal(iii)	59	70	45	45
Technical and administrative services	73	42	74	47
Amortization negative goodwill AIX (note 15)	7	7	7	7
Bonuses obtained	—	—	2	9
Provision/reversion for losses on discontinued assets(iv)	1	3	1	3
Other revenues	9	49	21	49
	654	535	823	641
Other operating expenses				
Taxes(v)	(250)	(270)	(423)	(391)
Litigious payments(vi)	(315)	—	(315)	—
Provision for contingencies (Note 24(c))	(222)	(280)	(247)	(310)
Employee's profit sharing (Note 28(b))	(102)	(62)	(138)	(84)
Loss on asset disposal(iii)	(51)	(19)	(92)	(19)
Amortization of deferred charges (Note 19)	—	—	(68)	(66)
Amortization goodwill on acquisition of Oi (Note 18)	(53)	(53)	(53)	(53)
Stock based remuneration (see note 27(d))	(32)	(29)	(43)	(39)
Price discounts granted	(30)	(37)	(31)	(43)
Expenses with fines	(10)	(10)	(13)	(11)
Amortization goodwill on acquisition of TNCP (Note 17)	(12)	—	(12)	—
Amortization goodwill CVM 349/2001(vii)	—	—	(11)	—
Amortization goodwill on acquisition of Paggo (Note 17)	—	—	(8)	—
Realization of provision(vii)	—	—	7	—
Amortization goodwill on acquisition of Pegasus (Note 18)	—	(84)	—	(84)
Net loss caused by fire(viii)	—	—	—	(53)
Other expenses	(79)	(67)	(68)	(64)
	(1,156)	(911)	(1,515)	(1,217)
	(502)	(376)	(692)	(576)

(i) This volume refers mainly to recovery of tax credits, unduly paid in previous years.

(ii) Refers to the rent charged to mobile telephone operators for the use of buildings and infrastructure belonging to Telemar and Oi for the installation of "Estações de Rádio Base — ERBs" (radio base-stations). The growth in this other operating revenue is linked to the expansion of the mobile telephone network in Region I.

(iii) Refers mainly to the disposal of buildings and the impairment of network equipment.

(iv) Refers to the constitution and reversion of the provision for losses on assets for sale.

(v) For the period ended December 31, 2008, Telemar and its subsidiaries Oi and Way TV recorded R$251 (2007 — 239) relating to the "Fundo de Universalização de Serviços de Telecomunicações — FUST" (fund for universalization of telecommunication services) and "Fundo para o Desenvolvimento Tecnológico das

Telecomunicações Brasileiras — FUNTTEL" (fund for the technical development of Brazilian telecommunications).

(vi) On April 25, 2008, a Relevant Fact was released about the signed buy and sell contract for the shares with the objective to acquire control over Brasil Telecom Participações S.A. ("BrT Part") and of Brasil Telcom s.A. ("BrT")

Oi incurred related expenses with the third party services like legal and financial council, in proportion to the size of the operation. Oi also paid R$315, necessary for the closing of procedures involving BrT Part and BrT.

(vii) In an Extraordinary General Shareholders' Meeting, as realized on December 28, 1999, the corporate restructuring plan was approved, which had been prepared by TNCP and its holding Telpart Participações ("Telpart"), with the objective to transfer to TNCP the goodwill as accounted for in Telpart, originating from the difference between the book values and the amount paid upon the acquisition of TNCp, in the privatization process.

This way, a new company had been constituted, a 100% subsidiary of Telpart, which capital was subscribed with TNCP's shares and the corresponding goodwill paid in the acquisition, and thereafter, this company was incorporated by TNCP. This reorganization was executed according to Law n°6,404/1976 and CVM Instruction n°319/1999.

TNCP opted to adopt CVM Instruction n°319/2001 as from the beginning of 2000, adjusting its financial statements for the year 2000 to reflect, as asset and as special goodwill reserve, only the amount of the expected tax benefit from the goodwill, originally accounted for at Telpart. Due to the fact that TNCP's control has been acquired by Telemar in April 2008, the consolidated figures record the effects as described in the following. The main accounting impacts can be summarized as follows:

- Constitution of a provision to reflect the maintenance of the whole of net equity, equivalent to the difference between the amount of the goodwill and of the tax benefit resulting from its amortization, disclosed as a reduction of the goodwill account. This provision has been recorded as a contra-entry to the special goodwill reserve.
- Recognizing a tax credit, referring to deferred income tax and social contribution, as a contra-entry to the special goodwill reserve.
- Reversion of the provision to reflect the maintenance of the whole of net equity, for the result of the current period.

(viii) This item refers to the writing off of Oi inventory as a result of the fire at the Rio de Janeiro distribution center, on January 19, 2007, and the calculation includes taxes and insurance indemnification.

7 Interest expenses, net

	Parent company		Consolidated	
	2008	2007	2008	2007
Interest income				
Yield on marketable securities	456	221	758	436
Interest and monetary variation on other assets(i)	231	282	267	305
Financial discounts obtained(ii)	91	141	100	148
Interest and monetary variation on outstanding loans to subsidiaries (Note 28)	13	3	25	21
Other	60	4	133	10
	851	651	1,283	920
Interest expenses				
Interest on outstanding loans	(915)	(343)	(967)	(358)
Monetary and exchange variation on outstanding loans(iii)	(904)	284	(936)	283
Interest on stockholders' capital(iv)	(646)	(761)	(646)	(761)
Reversal of interest on stockholders' capital(iv)	646	761	(646)	761
Interest on debentures (Note 25)	(270)	(258)	(270)	(258)
Interest and monetary variation on other liabilities	(33)	(26)	(174)	(131)
Monetary adjustment of provisions for contingencies (Note 24(c))	(150)	(72)	(161)	(81)
Withholding tax on financial operations, bank charges and CPMF(*)	(117)	(179)	(130)	(206)
Interest on loans and commissions payable to related parties (Note 29)	(53)	(32)	(49)	(31)
Interest on refinanced taxes (Note 23)	(38)	(44)	(39)	(44)
Derivative results (Note 25)	127	(379)	146	(379)
Other	(15)	(12)	(42)	(20)
	(2,368)	(1,061)	(2,622)	(1,225)
Interest expense, net	(1,517)	(410)	(1,339)	(305)

(*) "Contribuição Provisória sobre Movimentação Financeira — CPMF" (provisional contribution on financial transactions). This tax was cancelled on January 1, 2008.

(i) Refers, basically, to monetary correction of judicial deposits and interest on accounts in arrears.

(ii) This item refers, basically, to discounts obtained as a result of payments in advance to suppliers.

(iii) In 2008, the Brazilian Real depreciated 24.4% against the U.S. dollar (2007 — appreciation of 20.7%) and in relation to the Japanese Yen depreciated 38.6% (2007 — appreciation of 13.4%).

(iv) Considering the tax benefit offered by the alteration of the income tax legislation, under Law no 9,249/1995, Telemar declared R$646 as interest on stockholders' capital during the fiscal year ended December 31, 2008 (2007 — R$761) (see Note 26(d)).

8 Income tax and social contribution

The reconciliation of corporate income tax and social contribution, calculated at the effective and nominal rates, is shown below:

	Parent company		Consolidated	
	2008	2007	2008	2007
Income from continuing operations before tax	1,624	3,500	1,938	3,563
Income tax and social contribution, combined rate (34%)	(552)	(1,190)	(659)	(1,211)
Adjustments to determine the effective rate:				
Tax effects of interest on stockholders' capital (Note 9)	220	258	220	258
Tax incentives	67	248	135	270
Tax effects on permanent additions(i)	(57)	(82)	(90)	(99)
Income tax and social contribution on tax loss carryforwards (Note 14)	—	—	26	97
Permanent exclusion of result of equity accounting (Note 15)	216	154	6	4
Other	3	1	(51)	7
Income tax and social contribution, according to statement of operations	(103)	(611)	(413)	(674)
Effective rate	6.34%	17.46%	21.31%	18.92%

(i) This item refers to expenses of fines, donations, gifts and sponsorship that are considered non-deductible, as well as losses on derivative operations at Telemar and Oi. Furthermore, the result of the equity adjustment of subsidiaries with unsecured liabilities is also treated as a permanent addition to taxable income and to the social contribution calculation base.

Income tax and social contribution benefits (expenses) included in net income for the fiscal year are as follows:

	Parent company		Consolidated	
	2008	2007	2008	2007
Prior years				
Income tax	3	—	5	—
Social contribution	1	1	2	1
	4	1	7	1
Current year				
Income tax	(204)	(631)	(404)	(730)
Social contribution	(65)	(212)	(142)	(248)
	(269)	(843)	(546)	(978)
Tax incentives				
Gain on exploitation(a)	56	228	105	247
Deferred				
Income tax on temporary additions	78	(1)	113	(13)
Social contribution on temporary additions	28	4	40	1
Income tax on tax loss carry forwards(b)	—	—	(93)	49
Social contribution on tax loss carry forwards(b)	—	—	(39)	19
	106	3	21	56
	(103)	(611)	(413)	(674)

(a) Refers to the tax incentives recorded on the result of the application of Law n°11,638/2007 (see note 25).
(b) According to current law, tax loss carry forwards can be compensated with future income, up to an annual limit of 30% of this income.

For purposes of determining income tax and social contribution payable on net income for the year 2008, companies are allowed to opt for the "Regime Tributário de Transição — RTT) (transitory tax regime), which allows companies to eliminate the tax effects resulting from application of Law 11,638/2007 and of Provisional Measure 449/2008, by means of registering in the "Livro de Apuração do Lucro Real — LALUR" (book for determining real income), without any change in the commercial registration. The option to adopt this regime has to be made when delivering de "Declaração de Imposto de Renda Pessoa Jurídica — DIPJ" (entity tax return form) for the calendar year 2008.

The financial statements for the year ended December 31, 2008 have been prepared considering management's best estimates, which for the moment indicate that opting for the RTT is the best alternative.

9 Cash and cash equivalents

	Parent company		Consolidated	
	2008	2007	2008	2007
Cash and bank accounts	63	69	96	258
Open foreign exchange position	11	201	11	201
Financial investments:				
Investment funds(i)	7,178	1,636	7,800	2,137
CDBs(ii)	566	49	675	57
Government securities(iii)	—	—	—	133
Repurchase operations(ii)	1	1	21	82
Remunerated deposits(iv)	—	18	3	21
	7,819	1,975	8,606	2,889
Cash and cash equivalents	7,819	1,975	8,606	2,889
Short-term financial investments:	131	1,188	1,238	3,192
Long-term financial investments:	—	20	2	20

(i) Investment funds have immediate liquidity. Of these funds, R$419 million (2007 — R$320 million) is held in investment funds abroad, whose portfolio essentially comprising U.S. government securities and private securities issued by financial institutions. The other R$8,437 million (2007 — R$4,882 million) is held in Brazilian investment funds. On December 31, 2008 of the total of R$8,856, a part in the amount of R$1,056 (2007 — R$3,066) is classified as short-term financial investment due to the fact that some of the securities which make part of this portfolio have maturities substantially higher than 90 days, in conformity with the accounting practices as adopted by the Company.

All of the investment funds in which Telemar, its holding and its subsidiaries invest resources are exclusively for the group, of which Telemar holds 78% (2007 — 48%) and subsidiary Oi holds 18% (2007 — 42%) participation in these funds, totaling 96% (2007 90%) for Telemar consolidated.

The composition of the consolidated exclusive funds is shown below:

	Consolidated balances of the exclusive investment funds	
	2008	2007
CDB	3,590	893
Government securities	155	59
Repurchase operations	3,624	815
Remunerated deposits		66
Time Deposits	809	464
Credit Linked Notes		74
Exchange contracts		266
Others	12	49
Total in exclusive funds and cash equivalents	8,192	2,686
Títulos Públicos	1,048	3,043
Debêntures	7	8
Bonds	1	52
Total aplicado em fundos exclusivos em curto prazo	1,056	3,103
Total aplicado em fundos exclusivos	9,247	5,789

The criteria for determining the consolidated figures of the funds considers that the balances are presented , net of the funds liabilities, allocated to the assets according to their percentage participation on total assets, considering cash and positions in derivative contracts.

The CSAM CDFL II has under its assets bonds issued by TNL, which balance on December 31, 2008 was R$998 (2007 R$911). The maturity for this security is December 18, 2013, being remunerated by the pre-fixed interest rate of 8.0% p.a. In the period ended December 31, 2008, the recorded pain on this operation was R$87.

The funds in which Telemar and its subsidiaries effect operations with financial derivative instruments and , within these future contracts negotiated on the BM&F — Bolsa de Mercadorias & Futures (securities exchange). On December 31, 2008, Telemar and its subsidiaries have open contracts for the following volumes and maturities:

(ii) These financial investments are indexed to variations in the rate of the "Certificado de Depósito Interbancário — CDI" (interbank deposit certificate) and have immediate liquidity, being the long-term part of R$2 (2007 — R$20) referring to "Banco do Nordeste do Brasil — BNB", realized according to Provisional Measure n°2,199-14/2001, Art. 3, recorded as line item "other assets".

(iii) This item refers to investments in government securities such as "Letras Financeiras do Tesouro — LFTs" (government treasury bills) which have immediate liquidity. On December 31, 2008 the part of R$183 (2007 — 126) is classified as short-term financial investment due to the fact that some of the securities which make part of this portfolio have maturities substantially higher than 90 days, in conformity with the accounting practices as adopted by the Company.

(iv) These financial investments are indexed to variations in the rate of the "Certificado de Depósito Interbancário — CDI" (interbank deposit certificate) and have immediate liquidity.

All of Telemar's and its subsidiaries' financial investments, are classified as trading.

10 Trade accounts receivable

	Parent company		Consolidated	
	2008	2007	2008	2007
Services billed	2,585	2,423	3.036	2.609
Services metered, not yet billed	765	820	977	924
Mobile handsets and accessories sold	—	—	251	59
Provision for doubtful accounts	(217)	(225)	(367)	(314)
	3,133	3,018	3.897	3.278

The aging-list of accounts receivable is shown below:

	Parent company			
	2008	%	2007	%
Not yet billed	765	22.8	820	25.3
Not yet due	1,152	34.4	1,020	31.5
Receivable from other providers	560	16.7	417	12.9
Overdue up to 30 days	445	13.3	508	15.7
Overdue between 31 and 60 days	146	4.4	156	4.8
Overdue between 61 and 90 days	80	2.4	89	2.7
Overdue more than 90 days	202	6.0	233	7.2
	3,350	100.0	3,243	100.0

	Consolidated			
	2008	%	2007	%
Not yet billed	977	22.9	924	25.7
Not yet due	1539	36.1	1.070	29.8
Receivable from other providers	572	13.4	513	14.3
Overdue up to 30 days	518	12.1	546	15.2
Overdue between 31 and 60 days	180	4.2	170	4.7
Overdue between 61 and 90 days	110	2.6	99	2.8
Overdue more than 90 days	368	8.7	270	7.5
	4.264	100.0	3.592	100.0

A 2% fine is charged on the total value of debt outstanding under accounts in arrears (recorded as “Other operating income”), plus interest of 1% per month, charged on a pro rata basis (recorded as “Interest income”), recognized in the books upon the issue of the next bill after the due date of the overdue bill.

Telemar may block outgoing calls, when the bill is 30 days or more overdue, block incoming call , when a bill is 60 days or more overdue, and remove the customer’s terminal when the bill is 90 days or more overdue, as long as the customer is given a 15 days advance warning. After the removal of the terminal, which is carried out when payment is between 95 and 110 days overdue, the delinquent customer’s name is forwarded to the appropriate credit protection agencies.

The policy adopted by Oi, in accordance with rules established by Anatel, provides for partial suspension of services, until full payment has been made of all amounts due, in case of a payment that is more than 15 days overdue and the customer has not paid and/or straightened out the situation, after receiving notification requesting payment. The same policy also determines that all outgoing and incoming calls be blocked when a payment is more than 30 days overdue. When a payment is more than 75 days overdue, all services are suspended and the delinquent customer's name is included in the records of the credit protection agencies.

With the publication, on February 13, 2008, of an appendix to Anatel Resolution nº 477, of August 7, 2007, introducing changes to the regulations governing SMP, there are two changes to the rules governing default, as described below:

- The limit for blocking all outgoing and incoming calls is now 45 days (30 days after the 15-day limit for blocking only outgoing calls), instead of 15 days;
- However, the SMP service provider is allowed, at its own discretion, to terminate the contract once the bill is 90 days overdue; other terms have not been changed.

11 Credits receivable

	Consolidated	
	2008	2007
Credits receivable from Barramar S.A.(i)	63	60
Other	7	1
	70	61

(i) The credits receivable from Barramar S.A., refer to 50% of the amounts recorded as long-term realizable from AIX. Due to the bankruptcy of Barramar S.A., as officialized by the 5th Chamber of Private Law of the Tribunal of Justice of the State of São Paulo, in realized on November 24, 2004, AIX is taking legal steps to assure its credits with Barramar S.A. and for the determination of operating assets of Barramar S.A. , due to its participation in the Refibra consortium.

12 Deferred and recoverable taxes

	Parent company				Consolidated			
	2008		2007		2008		2007	
	Curto prazo	Longo prazo	Curto prazo	Longo prazo	Curto prazo	Longo prazo	Curto prazo	Longo prazo
Value-added tax (ICMS)	311	232	292	200	523	333	492	248
Income tax on temporary additions(i)	125	768	125	694	126	872	144	792
Social contribution on temporary additions(i)	45	261	45	235	45	300	52	272
Income tax on tax loss carry forwards(i)	—	—	—	—	9	525	1	514
Social contribution on tax loss carry forwards(i)	—	—	—	—	3	178	—	185
Income tax recoverable(ii)	240	—	536	—	399	—	612	—
Social contribution recoverable(ii)	111	—	257	—	187	—	287	—
Withholding income tax(iii)	119	—	45	—	174	—	86	—
Other taxes recoverable	29	—	27	—	77	2	57	—
Total	980	1,261	1,327	1,129	1,543	2,210	1,731	2,011

(i) The Company records its deferred tax credits arising from temporary differences and tax loss carry forwards in accordance with CVM Resolution no 273/1998 and CVM Instruction no 371/2002, which allows tax loss carry forwards to be recorded if, according to approved technical studies, there is sufficient generation of future profits to offset these tax loss carry forwards, up to a limit of ten year, adjusted to present value, will be sufficient to compensate those tax credits, as follows:

	Parent company	Consolidated
Due to December, 31:		
2009	170	183
2010	201	380
2011 to 2013	527	815
2014 to 2017	301	681
	1,199	2,059

For the direct and indirect subsidiaries which at December 31, 2008, did not present a history of profitability and or expectations of generating sufficient future profitability in the next ten years, the tax credits on tax loss carry forwards have not been recognized in their totality, as well as, the tax credits on temporary differences. Unrecorded tax credits on tax loss carry-forwards amount to R$64 (2007 — R$38).

(ii) Telemar and its subsidiaries recorded tax credits on tax loss carry forwards, to be compensated with future taxes payable.

(iii) Telemar and its subsidiaries recorded tax credits on financial investments, mutual, dividends and others, which are used as deductions from taxes payable in the current period.

13 Prepaid expenses

	Parent company		Consolidated	
	2008	2007	2008	2007
Subsidy on Oi handsets(i)	248	129	270	194
Financial charges(ii)	206	260	250	133
FASS (social security foundation)(iii)	1	—	226	260
Fistel fee(iv)	9	10	187	83
Taxes and contributions	—	—	18	10
Other(v)	65	37	79	44
	529	436	1,030	724
Current	173	83	593	341
Long-term	356	353	437	383

(i) Refers to postpaid mobile handsets, sold with an average subsidy of R$300.00. The deferral of the subsidy has been calculated based on net additions, recoverable over a period of up to twelve months, as foreseen in the contract's fine clauses for early cancellation or migration to prepaid plans.

(ii) Financial charges and premiums paid in advance, when obtaining loans, financing and the issuing of debentures, are amortized during the term of the related contracts (see Notes 20 and 25)

(iii) On October 29, 2007, the Company provided funding of R$ 260 to FASS. This amount, calculated by the foundation's actuaries, is intended to cover the increase in future contributions to the plan due to changes in the actuarial premises to better reflect the new economic scenario, of falling interest rates, and adjust the

mortality and disability tables of the foundation's plans. According to the current premises (see Note 28, item (a), sub-item (iv)), this amount is appropriated over approximately ten years, the estimated average remaining working life of the employees participating in the plan.

(iv) This item refers to the Fistel fee, paid on the activation of new clients net of cancellations (R$26.83 per activation). The amount is deferred and amortizated over the estimated churn period of 24 months.

(v) This item refers to expense of annual contracts involving rights of way and the renting of circuits, equipment and poles and insurances, among other things.

14 Judicial deposits and judicial blockings (court ordered judicial deposits)

	Parent company		Consolidated	
	2008	2007	2008	2007
Tax(*)	457	294	512	343
Civil	423	371	455	393
Labor(*)	153	200	154	202
Judicial blockings	282	258	287	262
	1,315	1,123	1,408	1,200

(*) Amounts net of judicial deposits linked to the corresponding liabilities (Note 23), according to CVM Deliberation n° 489/2005.

The Company maintains certain judicial deposits in order to ensure its right of appeal in civil, labor and tax proceedings, and among the last we highlight:

	2008	%	2007	%
ICMS tax assessments	263	38.1	231	46.8
INSS(i)	158	22.9	74	15.0
PAES	62	9.0	56	11.3
COFINS	45	6.5	28	5.7
IPTU(ii)	26	3.8	25	5.1
CSLL	25	3.6	21	4.3
PIS/PASEP	24	3.5	19	3.8
ISS	16	2.3	13	2.6
IRPJ	28	4.1	10	2.0
Other(iii)	43	6.2	17	3.4
	690	100.0	494	100.0

(i) This item refers to"Instituto Nacional do Seguro Social — INSS" (national institutefor social security).

(ii) This item refers to"Imposto sobre a Propriedade Predial e Territorial Urbana- IPTU" (municipal real estate tax)

(iii) This item refers to deposits that serve as guarantee against fiscal enforcement in relation to tax charges administered by the "Secretaria da Receita Federal — SRF" (Internal Revenue Service — IRS), as well as the suspension of liability in relation to other charges by municipal and state Government bodies.

Pursuant to the pertinent legislation, during the fiscal year ended on December 31, 2008, the judicial deposits were adjusted monetarily.

15 Investments

	Parent Company		Consolidated	
	2008	2007	2008	2007
Participation using cost method(i)	33	26	3,304	26
Participation using equity method	12,297	8,345	—	—
Goodwill paid in Oi acquisition, net(ii)	203	257	—	—
Negative goodwill in AIX Acquisition, net(iii)	—	(7)	—	—
Fiscal incentives(ii)	38	38	38	38
Provision for losses on fiscal incentives(ii)	(29)	(29)	(29)	(29)
	12,542	8,630	3,313	35

(i) As mentioned in Note 1, these largely refer to the respective acquisition of BRTP4 and BRTO4 preferred stock by the companies Copart 1 and Copart 2.

During May and June 2008, Copart 1 and Copart 2 conducted successive acquisitions of preferred stock in the companies BrT Part and BrT, respectively. The acquisitions carried out by Copart 1 accumulated a total of 55,819,400 preferred shares (BRTP4) issued by Brt Part, for the sum of R$ 1,425,133, which represented 24.3% of that company's preferred stock and 15.4% of its total share capital. The acquisitions carried out by Copart 2 amounted to 45,590,200 preferred shares (BRTO4) issued by BrT, at a sum of R$ 897,775, which represented 14.6% of that company's preferred stock and 8.3% of its total share capital.

On June 27, 2008, the Board of Directors of TMAR ratified the authorized limit on Advances for Future Capital Increases at Coari, at a total of R$ 13.5 billion. On December 18, 2008, advances to the sum of R$ 3,270,861 were made.

On July 22, 2008, a voluntary public share offering was carried out by the companies Copart 1 and Copart 2, aimed at raising their holdings to one third of the preferred stock issued by BrT Part and BrT. Copart 1 acquired 20,826,442 BrT Part preferred shares (BRTP4) at a unit cost of R$ 30.47, for a total of R$ 634,582, and Copart 2 acquired 13,366,365 BrT preferred shares (BRTO4) at a unit cost of R$ 23.42, for a total of R$ 313,040.

As a result of the acquisitions effected under the voluntary public share offering, TMAR assumed an indirect holding of 58,956,565 BrT preferred shares and 76,645,842 BrT Part preferred shares, representing, respectively, 18.9% of total preferred stock and 10.5% of BrT's share capital , and 33.3% of total preferred stock and 21.11% of the share capital of BrT Part. On December 31, 2008, the companies Copart 1 and Copart 2, do not have any significant influence on BrT Part and BrT investments, respectively.

On January 8, 2009, Telemar acquired control over BRT Bart by means of its indirect subsidiary Copart 1, passing on to hold 61.2% of BrT Part's voting capital. For more detail see note 31. Information relating to the acquisition of control over BRT Bart were disclosed in the Relevant Fact, as released on January 8, 2009, and is integrated in full in note 31.

(ii) On May 30, 2003, following the approval of the Boards of Directors of both companies, TMAR bought from its parent company, TNL, 99.99% of the shares of Oi.

The price of R$ 1.00 (one Real) had been established through the valuation of net equity to fair value by a specialized firm, using as basis the financial statements of March 31, 2003, adjusted to reflect the result as determined on the balance sheet of Oi on April 3, 2003 and the additional paid-in capital of R$562, realized by TNL before the operation. The transaction also included the assuming all of Oi's debt by Telemar in 2003, with the capitalization of by Telemar of R$600 in Oi.

The amount paid was higher than the book value, thus generating a premium of R$ 499,994, justified in economic terms by the appreciation of the value of that company's fixed assets, as confirmed by an appraisal carried out by a firm of technical experts. This premium will be fully amortized in 9 years and five months, which corresponds to the average depreciation period of said assets, and can be presented as follows:

Unsecured liability of Oi on April 30, 2003	1,062
Capitalization of credits by TNL before the sale to Telemar	(562)
Original goodwill over the amount paid of R$1.00 (one Real)	500

The benefits from the synergies of the sectors of support and operational of Telemar and Oi, as well as the alignment of interests and commercial strategies of the two companies, resulted in the more rational use of resources available, with as a result a reduction in costs and productivity gains.

(iii) TMAR has an equity stake in AIX, whose corporate purpose is to provide pipeline infrastructure for the installation of optic fibers alongside the main highways within the state of São Paulo. On November 19, 2003, the shareholders of AIX (at that time, Alcatel Telecomunicações S.A., Telesp — Telecomunicações de São Paulo S.A. and Pegasus) approved an economic-financial appraisal, carried out by a firm of specialists, that included credits in relation to the company Barramar S.A., the realization of which is tied to the future profitability of the Refibra Consortium, which depends on the fulfilling of contracts for the use of pipelines and networks by Telesp, TMAR and Pegasus. As a result of the appraisal, at a meeting held on November 20, 2003, the Board of Directors of AIX approved the recording of a provision for losses of R$ 157,400. On December 16, 2003, Alcatel sold its equity stake to Pegasus and Telesp, with the former acquiring 79.1% of the shares for the nominal sum of R$ 1 (one real) and registering a discount of R$ 53,955.

Concomitantly, Pegasus and Telesp increased the capital stock of AIX through the capitalization of credits held in the same, to the sum of R$ 59,816 and R$ 105,752, respectively. With the share purchase and capitalization of credits, Pegasus increased its equity stake from 18.1% to 50%.

On December 31, 2003, Pegasus sold to TMAR, at book value, its entire stake in AIX. As a result, the discount was written off, with the recognition of a non-operating income of R$ 53,952 eliminated, for the purpose of consolidation.

In December 2004, the Board of Directors of AIX approved a new technical study, developed by third-parties, into the potential for realizing the assets, leading to an increase of R$ 53,972 in the aforementioned provision for losses. Consequently, the discount was adjusted by R$ 17,358, proportional to the ratio between the additional provision and the net equity value of AIX prior to the adjustment.

In accordance with the provisions of Article 26 of CVM Instruction nº 247/1996, this discount is classified as "Unrealized Earnings" and is being amortized over the period defined in the economic feasibility study.

The components of AIX's assets and liabilities, as well as its revenues and expenses, have been added to the consolidated financial statements, in proportion to TMAR's equity stake in that company.

The amounts for the principal groups of balance sheet items of AIX, as at December 31, 2008 and 2007, together with the respective income statements for the fiscal years ended on those dates, taking into consideration TMAR's proportional shareholding of 50%, are shown below:

	2008	2007
Assets		
Current assets		
Cash and cash equivalents	3	4
Trade accounts receivable, net	2	2
Other current assets	2	2
	7	8
Long-term assets		
Credits receivable	62	60
Recoverable taxes	3	—
Judicial deposits and blocking	2	1
	67	61
Property, plant & equipment	5	7
Intangible	11	11
Deferred	—	8
	16	26
Total assets	**90**	**95**

	2008	2007
Liabilities and Stockholders' Equity		
Current liabilities		
Suppliers	2	2
Deferred tax and taxes on income	—	7
	2	9
Long-term liabilities		
Loans and financing	—	12
Other long-term liabilities	29	18
	29	30
Stockholders' Equity		
Capital stock	230	230
Loss accumulation	(171)	(174)
	59	56
Total liabilities and stockholders' equity	**90**	**95**

Statement of Operations

	2008	2007
Gross operating revenue	**29**	**25**
Deduction from gross operating revenues	(4)	(3)
Net operating revenue	**25**	**22**
Costs of goods sold and services rendered	(10)	(9)
Gross profit	**15**	**13**
Operating expenses		
Selling expenses		
General and administrative expenses	(4)	(5)
Other operating expenses, net	(2)	(8)
	(6)	**(13)**
Operating income (loss)	**9**	—
Interest expenses, net	(5)	(4)
Income (loss) from continuing operations before tax	**4**	**(4)**
Income tax and social contribution	(3)	(2)
Net income	**1**	**(6)**

(iv) Refers to the "Fundo de Investimento do Nordeste — FINOR" (Northeastern investment fund) and to the "Fundo de Recuperação Econômica do Estado de Espirito Santo — FUNRES" (Fund for economic recovery of the Espirito Santo state).

	December 31, 2008 - Parent company						
				Thousands of shares/quotes		Share - %	
Controlled parties	**Stockholders' liabilities**	**Paid-in capital**	**Net income (loss)**	**Common**	**Preferred**	**Total capital**	**Voting capital**
Oi	8,807	9,613	611	6,101		100,0	100,0
Coari	3,286	3,271	15	6	11	100,0	100,0
Amazônia	106	231	(24)		1	16,5	
AIX	118	461	2	299		50,0	50,0
TNCP	87	85	34	1	4	81,2	51,9
Oi Internet	65	189	(34)	189		100,0	100,0
Serede	6	4	1	3		100,0	100,0
Calais				5	10	100,0	100,0
Subtotal							
Hispamar							
Goodwill Oi							
Other investments							

	December 31, 2008 - Parent company		
Controlled parties	**Equity method accounting**	**Dividends and interest on capital receivable**	**Investment value**
Oi	623		8,807
Coari	15	14	3,272
Amazônia	(5)		18
AIX	3		59
TNCP	28	30	71
Oi Internet	(34)		65
Serede	1		5
Calais			
Subtotal			12,297
Hispamar	5		29
Goodwill Oi			203
Other investments			13
	636	44	12,542

	December 31, 2007 - Parent company						
				Thousands of shares/ quotes		Share - %	
Controlled parties	**Stockholders' liabilities**	**Paid-in capital**	**Net income (loss)**	**Common**	**Preferred**	**Total capital**	**Voting capital**
Oi	8,815	9,613	465	6,101		100,0	100,0
AIX	112	461	(12)	299		50,0	50,0
Oi Internet	99	189	(10)	189		100,0	100,0
Coari				6	11	100,0	100,0
Calais				5	10	100,0	100,0
Serede	4	3	1	3		100,0	100,0
Subtotal							
Hispamar	122	151	6	151		19,0	19,0
Goodwill Oi							
Negative goodwill AIX							
Other investments							

	December 31, 2007 - Parent company	
Controlled parties	**Equity method accounting**	**Investment value**
Oi	474	8,185
AIX	(8)	56
Oi Internet	(10)	100
Coari		
Calais		
Serede	1	4
Subtotal	457	8,345
Hispamar	(5)	23
Goodwill Oi		256
Negative goodwill AIX		(6)
Other investments		12
	452	8,630

(i) In accordance with the terms of Article 12 of CVM Instruction nº 247/1996, TMAR has made a provision under current liabilities to cover the unsecured liabilities of its subsidiaries.

(ii) The main corporate purposes of Hispamar Satélites S.A. ("Hispamar") are the engaging of outsourced manufacturing services, the launching and operation of satellites and the utilization and commercialization of the useful capacity of orbital satellites that are duly licensed to handle a variety of different frequency bands, as well as to provide communications services, especially via satellite, and other services necessary to the performance of its corporate purposes. TMAR holds a 19.04% equity stake in the company and has no influence over its management.

The criteria for evaluating the investment in Hispamar were altered in the first quarter of 2008, with the adoption of the cost method. The equity adjustment amount recognized in 2007 was reversed, along with the amount of the original investment, of R$5.

(iii) Telemar acquired control over TNCP and as a consequence of Amazônia on April 3, 2008. Through the voluntary OPAs and the acquisitions realized after the OPAs, Telemar acquired preferred shares of TNCP and Amazônia. For more details about the acquisitions and OPAs see note 1, and for the corporate reorganization see note 31.

Changes in the company's investments arise, to a large extent, from equity in the earnings of its subsidiaries.

16 Property, plant & equipment

	Parent company				
	2008			2007	
	Costs	Accumulated depreciation	Residual value	Residual value	Annual depreciation rate (%)
Transmission equipment	10,473	(8,193)	2,280	2,100	5 and 20
Cables (network)	11,138	(8,882)	2,256	2,346	5 to 20
Canalização subterrânea	2,143	(1,432)	711	716	4
Buildings and facilities	2,025	(1,444)	581	659	4 to 10
Equipamentos de comutação	9,563	(9,024)	539	369	20
Other equipment	1,941	(1,446)	495	405	10 and 20
Postes e torres	853	(425)	428	420	4 and 5
Obras em construção	322	—	322	232	
Switching equipment	1,159	(967)	192	416	5 to 10
Terrenos	135	—	135	141	
Hardware	502	(414)	88	119	20
Estoques para expansão	80	—	80	110	
Benfeitorias em propriedade de terceiros	150	(95)	55	59	10
Equipamentos terminais	2,207	(2,168)	39	61	13 and 20
Leasing equip informática	48	(23)	25	36	20
Leasing equip transmissão	9	(4)	5	7	20
Leasing equip comutação	3	(1)	2	2	20
Other assets	406	(350)	56	60	10 to 20
	43,157	(34,868)	8,289	8,258	

	Cost	Accumulated depreciation	2008 net	2007 net	Annual rate of depreciation (%)
Cables (access network)	11,342	(8,936)	2,406	2,503	5 to 20
Telemar transmission equipment	10,473	(8,193)	2,280	2,100	20
Oi transmission equipment	2,833	(1,080)	1,753	1,434	10
Construction in progress	840	—	840	331	—
Oi switching equipment	1,339	(524)	815	755	10
Underground ducts	2,156	(1,435)	721	726	4
Other equipment	2,323	(1,627)	696	559	4 to 20
Buildings	2,102	(1,455)	647	665	4 to 10
Posts and towers	1,036	(479)	557	537	4 to 5
Telemar switching equipment	9,563	(9,024)	539	369	20
Leasehold improvements	803	(381)	422	398	10
Computer hardware	795	(591)	204	208	20
Trunking switches	1,166	(968)	198	421	5 to 20
Land	138	—	138	141	—
Inventories for network expansion	118	—	118	133	—
Amazonia transmission equipment	136	(94)	42		13
Amazonia switching equipment	82	(44)	38		13
Terminals	2,224	(2,179)	45	63	13 to 20
Financial lease equipment — hardware	56	(26)	30	35	20
Financial lease transmission equipment	11	(5)	6	8	20
Financial lease switching equipment	3	(1)	2	9	20
Other assets	931	(597)	334	395	10 to 20
	50,470	(37,639)	12,831	11,790	

Additional information

(a) Management regularly reviews its potential to generate profits, in particular buildings and equipment to be maintained and used in operations, to determine and measure any requirements of reducing their value to recovery value (impairment analysis). For the subsidiary Amazönia an impairment loss in the amount of R$37 has been recorded, for a part of the software and the TDMA network (see Note 31). No significant impairment loss was identified in 2007.

(b) In accordance with clause 21.1 of the concession contracts, all fixed assets belonging to Telemar that are essential for Telemar to provide the services authorized in said contracts are considered revertible assets and are part of the respective concession's cost. These assets will automatically revert to Anatel upon expiration of any concession contract that is not renewed.

At December 31, 2008, the remaining balance of revertible assets is R$5.878 (2007 — R$6.842), comprising assets and construction in progress, switching equipment, transmission equipment, public telephone units, external network, energy equipment, system equipment and operating support equipment. As the regulation is subject to different interpretations, the amount is subject to changes resulting from further internal reviews and Anatel definitions.

Financial lease contracts

For the financial lease contracts, which inherent risks and benefits of the ownership of the underlying assets belongs to the lessee, the monthly instalments are recorded in income during the term of the contracts (See note 5), totalling R$47 (2007 — R$42).

The present value of the minimum future lease-payments , relating to these contracts, are shown below:

	Parent company		Consolidated	
	2008	2007	2008	2007
Less than one year	3	33	3	34
More than one and less than five years	—	3	1	4
	3	36	45	38

17 Intangible assets

	Parent company				
	2008			2007	
	Costs	Accumulated depreciation	Residual value	Residual value	Annual depreciation rate (%)
Software	1,266	(941)	325	325	20
Goodwill TNCP	215	(12)	203	—	10
Direito de passagem	22	(8)	14	16	20
Goodwill Amazônia	15	—	15	—	10
Others	49	(47)	2	2	4 to 20
	1,567	(1,008)	559	343	

	Consolidated				
	Cost	Accumulated amortization	2008 net	2007 net	Annual rate of amortization (%)
Oi and Amazônia license(i)	2,426	(638)	1,788	919	7 to 13
Computer software	1,783	(1,203)	580	487	20
Goodwill in the acquisition of TNCP(ii)	215	(12)	203	—	10 to 20
Goodwill in the acquisition of Paggo(iii)	81	(8)	73	81	
Goodwill in the acquisition of Amazônia(iv)	15	—	15	—	
Others	85	(62)	23	26	5 to 20
	4,605	(1,923)	2,682	1,513	

(i) This item refers to the right to use certain radio frequencies, acquired by Oi in March 2001 in the amount of R$1,102, in July 2003 and January 2004, for R$111, which amortization is calculated according to the validity period of these authorizations, which extends up to March 12, 2016. The financial charges incurred prior to Oi's operational start-up, totaling R$64, have been capitalized.

In December 2007, Oi was the winning bidder for 16 of the 105 frequency lots put out to tender by Anatel, thus conferring the right to provide SMP for an indefinite period and the use of radio frequencies in São Paulo for a period of 15 years, renewable for an equal period (involving an additional R$ 121), as well as

increased band width in some states within Region I (Amazonas, Amapá, Pará, Maranhão, Roraima, Bahia, Espírito Santo, Sergipe, Alagoas, Paraíba, Piauí and Rio Grande do Norte), valid until March 13, 2016 (which involved a further R$ 11). At the signing of the contract, Oi paid 10% of the contract value and fully recognized the balance outstanding to Anatel for these concessions, under its liabilities.

On March 28, 2008, the ratification of the results of the auction bidding n° 002/2007/SPV-Anatel was published in the D.O.U. by Anatel's counsel, authorizing Oi the use of the radio frequencies 3G to provide the SMP services in the areas of Regions I and III of the PGA (except for the area which includes the municipality of Franca in the inland of São Paulo), by means of signing the authorization's terms. The authorization's terms were signed on April 29, 2008, for the mount of R$867, which amortization is calculated according to the contractual term of 15 years, as stipulated in the authorization.

In September 2008 new terms were signed for the authorization to use radio frequency blocks in the bandwidths 2G (GSM) for the exploitation of SMP, in the inland of São Paulo, service areas II and III, for the renewable term of 15 years. The amortization is calculated for the term of 15 years as stipulated in the authorization and required a total investment of R$127. On September 3, 2008, Oi paid 10% of the offered amount and liquidated the other 90%, without correction, on September 10, 2008.

Due to the buy of TNCP, which holds 74.96% of Amazônia's shares, which disclosure by Anatel occurred on April 3, 2008, the authorization's balance for the providing of services of this subsidiary, in the amount of R$2,727, has been impaired against income, due to the return of the authorization s to Anatel , see note 1.

(ii) This goodwill relates to the acquisitions made by Telemar, on : (i) April 3, 2008, when acquiring TNCP's control with holding of 19.34% of total capital; (ii) August 19, 2008, in the voluntary OPA auction for preferred shares; (iii) and also by means of acquisitions made after the OPA (see note 1 for more detail). The goodwill is justified by the expectation of future profitability in ten years, period in which this goodwill is amortized.

(iii) On December 17, 2007, Oi acquired the part separated by Paggo for the amount of R$75, generating goodwill in the amount of R$ 81, which is justified by the expectation of future synergy gains (including client base) of the Company and Paggo. Under Brazilian GAAP, this goodwill is amortized and recognized in income over a period consistent with the period over which the expectation is to incur gain, which is ten years.

(iv) The goodwill relating to Telemar's acquisitions realized in: (i) October 22, 2008, in the auction of the voluntary OPA for Amazônia's preferred shares; (ii) and by means of acquisitions made after the OPA (see note 1 for more detail). The goodwill is justified by the expectation of future profitability in ten years, period in which this goodwill is amortized

Management regularly reviews the goodwill amounts for any indicators of impairment. The amounts of the cash generating units are determined based on calculations of value in use. In 2008 there were no indices of any impairment of goodwill, formed by expectations of future profitability.

18 Deferred charges

These amounts correspond to expenses incurred by certain subsidiaries during their pre-operational phase and are being amortized based on economic feasibility studies. The amortization period is estimated at ten years for Oi Internet and Oi, at five years for Paggo.

Consolidated deferred charges can be broken down as follows:

	2008	2007
Interest expenses	334	343
Third-party services	263	223
Rental and insurance	59	30
Personnel	55	48
Materials (mainly handsets)	35	31
Revenue from the sales of handsets	(23)	(20)
Others	27	5
Accumulated amortization	(4170)	(363)
	333	297

The balances per subsidiary can be summarized as follows:

	Cost	Accumulated amortization	2008 net	2007 net
Oi	744	(415)	329	283
Oi internet	4	(2)	2	3
Paggo	3	(1)	2	2
AIX	—	—	—	9
	751	(417)	333	297

In 2008 Oi had new pre-operating costs relating to the new operations in Region III (São Paulo), started on October 24, 2008, when those costs started to be amortized.

19 Loans and financing

	Draw down date	Maturity	Financial charges	Parent company		Consolidated	
				2008	2007	2008	2007
(a) Local currency							
Banco Itaú S.A.(i)(ii)	08/2008	02/2010	CDI + 1.6% p.a.	5,600	—	5,600	—
Banco do Brasil(iii)	05/2008	05/2016	CDI + 1.3% p.a.	4,300	—	4,300	—
BNDES(iv)	11/2006	06/2014	TJLP (*) + 2.50 % p.a. /4.50% p.a.	1,985	1,514	1,985	1,514
BNDES	09/2004	10/2012	TJLP + 4.50% p.a.	367	462	367	462
BNDES(v)	07/2007	01/2015	TJLP + 4.50% p.a.	—	—	468	440
BNDES	12/2003	01/2011	TJLP + 4.50% p.a.	166	245	166	245
BNDES	07/2005	08/2013	TJLP + 3.50% p.a. / 4.50% p.a.	57	69	57	69
BNDES	12/2000	01/2008	TJLP + 3.85% p.a.	—	36	—	36
BNDES	12/2005	12/2013	TJLP + 4.50% p.a.	19	23	19	23
BNB	06/2004	12/2014	10.5% p.a.	142	174	142	174
Financial lease				22	42	22	42
Other				—	—	35	19
With subsidiaries			104% of CDI	91	58	91	—
Financial charges				597	9	607	19
			Total in local currency	13,341	2,632	13,859	3,043

(*) "Taxa de Juros de Longo Prazo — TJLP" (long-term interest rate)

	Draw down date	Maturity	Financial charges	Parent company 2008	Parent company 2007	Consolidated 2008	Consolidated 2007
(b) Foreign currency							
United States Dollar:							
FINNVERA(vi)	08/2008	12/2018	LIBOR + 1.07% p.a.	448	—	448	—
FINNVERA	02/2003	02/2012	LIBOR + 0.29% p.a.	164	159	164	159
FINNVERA	11/2004	11/2010	LIBOR + 0.76% p.a.	66	75	66	75
NIB(vii)	07/2008	07/2015	LIBOR + 1.18% p.a	351	—	351	—
NIB(vii)	07/2008	07/2018	LIBOR + 0.80% p.a	234	—	234	—
NIB	03/2003	02/2012	LIBOR + 0.75% p.a	31	30	31	30
NIB	11/2004	11/2010	LIBOR + 0.76% p.a	27	30	27	30
ABN AMRO Bank N.V.	08/2001	08/2009	LIBOR (*) + 0.25% p.a. to 0.76% p.a.	224	233	224	233
ABN AMRO Bank N.V.	01/2004	04/2009	LIBOR + 3.0% p.a. to 4.83% p.a	93	89	93	89
ABN AMRO Bank S.A.	09/2005	09/2008	5.45% p.a.	70	107	70	107
ABN AMRO Bank S.A.	02/2006	01/2009	5.40% p.a.	32	24	32	24
ABN AMRO Bank S.A.	06/2005	12/2010	5.51% p.a.	28	33	28	33
ABN AMRO Bank S.A.	06/2005	05/2008	5.05% p.a.	—	53	—	53
ABN AMRO Bank S.A.	12/2005	11/2008	5.43% p.a.	—	35	—	35
ABN AMRO Bank S.A.	10/2005	10/2008	5.28% p.a.	—	27	—	27
KFW	02/2003	08/2012	LIBOR + 0.22% p.a.	76	72	76	72
KFW	07/2002	01/2011	LIBOR + 0.5% p.a. to 2.0% p.a.	42	55	42	55
Bank of Tokyo — Mitsubishi	01/2004	01/2009	10% p.a.	—	—	93	—
Société Générale / Coface	02/2003	11/2012	LIBOR + 0.22% p.a.	54	52	54	52
Société Générale / Natexis	12/2004	10/2009	LIBOR + 1.95% p.a.	20	30	20	30
BSB(**)	04/2005	04/2008	5.9% p.a.	—	22	—	22
Japanese Yen:							
Citibank Tokyo(viii)	09/2007	09/2017	Japanese interbank rate + 0.48% p.a.	1,077	661	1,077	661
Currency basket BNDES:							
BNDES	12/2003	01/2011	BNDES variable rate + 4.50% p.a.	31	35	31	35
BNDES	12/2000	01/2008	BNDES variable rate + 3.85% p.a.	—	8	—	8
Financial charges				33	51	37	51
			Total in foreign currency	3,101	1,881	3,198	1,881
			Balance of foreign currency swap operations	278	777	313	777
			Total loans and financing	16,720	5,284	17,370	5,701
			Current	3,424	1,313	3,604	1,338
			Long-term	13,296	3,971	13,766	4,363

(*) London Interbank Offered Rate — LIBOR
(**) Banco Santander do Brasil S.A. — BSB

(a) Changes in balance of loans and financing during the fiscal years ended December 31, 2008 and 2007

Year	Initial Balance	Financial leases	Additions	Amortization	Financial charges	Final balance
2008	5,701	22	11,498	(1,728)	1,877	17,370
2007	5,442	42	1,873	(2,091)	435	5,701

The average annual interest rate on local currency debt, which amounted to R$8,259 as of December 31, 2008 (2007 — R$3,001), is 14.2% p.a. (2007 — 10.5%). The average annual interest rate charged for foreign currency debt, which totaled R$3,198 on that same date (2007 — R$1,881), is 4.1% p.a. (2007 — 5.9%) for funds obtained in U.S. dollars, 1.5% p.a. (2007 — 1.6%) for funds denominated in Japanese Yen and 8.8% p.a. (2007 — 11.0%) for funds obtained through "Banco Nacional de Desenvolvimento Econômico e Social — BNDES" (national bank for economic and social development) currency basket. Financial charges on debt are basically composed of interest and monetary and exchange variations, net of results of swap operations.

(b) Description of principal loans and financing

(i) In August 2008, Telemar realized the issue of R$ 3,600 in promissory notes having in mind the acquisition of the indirect control of BrT Part and BrT and other related items as disclosed in the Relevant Fact as released by the Company on April 25, 2008. This issue has been coordinated by the banks: Banco Itaú BBA S.A. (coordinator leader), Banco Santander S.A., Banco Bradesco BBi S.A. and Banco ABN AMRO Real S.A. The contracted coordinators were: Banco Safra de Investimento S.A., ING Bank N.V., Banco do Nordeste do Brasil S.A., Banco Alfa de Investimento S.A. e Banco Tokyo-Mitsubishi UFJ Brasil S.A. All together, 144 promissory notes have been issued, in one single series, with a nominal value of R$25 per note. The operation has been contracted for a period of two years and interest will only be paid as of the second year and the principal amount will not be amortized, but rather paid back in full at maturity. The interest rate to be applied is de CDI rate plus 1.6% per year.

(ii) In December 2008, Telemar realized the issue of R$ 2,000 in promissory notes having in mind the acquisition of the indirect control of BrT Part and BrT and other related items as disclosed in the Relevant Fact as released by the Company on April 25, 2008. This issue has been coordinated by the banks: Banco Bradesco BBi S.A. (coordinator leader), Banco Itaú BBA S.A. and Banco Santander S.A. All together, 80 promissory notes have been issued, in one single series, with a nominal value of R$25 per note. The operation has been contracted for a period of one year at an interest rate of the CDI rate plus 3.0% per year.

(iii) In May 2008, Telemar funded R$4,300 with Banco do Brasil, having in mind the acquisition of the indirect control of BrT Part and BrT and other related items as disclosed in the Relevant Fact as released by the Company on April 25, 2008. Maturity of the interest payments will be half-yearly, from May 2010 until May 2016. The principal amount will be amortized in seven annual instalments as of May 2010.

(iv) In November 2006, Telemar signed a contract for financing from the BNDES, amounting to R$ 1,971, and drew down R$ 810 to finance the expansion and technological upgrading of Telemar's fixed telecommunications network, scheduled to be carried out over the period 2006 to 2008. In September 2007, Telemar drew down a further R$ 700. Financial charges are due on a quarterly basis up to June 2009, from which time payments will be monthly, between July 2009 and June 2014. The principal will become due on a monthly basis, as from July 2009.

(iv) In July 2007, Oi closed a financing contract with the BNDES, amounting to R$ 467, and drew down R$ 290 in that same month and R$ 150 in October, to finance the expansion and technological upgrading of its

mobile telecommunications network, scheduled to be carried out between 2006 and 2008. The financial charges come due on a quarterly basis, until January 2010, becoming monthly for the period February 2010 to January 2015. The principal will be payable on a monthly basis, as from February 2010.

(vi) In June 2008, Telemar signed a financing contract with Finnish Export Credit in the amount of US$300 with the objective to finance part of the investments for the year 2008. The disbursements will be made when the investments will occur. During the year, a disbursement in the amount of R$140 (US$87) was made in August 2008 and another one, in the amount of R$258 (US$105), in December 2008. The maturity of interest payments will be half-yearly, from December 2008 until December 2018. The principal amount will be amortized in seventeen half-yearly instalments as of December 2010. The average financing expense is LIBOR plus 1.07% per year.

(vii) In July, 2008, Telemar signed a financing contract with Nordic Investment Bank in the amount of R$398 (US$250) with the objective to finance part of the investments for the year 2008. The disbursement took place on July 17, 2008, and the maturity of interest payments will be half-yearly, from January 2009 until July 2018. The principal amount will be amortized in seventeen half-yearly instalments as of July 2010. The average financing expense is LIBOR plus 0.95% per year.

(viii) In September 2007, Telemar obtained a syndicated loan of R$ 664 (US$ 360), to finance the expansion and technological upgrading of its wireline network. This international facility was put together by a consortium of banks, led by Citibank Tokyo and the Sumitomo Mitsui Banking Corporation. The Japan Bank for International Cooperation (JBIC — the Japanese Development Bank) is the guarantor. The Mizuho Corporate Bank, Bank of Tokyo-Mitsubishi UFJ and the Tokyo branches of Societé Générale, Banco Bilbao Vizcaya Argentaria and ING Bank N.V also participated in the consortium.

(c) Guarantees

The BNDES loans have guarantees in receivables from Telemar and Oi and the endorsement of TNL and Telemar. The BNB S.A. loans have guarantees in receivables from Telemar and the endorsement of TNL.

(d) Financial lease

The liabilities resulting from the financial lease contracts have maturities from 36 to 60 months and are recorded by their present value. The financial expenses, which refer substantially to the variation in the CDI rate, are recorded in income during the term of the lease.

(e) Covenants

The loan contracts with BNDES from Telemar and its subsidiary Oi require financial indices, like : (a) capitalization index (Shareholders' equity divided by total assets); (b) EBITDA divided by net revenues; (c) Total financial debt divided by EBITDA; (d) EBITDA divided by financial expenses; and (e) Short term debt less cash and cash equivalents divided by EBITDA. On December 31, 2008 indices (a) and (b) were not attained. However, in February 2009, the BNDES revoked this right, taking away this requirement from the companies.

The other loan and financing contracts have financial restriction clauses, like: (a) Total financial debt divided by EBITDA; (b) EBITDA divided by financial expenses; (c) capitalization index (Shareholders' equity divided by total assets); (d) Short term debt less cash and cash equivalents divided by EBITDA; and (e) Net Equity.

The maturity of long-term debt with third parties has been scheduled as follows:

	Parent company				Consolidated			
	2008	%	2007	%	2008	%	2007	%
In local currency								
2009	—	—	448	11.3	—	—	398	9.1
2010	5,270	39.6	528	13.3	5,357	38.9	610	14.0
2011	1,253	9.4	454	11.4	1,347	9.8	542	12.4
2012	1,129	8.5	420	10.6	1,223	8.9	508	11.7
2013	1,035	7.8	327	8.2	1,129	8.2	415	9.5
2014 and thereafter	2,053	15.4	163	4.1	2,155	15.7	259	5.9
	10,740	80.7	2,340	58.9	11,211	81.5	2,732	62.6
In foreign currency								
2009	—	—	406	10.2	—	—	406	9.3
2010	376	2.8	212	5.3	376	2.7	212	4.9
2011	509	3.8	152	3.8	509	3.7	152	3.5
2012	331	2.5	124	3.1	331	2.4	124	2.8
2013	271	2.0	78	2.0	271	2.0	78	1.8
2014 and thereafter	1,035	7.9	311	7.9	1,035	7.5	311	7.1
	2,522	19.0	1,283	32.3	2,522	18.3	1,283	29.4
In derivatives								
2009	—	—	278	7.0	—	—	278	6.4
2010	34	0.3	38	1.0	34	0.2	38	0.9
2011	(9)	—	23	0.6	(9)	(0.1)	23	0.5
2012	8	—	9	0.2	8	0.1	9	0.2
2013	—	—	—	—	—	—	—	—
2014 and thereafter	—	—	—	—	—	—	—	—
	33	0.3	348	8.8	33	0.2	348	8.0
Total								
2009	—	—	1,132	28.5	—	—	1,082	24.8
2010	5,680	42.7	778	19.6	5,767	41.8	860	19.8
2011	1,753	13.2	629	15.8	1,847	13.4	717	16.4
2012	1,468	11.0	553	13.9	1,562	11.4	641	14.7
2013	1,306	9.8	404	10.2	1,400	10.2	493	11.3
2014 and thereafter	3,089	23.3	475	12.0	3,190	23.2	570	13.0
	13,296	100.0	3,971	100.0	13,766	100.0	4,363	100.0

20 Authorizations payable

	2008		2007	
	current	Long-term	current	Long-term
Right of use Oi — 3G(i)	113	795	—	—
Right of use Oi — 2G(ii)	—	—	118	—
Right of use Oi — (iii)	33	98	29	114
Right of use Amazônia(iv)	4	11	3	13
	150	904	150	127

The above corresponds to the amounts payable to Anatel for the radio frequency licenses and the authorizations to provide the SMP services, as obtained at the auctions.

(i) The terms of the authorization for the right of use of the radio frequencies for the range 3G to provide the SMP services in Regions I and III of the PGA (see note 18) were signed on April 29, 2008, for the total amount of R$867. On April 28, 2008, Oi disbursed 10% of the offered amount, recording the remaining amount as a liability, with final maturity in 2016. This liability is being restated for the "Índice do Setor de Telecomunicações -IST " (index for the telecommunications sector) plus 1% per month.

(ii) The terms of the authorization for the right of use of the radio frequencies for the range 2G (GSM) to provide the SMP services in São Paulo and band enlargement in some of the states in Region I of the PGA (Amazonas, Amapá, Pará, Maranhão, Roraima, Bahia, Espirito Santo, Sergipe, Alagoas, Paraiba, Piauí e Rio Grande do Norte) (see note 18) were signed on December 7, 2007, for the total amount of R$131. On December 7, 2008, Oi disbursed 10% of the offered amount and paid of the remaining 90%, without restatement, on September 10, 2008, according to the clauses of the contract.

(iii) For the terms of the authorization for the right of use of the radio frequencies for the contracts signed in July 2003 and January 2004, Oi paid 10% of the contractual amount, when the contract was signed, recording the remaining amount as a liability, with final maturities in 2011 and 2012, respectively. This liability is being restated for the IGP-DI plus 1% per month.

(iv) Refers to the amounts payable to Anatel for the licenses of radio frequencies and the authorizations to provide the SMP services, as obtained through the auctions. Amazônia executed the payment of 10% of the contractual value for the contracts signed in 2004, upon signing them, recording the remaining part as a liability, separated in current and long-term, with final maturities in 2012. This liability is being restated for the IGP-DI plus 1% per month.

21 Taxes other than on income

	Parent company				Consolidated			
	2008		2007		2008		2007	
	Curto prazo	Longo prazo	Curto prazo	Longo prazo	Curto prazo	Longo prazo	Curto prazo	Longo prazo
Value-added tax (ICMS)(i)	173	—	266	—	364	—	444	—
ICMS — Agreement 69/1998(ii)	—	98	—	77	—	100	—	77
PIS and COFINS	73	—	74	—	113	—	99	—
Federal income tax payable	161	—	418	—	310	—	498	—
Social contribution payable	65	—	213	—	141	—	250	—
Deferred income tax and social contribution — Law 8,200/1991	11	—	11	—	11	—	11	—
Other taxes payable	26	—	24	—	34	—	34	2
Total	509	98	1,006	77	973	100	1,336	79

(i) A variety of municipal, state and federal taxes are levied on telecommunications services, the main one being ICMS, which is charged by the states at differing rates. The ICMS rate for Rondônia is 35%; it is 30% for the states of Pará, Paraíba, Mato Grosso and Rio de Janeiro; 29% for Goiás and Mato Grosso do Sul; 28% for Pernambuco; 27% for Bahia, Ceará, Rio Grande do Norte, Sergipe, Paraná and Alagoas. For all the other states, the ICMS rate is 25%.

(ii) The amount is presented net of judicial deposits in the consolidated amount of R$160 (2007 — R$146).

22 Tax Financing Program

Telemar and its subsidiary Oi have both adhered to "Parcelamentos Especiais — PAES" (tax refinancing program) (also known as "Programa de Recuperação Fiscal II -REFIS II" (also tax refinancing program), governed by Law nº 10,684/2003, with the registration of a substantial portion of the debt to the "Fazenda Nacional" (National Treasury) and the INSS that was due up to February 28, 2003.

According to provisions of Article 7 of aforementioned law, the Company must maintain regular payment of the installments under the REFIS II, and may be excluded from the program in the event of late payment in three consecutive months or in six alternating months.

The refinancing has been scheduled over 120 months and the amounts of R$123 (2007 — R116) were settled on time during the year ended on December 31, 2008, in compliance with the provisions of CVM Instruction nº 346/2000, which address the prompt meeting of the payments as an essential requirement for sustaining the conditions provided for under the REFIS II.

The amounts covered by the REFIS II are as follows:

	Parent company				Consolidated			
	2008		2007		2008		2007	
	Current	Long-term	Current	Long-term	Current	Long-term	Current	Long-term
COFINS	74	221	69	307	74	224	70	310
CPMF	26	79	25	110	27	80	25	110
IRPJ	14	39	13	54	14	39	13	54
CSSL	4	17	4	23	4	17	4	23
INSS — SAT	3	16	3	19	3	16	3	19
IOF	4	11	4	15	4	11	3	16
PIS	1	2	1	3	1	2	1	3
	126	385	119	531	127	389	119	535

A breakdown of the REFIS II amounts, showing principal, fines and interest, is presented below:

	2008				2007
	Principal	Fines	Interest	Total	Total
COFINS	215	21	62	298	380
CPMF	76	8	22	106	135
Corporate income tax	29	7	17	53	67
Social contribution	12	3	7	22	27
INSS — SAT(*)	11	2	6	19	22
IOF	10	1	4	15	19
PIS	2	—	1	3	4
	355	42	119	516	654

(*) "Seguro de Acidente de Trabalho — SAT" (workplace accident insurance).

These amounts are monetarily adjusted according to the variations of the TJLP, in the amount of R$39 (2007 — R$44) being recognized as "Interest expenses" for the fiscal year ended on December 31, 2008 (see Note 9).

As of December 31, 2008, the payment flows through the REFIS II, adjusted to present value at the rate of 12% per year (forecast average rate of remuneration), for the remaining five years and five months, totaled R$525.

Faced with the undue classification, by the SRF and the "Procuradoria Geral da Fazenda Nacional — PGFN" (office of the chief attorney for national treasury), of debts under the PAES program, Telemar felt obliged to file a lawsuit in order to prove its good standing with regard to payment of the installments under the program, as well as to correctly attest to debts that were included in that program. In the event that the REFIS II debt is recalculated without including the benefits provided for in Law nº 10,684/2003, the amount of the long-term debt, totaling R$4, will be transferred to current liabilities.

23 Provisions for contingencies

(a) Composition of book value

		Parent Company		Consolidated	
		2008	2007	2008	2007
	Tax(d)(1)				
(i)	ICMS assessments	264	309	376	389
(ii)	FUST	115	79	115	79
(ii)	Funttel	63	45	64	45
(iii)	ISS(*)	54	49	55	49
(iv)	ILL(**)	46	43	46	43
	INSS	29	50	30	50
(v)	Tax loss carry-forwards	—	54	—	54
(vi)	Other claims	49	77	54	78
	Linked judicial deposits(****)	(159)	(135)	(178)	(151)
		461	571	562	636
	Labor(d)(2)				
(i)	Overtime	209	191	210	192
(ii)	Salary differences/Equalization of salary scales	156	126	157	126
(iii)	Indemnities	110	89	111	89
(iv)	Hazardous work conditions premium	98	78	99	78
(v)	Labor fines	67	81	67	82
(vi)	Claims by outsourced personnel	62	60	64	63
(vii)	Fees for legal council and expert opinions	49	41	50	41
(viii)	Contractual rescissions	41	23	41	23
(ix)	Additional post-retirement benefits	39	32	39	32
(x)	FGTS(***)	18	15	18	15
(xi)	Actual employment	16	14	16	15
(xii)	Other claims	62	59	63	59
	Linked judicial deposits(****)	(327)	(233)	—	—
		600	576	935	815
	Civil(d)(3)				
(i)	Anatel estimates	345	298	352	303
(iii)	Anatel fines	79	65	81	68
(ii)	Small claims courts	60	73	77	81
(iv)	Other claims	278	266	285	273
		762	702	795	725
	Total	1,823	1,849	2,471	2,327

(*) ISS — "Imposto Sobre Serviços" (tax on services)
(**) ILL — "Imposto sobre o Lucro Líquido" (tax at source on net income)
(***) FGTS — "Fundo de Garantia do Tempo de Serviço" (guarantee fund based on time of service),
(****) According to CVM Deliberation n°489/2005

In accordance with the terms of the respective legislation, provisions for legal contingencies are monetarily adjusted on a monthly basis, using the following interest rates:

Tax: Variation of the "Sistema Especial de Liquidação e Custódia — SELIC" interest rate;

Labor: Variation of the "Tribunal Regional de Trabalho — TRT" (regional labor court) interest rate, plus interest of 1% per month;

Civil: Variation of the "Taxa Referencial — TR" (reference rate) interest rate, plus monthly interest (0.5% up to January 9, 2003 and 1% as from January 10, 2003).

(b) Breakdown of the claims according to level of risk at December 31, 2008 and 2007

	2008			
	Tax	**Labor**	**Civil**	**Total**
Probable	741	935	795	2,471
Possible	7,128	395	1,131	8,654
Remote	1,152	738	391	2,281
Total	9,021	2,068	2,317	13,406

	2007			
	Tax	**Labor**	**Civil**	**Total**
Probable	787	815	725	2,327
Possible	5,345	387	1,093	6,825
Remote	692	684	375	1,751
Total	6,824	1,886	2,193	10,903

(c) Summary of changes in the balances of the provisions for contingencies

	Parent company			
	Tax	**Labor**	**Civil**	**Total**
December 31, 2006	**600**	**920**	**536**	**2,056**
Adições, líquidas de reversões	101	(68)	280	313
Baixas por pagamento	(103)	(238)	(156)	(497)
Atualização monetária	37	(7)	42	72
Depósitos judiciais vinculados	(64)	(31)	—	(95)
December 31, 2007	**571**	**576**	**702**	**1,849**
Adições, líquidas de reversões	(37)	146	153	262
Baixas por pagamento	(20)	(170)	(130)	(320)
Atualização monetária	(28)	142	37	151
Depósitos judiciais vinculados	(25)	(94)	—	(119)
December 31, 2008	**461**	**600**	**762**	**1,823**

	Consolidated			
	Tax	**Labor**	**Civil**	**Total**
Balance at December 31, 2006	673	924	555	2,152
Additions, net of reversals	104	(68)	299	335
Write downs due to settlement	(105)	(238)	(171)	(514)
Monetary correction (Note 9)	45	(7)	42	80
Linked judicial deposits	(81)	(31)	—	(112)
Balance at December 31, 2007	636	582	725	1,944
TNCP acquisition	28	2	4	34
Additions, net of reversals(i)	(34)	146	177	289
Write-downs due to settlement	(22)	(170)	(149)	(341)
Monetary correction (Note 9)	(18)	142	38	162
Linked judicial deposits	(27)	(94)	—	(121)
Balance at December 31, 2008	562	605	795	1,962

(i) Total additions in the period, net of reversals, amounting to R$287, comprise provisions for legal contingencies, in the amount of R$247 (see Note 8), and the amounts shown in the table below, totaling R$41. During the fiscal year ended on December 31, 2008, management updated its estimate for calculating losses in relation to labor claims, basing the updated calculation on the record of payments already made. This change resulted in a reversal against the provision for legal contingencies, in the amount of R$407, with R$264 recorded under "Other operating expenses — provisions for legal contingencies and reversals" (Note 8), and R$143 under "Interest expenses, net — monetary correction of provisions for legal contingencies" (Note 9).

The amounts of provisions in relation to ICMS on leasing of Internet Protocol — IP gateways, "Instituto Nacional de Colonização e Reforma Agrária — INCRA" (national institute for agricultural colonization and reform), FUST, Funttel and an ICMS power consumption credit are recorded in the respective accounts for these charges, as shown below:

	Parent company		Consolidated	
	2008	**2007**	**2008**	**2007**
Payroll expenses:				
INCRA	—	(1)	—	(1)
Other operating expenses:				
FUST	(25)	(17)	(25)	(10)
Funttel	(14)	(13)	(14)	(13)
ICMS credit on electricity	(2)	(2)	(2)	(2)
	(41)	(33)	(41)	(26)

(d) Provisions for probable losses

Tax:

(i) ICMS — Refers to a provision that is considered by management to be sufficient to cover the various tax assessments in relation to: (a) insistence on levying ICMS, instead of ISS, on certain revenues; (b) offsetting and appropriation of credits on acquisition of goods and other inputs required for network maintenance; and (c) assessments relating to non-compliance with obligations regarding access.

(ii) FUST e FUNTTEL — This provision is related to the change in calculation basis for the FUST according to Anatel docket n° 7 (which no longer permitted the exclusion of expenses relating to EILD and interconnection from the calculation basis, nor retrospectively). Telemar considers (supported by the opinion of "Associação Brasileira das Empresas de Telefonia Fixa — ABRAFIX" (Brazilian association for fixed-telephone companies), requesting the suspension of this standard and is still depositing judicially the differences as determined.

(iii) Compensation of tax loss carry forwards — Telemar has a judicial injunction questioning the compensation of tax loss carry forwards, when determined in base years before 1998, and also, base don 100% of tax income. The reduction of the provision has been executed, having in mind that changes of losing the cause are possible.

(iv) ISS — Telemar maintains provisions for tax injunctions relating to questionings on the charge of ISS on certain services, like equipment rental, added value, technical and administrative. The provisioned amount reflects the part of the causes which the legal counsel rates as possible.

(v) ILL — Telemar compensated the amounts of ILL as withheld until base year 1992, based on decisions from the STF regarding the fact of this tax being against the constitution. However, although the discussion is already being with the superior tribunal of justice, a provision is maintained because there is still no final ruling about the financial restatement of the amounts involved.

(vi) Other claims — Refer substantially to provisions for tax claims for IPTU in the amount of R$10 (2007 — R$10), several tax claims relating to charging of income tax and social contribution in the amount of R$9 (2007 — R$39) and questionings regarding the contributions to the "Fundo Nacional de Desenvolvimento da Educação — FNDE" (national fund for development of education) in the amount of R$16 (2007 — R$14).

Labor:

(i) Overtime — Claims relating to demands for overtime payments, for work done outside normal working hours.

(ii) Salary differences / Equalization of salary scales — Largely represents amounts arising from pay differences among employees in relation to claims for equal pay/reinstatement, by those whose receive less pay for doing an identical job, in association with other requirements provided for in the applicable legislation.

(iii) Indemnities — The indemnities correspond to demands for reimbursement or compensation for losses incurred during the validity of the employment contract, due to a variety of reasons, among which one may cite: work-related accident, provisional job stability, pain and suffering, restoration of payroll deductions, child day-care benefit and productivity bonus provided for in the collective labor agreement.

(iv) Hazardous work conditions premium — refers to claims for employees who execute hazardous work, especially close to high-tension installations.

(v) Labor fines — These are fines as foreseen in the "Consolidação das Leis do Trabalho — CLT" (consolidation of labor laws), for the shortcoming of certain labor subsidies , paid after the established term.

(vi) Claims by outsourced personnel — Claims filed by ex-outsourced personnel and Telemar being liable for the credits which eventually could be due and which will not be liquidated by their former companies, normally due to the closing of those companies.

(vii) Fees for legal counsel and expert opinions — Refers to amounts due to lawyers of winners of claims , including amounts due to appeals of the union which represents this category, as well as payment of experts and assistants.

(viii) Contractual rescission — Refers to amounts due and not liquidated upon the rescission of the employee's contract, including indemnification for the "Plano Incentivo de Rescisaõ Contratual — PIRC" (Incentive plan for contractual rescission).

(ix) Additional post-retirement benefits — Refers to claims for amounts due relating to differences in the pension plans of ex-employees, originating by the integration of other salary amounts due and not considered in the calculation bases for the retirement.

(x) FGTS — Refers to claims relating to differences in the amounts due for deposits in the FGTS fund of the employee and also differences due to the exceptional inflation on FGTS accounts in function of monetary losses generated by the Economic Plans in de decades 80 en 90, as well as the subsequent difference in the payment of the 40% FGTS fine as foreseen when firing employees without a justified reason.

(xi) Actual employment — Refers to claims of ex-outsourced personnel requiring the title of employee of the company, directly, based on the fact that of substance over form.

(xii) Other claims — Refer to several questionings related to requests of re-admission, profit sharing, salary scales, among other.

Civil:

(i) Anatel estimates — The change during the fiscal year ended on December 31, 2008 is largely due to a non-compliance with PGMU and PGMQ obligations.

(ii) Anatel fines — These largely refer to provisions for "Procedimentos de Apuração por Descumprimento de Obrigações — PADO" (procedures to determine failures to meet liabilities) and to the payment of fines arising from failures to meet quality targets under the PGMQ and "Regulamento de Indicadores de Qualidade — RIQ" (regulation of quality indicators).

(iii) Small claims courts — Questions raised by customers, for whom individual indemnification amounts do not exceed the equivalent of forty minimum wages.

(iv) Other claims — These relate to several lawsuits in progress covering rescission of contracts, indemnification of former suppliers and contractors, and expansion plans linked to the issuing of stock, among others.

(e) Possible contingencies (not provided for)

The Company also has a number of proceedings in which expectation of incurring losses is classified as possible, in the opinion of its legal advisors, and for which no provisions for contingencies have been made.

The principal contingencies classified as involving possible losses, in the opinion of the legal advisors, are summarized below:

Tax

ICMS — There have been a number of ICMS tax assessments against Telemar, amounting to R$2,313 (2007 — R$1,751), most notably in regard to two situations: i) the levying of ICMS on certain revenues from services that are already taxed for ISS or that do not form part of the ICMS tax base; and ii) the offsetting of credits in relation to the acquisition of goods and other inputs necessary for network maintenance.

ISS — Assessments relating to the levying of ISS on leasing of equipment, wake-up calls and other communication services, amounting to a total of R$1,369 (2007 — R$1,221), have not been provided for, being considered by the lawyers to represent possible losses, given that these activities are either not subject to the levying of ISS or are already being taxed for ICMS. Furthermore, and strengthening the arguments of the defense, the STF decided, in the fourth quarter of 2001, that ISS should not be levied on leasing of equipment, to which a substantial portion of these assessed amounts are related.

INSS — There are proceedings totaling R$945 (2007 — R$808), mainly relating to joint liability, the applicable percentage of SAT and items liable to incurring social security charges. Notable among these is the questioning of the levying, by the INSS "Notificação Fiscal de Lançamento de Débito NFLD" (tax assessment notification) — in July 2005, of social security contributions on payments in regard to Telemar employee profit sharing, effected under the terms of Law nº 10,101 and Article 7 of the 1988 Federal Constitution. Such items should not form part of the calculation base for this contribution. The amount involved in this assessment comes to R$325 (2007 – R$290).

Federal taxes — There are various tax assessments with regard to federal taxes, mainly relating to alleged failure to pay or to undue compensatory procedures, amounting to R$1,958 (2007 — R$1,031). Based on the opinion of its legal advisors, the Company's management considers that there is a good chance of success in these proceedings, and for this reason has made no provisions for possible losses.

There follows a list of other charges made by the federal authorities:

(i) IRRF, IRPJ, CSLL, PIS and COFINS — Undue disallowances — In August 2000, Telemar was assessed by the Federal Internal Revenue Department of Rio de Janeiro, based on events that occurred in 1996, and therefore prior to the privatization, for a total of R$ 994. Of the aforementioned sum, R$ 51 was registered under the REFIS II program. After the final decision, the remaining amount, which is being legally questioned and for which the maximum risk level is considered to be possible, totals R$ 92 (2007 — R$ 82).

(ii) PIS and COFINS — Undue disallowances — On June 30, 2006, Telemar received a tax assessment from the SRF, for the sum of R$ 760 (2007 — R$ 677), in relation to a number of disallowances of exclusions from the PIS and COFINS calculation bases, due to the inspectors failing to consider information contained in "Declaração de Débitos e Créditos Tributários Federais retificadoras — DCTF" (rectified federal tax returns) when calculating the due amounts, and inaccuracies on the part of the inspectors in comparison of the specified PIS and COFINS against the DCTFs. Telemar has compiled the documentary evidence to sustain the accuracy of its own calculations and payments and, based on the opinion of its legal advisers, management considers the risk of incurring losses in this case to be possible.

A partially favorable decision has been obtained in the lower court, which is still provisional, leading to a reduction of R$ 432 (2007 — R$385), in the amount assessed, and Telemar has appealed against the unfavorable part of the decision. Given that the reduction is a consequence of the identification of errors committed, Telemar's management believes that liability for this reduced portion should be considered remote, with the remaining balance considered possible.

(iii) Fine — "Imposto de Renda Retido na Fonte — IRRF" (withholding tax) on loan — Assessment of December 2008 — The taxation authorities fined Telemar the R$195 (2007 — R$160) for not having deducted corporate income tax at source (in the calendar years 2002 and 2003) on gains arising from loan agreements with the TNL.

The Company had a favorable decision, reducing the amount of the claim by R$74, and after presentation of more evidence is awaiting the second ruling. The possibility of loss for the reduced amount is considered remote by the Company's legal counsel, remaining an amount of R$121 as possible.Telemar's legal advisors believe there are strong arguments for the defense, since, in addition to part of the amount in question having already lapsed (R$ 74), said retention was waived by Article 77, clause II of Law nº 8,981/95, which was only later revoked by Law nº 10,833/2003.

Labor:

These relate to questions regarding various claims in relation to pay differences, overtime, risk premium and joint liability, among others, amounting to a total of around R$ 395 (2007 — R$ 387), which are mainly before lower courts and for which no ruling has been handed down regarding the merits of these cases.

Civil:

These refer to lawsuits in relation to which no judicial ruling has been handed down, the principal objectives of which are associated with issues regarding network expansion plans, indemnification for pain and suffering and material damages, collection proceedings, and tendering processes, among others. These issues are represented by more than 22,530 lawsuits (2007 — 24,490), amounting to a total value of R$ 1,131 (2007 — R$ 1,093).

This total is based, exclusively, on amounts claimed by plaintiffs (which are typically exaggerated), and final judicial decisions are still pending.

24 Debentures

At an Ordinary General Stockholders' Meeting, held on March 7, 2006, approval was given for a public issue by Telemar of 216,000 (two hundred and sixteen thousand) simple, non-convertible debentures, in two series, at a nominal unit value of R$ 10,000.00, making a total of R$ 2,160. The issue date was set for March 1, 2006, with the placement date on March 27, 2006. The maturity of the 1st series is five years and of the 2nd series is seven years, from the issue date, and remuneration is equivalent to 103% p.a. of the CDI rate, for the 1st series, and the CDI rate plus a spread of 0.55% p.a. for the 2nd series. Interest recorded under current liabilities, at December 31, 2008, amounting to R$ 98 (2007 — R$ 76), is amortized half-yearly, the latest due date being September 1, 2007 and the next falling due on March 1, 2008. Telemar's Board of Directors approved this operation on March 15, 2006.

At an Ordinary General Stockholders' Meeting, held on April 17, 2007, approval was given for a private issue by Telemar of 5,400 (five thousand, four hundred) simple, non-convertible debentures, in up to five series, at a nominal unit value of R$ 10,000.00, making a total of R$ 54, with a view of financing the expansion of the mobile telephone services in a variety of locations within the state of Minas Gerais ("Projeto Minas Comunica"). The indenture was signed on December 18, 2007 and subscription to the 1st series, to the sum of R$ 11, took place on December 28th. The final maturity of these debentures is on July 5, 2021, with partial amortization in 2018, 2019 and 2020. The debentures are to be remunerated according to the "Índice de Preços ao Consumidor — Amplo — IPC-A"(consumer inflation index) + 0.5% per year and the interest has been recorded as long-term liabilites in the amount of R$2 (2007 — R$0).

At an Ordinary General Stockholders' Meeting, held on December 9, 2008, approval was given for a private issue by Telemar of 35,000 (thirty-five thousand) simple, non-convertible debentures, in one single series, at a nominal unit value of R$ 100,000.00, making a total of R$ 3,500, which upon demand, an be increased by 20%. The term for subscription is up to 3 years and the funding will be used for corporate purposes of the Company. On December 11, 2008, the contract was signed and the subscription executed by holding TNL, in the amount of R$1,500, occurred on the same day. The final maturity of the debentures is December 11, 2013, without intermediate amortizations. The debentures are remunerated by the CDI plus4.0% per year and interest is recorded as long-term liability in the amount of R$13 in the period ended December 31, 2008.

25 Stockholders' equity

a) Capital stock

Telemar's authorized capital is represented by 700 million shares. At an Extraordinary General Stockholders' Meeting held on January 4, 2008, approval was given for the conversion of 47 thousand of the Company's preferred class B shares into 47 thousand preferred class A shares, according to a note to the shareholders' as released on June 21, 2007.

The subscribed capital amounts to R$ 7,426, with a total of R$ 7,419 fully paid in as at December 31, 2008. The capital stock is represented by:

	In thousands of shares			
	2008	%	2007	%
Common stock	107,063	44.9	107,187	44.4
Class A preferred stock	130,487	54.7	133,417	55.2
Class B preferred stock	1,064	0.4	1,064	0.4
Total	238,614	100.00	241,668	100.00
Treasury stock	(223)		(3,054)	
Total stock outstanding	238,391		238,614	

(b) Capital reserves

Reserve for premiums on share subscription

This represents the difference between the issue price of new stock and the nominal value of the portion allocated to capital stock.

Donations and subsidies for capital expenditure reserve

Although donations and subsidies were received in the past, under the self-financing plan, this balance basically refers to "Fundo de Investimento do Nordeste — FINOR" (Brazilian northeastern investment fund), relating to tax incentives.

As a result of constitutive reports issued by an extrajudicial administrator of the now extinct SUDENE (Superintendency for the Development of the Northeast of Brazil), deriving from the designation established in Ruling nº 370, of May 31, 2002, Telemar became the beneficiary of a reduction in income tax payable on profits

from the telecoms services provided by ten of its sixteen regional offices. The benefits conceded are calculated at the following rates:

For activities relating to the maintenance of the telephone network:

- 25% between January 1, 2004 and December 31, 2008; and
- 12.5% between January 1, 2009 and December 31, 2013.

For activities relating to expansion of the telephone network, benefits are calculated at 75%, effective up to December 31, 2010.

The calculation base for this benefit is the net pre-tax profit, adjusted for equity adjustment gains and losses and net non-operating results, as determined by Law nº 7,959 of December 21, 1989.

This incentive is recorded as a capital reserve, against a reduction in the amount of income tax payable, until December 31, 2007.

Reserve for share-based payment (stock option plans)

Constituted due to the granting and recording of the company's stock option plan, to be liquidated with company shares (see note 27).

Reserve for interest on work in progress

This corresponds to the excess of interest incurred, calculated on a monthly basis at a rate of 12% p.a., on the balances of Telemar's work in progress, as defined in Ruling nº 21 of January 21, 1994 and in Ruling nº 3 of February 25, 1994, issued by the Ministry of Communications. The interest charged at 12% p.a. that exceeds financial expenses on loans to finance this work in progress was recorded in this capital reserve account. This interest was calculated by Telemar up to December 31, 1999.

Special reserve: Law nº 8,200/1991

This reserve was set up in view of the special monetary correction adjustments to fixed assets, the purpose of which was to correct distortions in the monetary correction indices prior to 1991. The reserve is realized based on the depreciation of the fixed assets for which it was set up.

(c) Revenue reserves

Legal reserve

According to Article 193 of Brazilian corporate law, the Company must allocate 5% of its net income for the year to a legal reserve, up to a limit of 20% of capital stock. This allocation is optional in the event that the sum of the legal reserve plus the capital reserves exceeds capital stock by 30%. The legal reserve may be used for a capital increase or for absorbing losses, but may not be distributed in the form of dividends.

Investment reserve

Telemar keeps an investment reserve to cover capital expenditure implemented directly or by extending long term lines of credit to its subsidiaries, as well as to cover their respective capital budgets. These direct and indirect resources have been invested in the expansion of the wireline network, in relation to Anatel's targets for universal telephone access, and in getting Oi established, with a total of R$6.5 billion invested in permanent assets in 2008 (2007 — R$4.2 billion). The expected return on investment is seven years.

Fiscal incentives reserve

According to Article 195-A of Law 11,638/2007, the Company's General Meeting could, by management's proposal, destine to the fiscal incentives reserve , the part of net income resulting from donations and governmental incentives for investments, which can be excluded from the calculation base for compulsory dividends. On December 31, 2008, Telemar constituted the fiscal incentives reserve relating to fiscal incentives in the amount of R$56.

(d) Dividends and interest on stockholders' capital

According to its by-laws, Telemar must pay out a minimum compulsory dividend for each fiscal year, equivalent to not less than 25% of net profit, adjusted in accordance with Article 202 of Brazilian corporate law. Class "B" preferred stock takes priority in the reimbursement of capital, without premium, and in the distribution of dividends, being guaranteed a fixed, non-cumulative dividend of 10% p.a. proportional to capital stock. The remaining amount of the minimum compulsory dividend is allocated to holders of common and class "A" preferred stock, the latter being ensured a dividend value 10% higher than that paid to holders of common stock.

The by-laws also provide for the payment of interest on capital to stockholders. This interest on capital is tax deductible and remuneration is limited to the average TJLP for the period in question, applied to stockholders' equity at the end of the previous fiscal year, and may not exceed (i) 50% of net profit (before considering this distribution and any deduction of income tax) for the period in which the declaration is made, or (ii) 50% of the sum of retained earnings plus revenue reserves, whichever is the greater. The amount paid or designated as interest on capital is considered to be part of the distribution of compulsory dividends. Hence, according to Brazilian corporate law, Telemar is obliged to distribute to the stockholders an amount sufficient to ensure that the net value received, after payment of withholding tax, is at least equal to the minimum compulsory dividend.

At an Extraordinary General Meeting held on April 4, 2008, approval was given for the distribution of interest on capital for the year ended December 31, 2008, amounting to R$900. According a deliberation, and in conformity with a notice to shareholders on July 31, 2008 and on December 18, 2008, the amounts of R$495 and RS150, respectively, were appropriated. These amounts will be restated until December 31, 2008, according to the variations of the CDI rate and adjusted from January 1, 2008 until the start of payments in accordance with the TR.

On August 28, 2008, the Company's Fiscal Counsel approved the distribution of extraordinary dividends, in the amount of R$3,896, payable from retained earnings. Payment started at September 19, 2008.

Management proposed to distribute from net income for the period ended December 31, 2008, R$816 in the form of dividends and R$645 in the form of interest on capital, with the total amount of this proposal being higher than the minimum compulsory dividend. For purposes of the calculation base for the determination of interest on capital to distribute, are considered the net IRRF amounts.

	Proposal for the year 2008 in R$		
	Ordinary	PNA	PNB
Interest on capital (historical values)			
July 31, 2008	1.6747	1.8420	1.6747
December 18, 2008	0.5093	0.5602	—
Dividends (historical values)			
August 28, 2008	15.5494	17.1045	3.1149
Proposed on December 31, 2008	3.2593	3.5852	—

At the Ordinary General Meeting held on April 4, 2008, approval was given for the allocation of net income for the year ended December 31, 2007, amounting to R$2,692, increased by the realization of the special reserve for Law 8,200/1991, in the amount of R$2 and dividends and interest on capital prescribed from the year 2003, in the amount of R$9, totaling the amount of R$2,702, as follows: (a) R$1,612 to an investment reserve; and (c) distribution of the remaining R$1,090, with R$329 in dividends and R$761 as interest on capital, payment of which began on April 15, 2008.

	Proposal 2007/R$		
	Common	Preferred "A"	Preferred "B"
Interest on capital — historical values			
December 10, 2007	3.0237	3.3260	3.0237
Dividend proposed — historical values	1.3122	1.4434	0.5418

Minimum compulsory dividends were calculated as follows:

	2008	2007
Net income for the year	1,521	2,692
Fiscal incentive	(56)	—
Adjusted net income	1,465	2,692
Minimum compulsory dividend — 25%	366	673
Proposed dividend	4,712	329
Interest on capital, gross	645	791
Withholding tax on interest on capital	(72)	(108)
Total for distribution to the stockholder's, net of withholding tax	5,285	982

The amounts relating to 2007 are disclosed without considering the effects of Law 11,638/2007.

Minimum statutory dividends were calculated as follows:

	2008	2007
	Preferred	Preferred
Capital stock subscribed	7,426	7,426
Total stock outstanding(*)	238,391	238,614
Total class "B" preferred stock outstanding(*)	1,064	1,064
Calculation basis	33,141	33,110
Minimum compulsory dividend — percentage	10%	10%
Minimum compulsory dividend	3,314	3,311

(*) thousands of shares

Dividends and interest on capital payable by Telemar, shown under current liabilities, are made up as follows:

Base year of the proposal	2008	2007
2008	1,477	—
2007	20	985
2006	13	14
2005	20	20
2004	—	23
	1,530	1,042

(e) Prescribed dividends

This refers to dividends and interest on stockholders' capital that have not been claimed by stockholders, within a period of three years from the date that this remuneration was placed at their disposal.

(f) Treasury stock

On January 7, 2008, Telemar's Board of Directors approved the resumption of its program to repurchase its own stock for subsequent cancellation or holding in treasury, during a period of 365 days from the date of that decision and up to a limit of 284 common shares, 2,616 class "A" preferred shares (TMAR 5) and 106 class "B" preferred shares, representing less than 10% of the outstanding shares in each class, having repurchased until December 31, 2008, 223 class "A" preferred shares.

At an Extraordinary General Stockholders' Meeting, held on January 4, 2008, approval was given to convert 47 class "B" preferred shares into 47 class "A" preferred shares, according to the notice to shareholders as disclosed on June 21, 2007.

At an Extraordinary General Stockholders' Meeting, held on January 4, 2008, approval was given to cancel all these treasury shares until the data of December 31, 2007, being 2,929 class "A" preferred shares, 1 class "B" preferred share and 124 common shares, with a contra-entry in the investment reserve.

Treasury stock has been repurchased using the original funds resources as registered in capital reserves.

26 Financial instruments

The Company's market risk exposure arises mainly from changes in currency exchange rates, since a large part of its debt is denominated in foreign currency, while its revenues are in *Reais*. In order to reduce this risk exposure, the Company uses derivatives such as swap contracts. The Company and Amazônia do not use derivatives for any other purpose.

These transactions are carried out through the Company's treasury department, in line with a strategy that has been previously approved by management.

The Company has as internal policy a limit for the exposure in foreign currency of 12% of Oi group's gross debt. On December 31, 2008, the exposure was 6.54% Oi group's gross debt.

(a) Fair Value of financial instruments

Telemar and its subsidiaries executed a valuation of their assets and liabilities relating to their fair values or the actual realization values, using available information and appropriate valuation techniques for every single situation. The interpretation of the market data relating to the methodology to be chosen requires a considerable amount of judgement and establishment of estimates to come to an amount considered adequate for each situation. Consequently, the estimates as presented could not necessarily represent the amounts obtainable in the current market. The usage of different types of hypotheses to determine the fair value could have a material effect on the amounts obtained.

The method as used to calculate the fair value of the derivatives was the discounted future cash flow method for every single instrument as contracted. The method as used to calculate the fair value of the derivatives relating to the options to by dollars , adopted to record the premium , was Black&Scholes.

For securities negotiable in active markets, the fair value equals the quotation of the last closing operation on the date of the ending of the period, multiplied by the number of securities outstanding. For contracts in which the actual clauses are similar to those in which they originate or do not present parameters for quotation or to contract, the fair values are equal to the book values.

The following are the financial instruments, assets and liabilities:

	2008			
	Parent company		Consolidado	
	Book value	Fair value	Book value	Fair value
Assets				
Cash and cash equivalents	7,819	7,819	8,606	8,606
Financial investments	131	131	1,240	1,240
Accounts receivable	3,133	3,133	3,897	3,897
Liabilities				
Suppliers	1,496	1,496	2,015	2,015
Loans and financing	16,720	16,720	17,370	17,369
Debentures	3,804	3,804	3,804	3,804
Tax refinancing program	511	511	515	515
Dividends and interest on capital	1,530	1,530	1,530	1,530
Authorizations payable	—	—	1,054	1,054
Net equity				
Capital reserve — stock options	61	61	61	61
Treasuru stock	(17)	(12)	(17)	(12)

	2007			
	Parent company		Consolidado	
	Book value	Fair value	Book value	Fair value
Assets				
Cash and cash equivalents	1,975	1,975	2,889	2,889
Financial investments	1,188	1,188	3,192	3,192
Accounts receivable	3,018	3,018	3,278	3,278
Liabilities				
Suppliers	1,418	1,418	1,770	1,770
Loans and financing	5,284	5,283	5,701	5,700
Debentures	2,247	2,247	2,247	2,247
Tax refinancing program	650	650	654	654
Dividends and interest on capital	1,043	1,043	1,043	1,043
Authorizations payable	—	—	276	276
Net equity				
Capital reserve — stock options	29	29	29	29
Treasuru stock	(170)	(156)	(170)	(156)

(b) Foreign exchange risk

Approximately 15% (2007 — 26%) of consolidated debt, including debentures and excluding currency swap operations, is denominated in foreign currency (U.S. dollars, Japanese yen and BNDES basket of currencies).

The sum of the nominal values of currency swaps and foreign currency investments, at December 31, 2008, is US$801 million (2007 — US$633 million) for Telemar and the consolidated figures, providing 59% cover of the foreign exchange risk (2007 — 60%). The financial investments in foreign currency have been realized in foreign investment funds and have immediate liquidity, see note 9. The maturities for swap operations are related to the maturities of the underlying debt sin foreign currencies and the repurchase operations have maturities until January 2009. The Company has foreign exchange risk protection, which includes all installments of the debt in foreign currencies until mid 2011.

All derivatives from Telemar and Amazônia have been contracted with the objective to protect the debt in foreign currencies (hedge).

On December 31, 2008, was recorded as derivative results (note 7) from swap operations a gain of R$56 (2007 — a loss of R$351), from repurchase operations R$70 and from financial investments in foreign currencies a gain of R$27 (2007 — a loss of R$30). Additionally, due to the retro-active application of Law 11,638/2007 to 2007, we determined a loss of R$7.

A summary of the position of these transactions is shown below:

	Parent company							
			Book Value		Fair Value		Accumulated effect	
	Index	Due date	2008	2007	2008	2007	2008 receivable	2008 payable
Cross currency swap US$/ R$(i)								
Asset position	US$ + 3.52% a 10.11%	jan/2009 a nov/2011	1,165	670	1,196	802		
Liability position	85.30% a 113.85% CDI		1,165	670	(1,542)	(1,581)		
Net value					(346)	(779)		(346)
Foreign currencies Iene/ US$(ii)								
Bought position (Iene)	Quotation forward 103.30 a 106.30	Jan/2009	446		516			
Sold position (US$)			446		(446)			
Net value					70		70	
Stock options R$/ US$(iii)(*)								
Bought position of principal								
Foreign currency	USD	Fev/09	234		9		9	

			Consolidated					
			Book Value		Fair Value		Accumulated effect	
	Index	Due date	2008	2007	2008	2007	2008 receivable	2008 payable
Cross currency swap US$/R$(i)								
Asset position	US$ + 0% a10.11%	jan/2009 a nov/2011	1,258	670	1,228	802		
Liability position	75.00% a 113.85% CDI		1,258	670	(1,670)	(1,581)		
Net value					(441)	(779)		(441)
Foreign currencies Iene/US$(ii)	Quotation forward 103.30 a 106.30	Jan/2009	446		516			
Bought position (Iene)			446		(446)			
Sold position (US$) . . .								
Net value					70		70	
Stock options R$/ US$(iii)(*)								
Bought position of principal	US$	Fev/09	234		9		9	

(*) Registered in other current assets.

Contra-entry:

(i) Banks ABN ARNO Real S.A., Citibank S.A., Itaú S.A., Votorantim S.A. and Unibanco – União dos Bancos Brasileiros S.A.,

(ii) Banks Citibank S.A., Banco J Aron and Co, NY (Goldman Sachs).

(iii) Citibank S.A

Currency swap contracts — US$/R$

Telemar and its subsidiaries have engaged in "plain vanilla" currency swap transactions in order to protect the payments on dollar denominated debt. Under these contracts, the company has an asset position in dollars at a predetermined interest rate and a liability position linked to a percentage of the CDI rate. The risk of incurring losses on the asset side of the transaction lies in the variations of the dollar exchange rate against the real, but these potential losses would be fully offset by the flows on the maturity of the dollar debt.

Forward exchange contracts — Yen/US$

Telemar has engaged in forward exchange transactions for the purpose of protecting the payments on the portion of its debt denominated in Japanese yen. Under these contracts, the company has taken a long position in yen and a short position in US dollars. The risk of incurring losses on the long side of these transactions lies in

the variations of the yen exchange rate against the dollar, but these potential losses would be fully offset by the foreign exchange variations on the equivalent portion of the yen denominated debt. Given that the yen/real exchange rate is linked to the dollar, the impact of variations in the dollar exchange rate does not present any additional risk to the company, and therefore a sensitivity analysis of this derivative instrument is not necessary.

Operations with US$

On October 22, 2008, Telemar has engaged in operations where it holds a sold position for US$580 million and a bought position in *Reais*, from the PTAX on October 22, 2008, restated by the CDI until the end of the period. These operations were liquidated in January 2009, without any disbursement by Telemar.

Sensitivity analysis for exchange risk

For the Company, the main market risk, which could result in material losses for the Oi group comes from the part of the debt in foreign currency. For Sensitivity analysis purposes, we considered 3 scenarios (probable, possible and remote), based on quotations as used by the market on December 31, 2008. In this analysis the future dollar curve has been interpolated, considering only the items with higher liquidity until the end of 2011.

	Consolidated				
	Probable				
	2009	2010	2011	2012 em diante	Total
Debt in foreign currency	(6)	(11)	(35)	(92)	(144)
Active hedging leg	2	3	19	22	46
Cash used abroad	—	8	35	—	44
Net effect of exchange variation	(4)	—	19	(70)	(54)

	Consolidated				
	Possible				
	2009	2010	2011	2012 em diante	Total
Debt in foreign currency	(153)	(77)	(140)	(337)	(707)
Active hedging leg	231	18	72	81	402
Cash used abroad	—	59	100	—	159
Net effect of exchange variation	78	—	32	(256)	(146)

	Consolidated				
	Remote				
	2009	2010	2011	2012 em diante	Total
Debt in foreign currency	(294)	(131)	(210)	(489)	(1,125)
Active hedging leg	457	30	107	117	711
Cash used abroad	—	101	130	—	231
Net effect of exchange variation	163	—	27	(372)	(183)

Below are the quotations of the foreign currencies for the three possible outcomes: probable, possible and remote. For possible and remote calculations we used a 25% and 50% deterioration in the risk parameters as used for the probable calculation, respectively.

	Probable		Possible		Remote	
Date	**Dollar**	**Yen**	**Dollar**	**Yen**	**Dollar**	**Yen**
jan/09	2,3162	0,0256	2,8953	0,0320	3,4743	0,0384
feb/09	2,3370	0,0258	2,9213	0,0323	3,5055	0,0387
mar/09	2,3580	0,0260	2,9475	0,0325	3,5370	0,0390
apr/09	2,3750	0,0262	2,9688	0,0328	3,5625	0,0393
may/09	2,3920	0,0264	2,9900	0,0330	3,5880	0,0396
jun/09	2,4062	0,0266	3,0078	0,0332	3,6094	0,0398
jul/09	2,4196	0,0267	3,0245	0,0334	3,6294	0,0401
aug/09	2,4209	0,0267	3,0261	0,0334	3,6313	0,0401
sep/09	2,4220	0,0267	3,0275	0,0334	3,6330	0,0401
oct/09	2,4232	0,0268	3,0290	0,0334	3,6348	0,0401
nov/09	2,4244	0,0268	3,0305	0,0335	3,6366	0,0401
dec/09	2,4256	0,0268	3,0319	0,0335	3,6383	0,0401
jan/10	2,4267	0,0268	3,0334	0,0335	3,6401	0,0402
feb/10	2,4279	0,0268	3,0349	0,0335	3,6418	0,0402
mar/10	2,4291	0,0268	3,0363	0,0335	3,6436	0,0402
apr/10	2,4302	0,0268	3,0378	0,0335	3,6454	0,0402
may/10	2,4314	0,0268	3,0393	0,0336	3,6471	0,0403
jun/10	2,4326	0,0269	3,0407	0,0336	3,6489	0,0403
jul/10	2,4338	0,0269	3,0422	0,0336	3,6506	0,0403
aug/10	2,4337	0,0269	3,0421	0,0336	3,6505	0,0403
sep/10	2,4451	0,0270	3,0564	0,0337	3,6677	0,0405
oct/10	2,4557	0,0271	3,0696	0,0339	3,6835	0,0407
nov/10	2,4660	0,0272	3,0825	0,0340	3,6990	0,0408
dec/10	2,4760	0,0273	3,0950	0,0342	3,7140	0,0410
jan/11	2,4970	0,0276	3,1213	0,0345	3,7455	0,0413
feb/11	2,5100	0,0277	3,1375	0,0346	3,7650	0,0416
mar/11	2,5210	0,0278	3,1513	0,0348	3,7815	0,0417
apr/11	2,5284	0,0279	3,1604	0,0349	3,7925	0,0419
may/11	2,5357	0,0280	3,1697	0,0350	3,8036	0,0420
jun/11	2,5431	0,0281	3,1789	0,0351	3,8147	0,0421
jul/11	2,5506	0,0282	3,1882	0,0352	3,8258	0,0422
aug/11	2,5580	0,0282	3,1975	0,0353	3,8370	0,0424
sep/11	2,5655	0,0283	3,2068	0,0354	3,8482	0,0425
oct/11	2,5730	0,0284	3,2162	0,0355	3,8595	0,0426
nov/11	2,5805	0,0285	3,2256	0,0356	3,8707	0,0427
dec/11	2,5805	0,0285	3,2256	0,0356	3,8707	0,0427

(c) Interest rate risk

The Company has loans and financing that are subject to floating interest rates, based on the TJLP or the CDI, in case of debt denominated in local currency, and on LIBOR, in case of debt denominated in U.S. dollars, on the Japanese interbank offered rate ("Japanese LIBOR"), in case of debt denominated in Japanese yen, and on the BNDES variable currency basket rate (UMBNDES), in case of debt linked to BNDES's foreign currency funding. In order to reduce its exposure to LIBOR variations, the Company has engaged in swap transactions that convert LIBOR rates into fixed rates.

At December 31, 2008, approximately 98% (2007 — 93%) of the debt incurred, including debentures, was subject to floating interest rates, and 2% (2007 — 7%) was exchanged for fixed rates, by means of swap transactions. The most relevant exposure to interest rates for the Company's debt, after the hedging operations, is the CDI. Therefore a sustainable increase in this interest rate would have a negative impact on future interest payments and hedging adjustments. However, because the Company's cash is invested primarily in securities subject to the variation in CDI, the short-term net exposure to the CDI does not constitute a material risk for the Company.

On December 31, 2008, the Company recorded as results of hedging operations (note 7) a loss in the amount of R$6 (2007 — a gain of R$9), resulting from interest rate swaps.

The amounts of the financial derivative instruments as contracted to protect the floating interest rates of the debt are resumed below:

	Parent company and Consolidado							
			Book Value		Fair Value		Accumulated effect (2008)	
	Index	Due date	2008	2007	2008	2007	2008 receivable	2008 payable
Swap contract US$ LIBOR/Pré(i)								
Asset position	LIBOR US$ 3ms e 6ms	Jan/2009 a Ago/2012	447	494	437	280		
Liability position	3.86% a 4.04%		447	494	(439)	(279)		
Net value					(2)	1		(2)
Swap contracts CDI/Pré(ii)								
Asset position	CDI + 0.55%	Mar/2009 a Mar/2013	270	270	283	271		
Liability position	103% CDI		270	270	(283)	(270)		
Net value					—	1	1	

Contra-entry:
(i) Citibank S.A.;
(ii) Barclays S.A.

Interest rate swap contracts — US$ LIBOR/Predetermined

TMAR has engaged in interest rate swaps for the purpose of protecting the payments on its floating rate debt denominated in US dollars. Under these contracts, the company has an asset position at the dollar LIBOR rate and a liability position at a predetermined interest rate. The risk of incurring losses on the asset side of these transactions lies in the variations of the dollar LIBOR rate, but these potential losses would be fully offset by the flows on the maturity of the dollar denominated debt.

Interest rate swap contracts — CDI/Predetermined

TMAR has engaged in interest rate swaps for the purpose of protecting the payments on its debentures in *reais* bearing interest at the CDI rate plus a spread. Under this contract, the company has an active position at the CDI rate plus a spread, and a liability position at a percentage of the CDI rate.

(d) Credit concentration risk

Concentration of credit risk associated with accounts receivable from customers is not material, due to a highly diversified portfolio and monitoring controls applied. Doubtful accounts are adequately covered by a provision for potential losses in this respect (see Note 12).

Transactions with financial institutions (financial investments, loans and financing) are distributed among first class institutions, thereby minimizing the risk of concentration.

27 Employee benefits

a) Private pension plans

Telemar and its subsidiaries sponsor benefit retirement plans for their employees, if they opt for the plans as referred to, and to the assisted participants. See below for a list of all plans as of December 31, 2008.

Benefit plan	Sponsoring company	Management
PBS-A	Telemar and Amazônia	Sistel
PAMA	Telemar and Amazônia	Sistel
PBS-Telemar	Telemar	FASS
TelemarPrev	Telemar, Oi and Oi Internet	FASS
PBS-TNCP	Amazônia	Sistel
CELPREV	Amazônia	Sistel

In conformity with Deliberation CVM n° 371/2000 for the defined benefit plans : PBS-Assistidos ("PBS-A"), PBS-Telemar, PBS-Tele Norte Celular ("PBS-TNCP"), the plans' costs are recorded during the working period of the participants and in case of the defined contribution plans : TelemarPrev e CELPREV, according to the monthly contributions as made based on actuarial calculations approved by the "Secretaria de Previdência Complementar — SPC" (secretary for supplementary pensions).

For the sponsored defined benefit plans, no new entrants are allowed because these plans are closed. The participants and sponsor contributions are defined in the Cost Plan, and valuated annually by an actuary. The SPC is the official organ which approves and controls the plans as referred to. On the closing dates of the period, Actuarial valuations are executed by an independent actuary.

Sistel manages the benefit plans: PBS-A, PBS-TNCP and CELPREV

Sistel is a not-for-profit private welfare business entity, set up in November 1977 with the corporate purpose of establishing private plans to provide savings, income, supplementary benefits or the like, to supplement the government pension, for the employees and their family members who are linked to the sponsors of Sistel.

With the statutory alterations approved by the SPC in January 2000, the sponsors negotiated the terms for creating plans tailored to the individual sponsor, with joint benefits restricted to those participants who retired up to January 31, 2000 (pension plan denominated PBS-A).Moment in which new benefit plans were installed: PBS-Teleamr, TelemarPrev and PBS-TNCP, the CELPREV was created in 2004, the plans PBS-TNCP and CELPREV stayed under Sistel's management.

FASS manages the benefit plans: PBS-Telemar and TelemarPrev

The FASS, a closed supplementary pensions entity with multiple sponsors and multiple plans, is a not-for-profit private welfare business entity, with independent management of its assets, administration and finances, based in the city of Rio de Janeiro, in the state of Rio de Janeiro, for the purpose of administering and executing plans providing social security benefits for the employees of its sponsors.

The plans PBS-Telemar and TelemarPrev were implemented in September 2000, still under Sistel's management. According to Art. 33 of Supplemental Law n° 109 of May 29, 2001, Sistel's Deliberative Counsel approved in October 2004 the request for transferring management of the plans PBS-Telemar and TelemarPrev to FASS. FASS was constituted by Telemar and authorized by the SPC on January 12, 2005 to start its activities. On February 28, 2005, this process of transferring management was finished for the benefit plans PBS-Telemar and TelemarPrev from Sistel to FASS.

Disclosure of information and effects, a requirement of the pronouncement issued by IBRACON regarding recording employee benefits, approved by CVM Resolution nº 371/2000, is shown below:

(i) Defined benefit pension plans (PBS-A and PBS-Telemar)

The plan PBS-A is originated in the period before the privatization of the Telebrás system and attends exclusively to the participants who retired until January 31, 2000. Upon the statutorial changes of Sistel, approved by the SPC in January 2000, the plans PBS-Telemar and PBS-TNCP were implemented, who held the same benefits as foreseen in the plan PBS-A (individual).

Besides the benefits of supplemental monthly income, medical assistance is provided by "Plano de Assistência Médica ao Aposentado — PAMA" and "Plano de Coberturas Especiais — PAMA-PCE" (Health care plans), to retired employees and their families, for a cost shared with other sponsors. The sponsors responsibility is limited to the future contributions. During certain periods in the years 2004 until 2008, optional migrations were executed of retirees from PAMA to PCE. When executed the option of migration the participant becomes member of PAMA-PCE.

The contributions of active participants under the PBS-Telemar plan correspond to the sum of: (i) 0.5% to 1.5% of the participation salary (according to the participant's age); (ii) 1% of that portion of the participation stipend that is equivalent to between half and one "Unidade Padrão " (standard unit); and (iii) 11% of that portion of the participation salary that exceeds one "Unidade Padrão " (standard unit). The sponsors' contribution is equivalent to 9.5% of the payroll of the employees actively participating in the plan, of which 8 % goes to PBS-Telemar and 1.5% to PAMA. The capitalization method is used for determining the plan's costs.

The PBS-A plan has been closed to new participants ever since TelemarPrev was set up, in September 2000, and about 96% of the participants have migrated to TelemarPrev.

In PBS-TNCP, besides the supplemental monthly benefit, medical assistance is provided by PAMA to retired employees and their families, for a cost shared with the sponsor. Contributions to the plans PBS-TNCP and PAMA are determined based on actuarial calculations made by independent actuaries, in conformity with the standards in effect in Brasil. The regime for determining the pro-rato distribution of costs is the one of capitalization and the contribution payable by the sponsor is 13.5% on the payroll of the active participants

The benefit of the pension is defined as the difference between 90% of the average of last 36 months salary, restated until the date of retirement, and the amount of the pension paid by "Instituto Nacional de Seguridade Social — INSS" (social security fund).

The PBS-TNCP plan is closed to new entrants since April 2004.

Reconciliation of the assets and liabilities, as at December 31:

	Consolidated				
	2008			2007	
	PBS-A(*)	PBS-TNCP	PBS-Telemar	PBS-A(*)	PBS-Telemar
Fair value of plan assets	3,768	35	218	3,778	201
Present value of actuarial obligations	(2,272)	(17)	(165)	(2,425)	(178)
Fair value of plan assets **in excess over actuarial obligations**	1,496	18	53	1,353	23

(*) Does not include active participants and has a sufficient surplus to cover future actuarial liabilities.

Although the plans show a surplus of assets in relation to actuarial liabilities, at December 31, 2008 and 2007, these surpluses are not recognized under Brazilian GAAP, due to the fact that there is no legal provision for their reimbursement, in addition to the fact that the PBS-A is not a contributory plan.

Change in plan assets:

	Consolidated		
	PBS-A	PBS-TNCP	PBS-Telemar
Fair value of plan assets in 2007	3,780	—	201
Benefits paid in the year	(221)	(1)	(11)
Contributions in the year			
Net yield of plan assets	209	1	28
Others(a)	—	34	—
Fair value of plan assets in 2008	3,768	34	218

Changes in actuarial liabilities:

	Consolidated		
	PBS-A	PBS-TNCP	PBS-Telemar
Value of liabilities in 2007	2,426	—	178
Interest on actuarial obligation	245	2	15
Benefits paid in the year	(221)	(1)	(11)
Acturial loss	150	—	7
Impacts of changes in premises	(328)	(2)	(24)
Other(a)	—	18	—
Value of liabilities in 2008	2,272	17	165

(a) The plan PBS-TNCP started to be included in Oi group after the acquisition of control over TNCP by Telemar, on April 3, 2008 (see note 1).

The above amounts do not take into account the assets and liabilities of PAMA, as it has multiple sponsors and is similar to the defined contribution plans (payment of benefits is limited to the amount of the contributions received by the plan), so there are no liabilities beyond the level of the existing balances.

(ii) Defined contribution private pension plan (TelemarPrev)

Telemar and its subsidiaries Oi and Oi Internet sponsors the TelemarPrev plan, which was approved by the SPC in September 2000.

The benefits to the participants ensured by the plan are classified as: (i) risk benefits — supplements; and (ii) programmable benefits — income.

Normal participants' contributions are made up of two parts: (i) basic — equivalent to 2% of the participation stipend; and (ii) standard — equivalent to 3% of the positive difference between the total participation stipend and the social security value. Additional contributions by participants are optional, to be made in percentages representing multiples of 0.5% of the participation salary and for a period of not less than 6 months. Contingent contributions by the participants are also optional and must not be less than 5% of the participation stipend ceiling.

The plan's regulations stipulate the parity of contributions made by the participants and the sponsors, up to the limit of 8% of the participation salary, with the restriction that the sponsor has no obligation to match any additional contributions made by the participants. The capitalization method is used for determining the plan's costs.

Details of the variable contributions in relation to the defined benefits under the TelemarPrev plan are shown below:

Reconciliation of the plan's assets and liabilities, at December 31:

	TelemarPrev			
	Parent company		Consolidated	
	2008	2007	2008	2007
Fair value of plan assets	2,225	2,110	2,269	2,146
Present value of plan actuarial liabilities	(1,739)	(1,843)	(1,769)	(1,872)
Fair value of the surplus of plan assets over actuarial liabilities	486	267	500	274

Changes in plan assets:

	TelemarPrev	
	Parent company	Consolidated
Fair value of plan assets at December 31, 2007	2,110	2,146
Benefits paid during the year	(108)	(109)
Contributions paid in the year	223	232
Fair value of plan assets at December 31, 2008	2,225	2,269

Changes in actuarial liabilities:

	TelemarPrev	
	Parent Company	Consolidated
Liabilities at December 31, 2007	1,843	1,872
Gross current service cost (with interest)	11	12
Interest on actuarial liabilities	189	191
Benefits paid during the year	(108)	(109)
Actuarial loss	68	71
Impact of change in actuarial premises	(263)	(268)
Liabilities at December 31, 2008	1,739	1,769

(vii) Defined contribution plans (CELPREV

In 2004 Amazônia obtained approval from the SPC to start a new pension plan. The new plan called CELPREV was offered to the employees which did not participate in PBS-TNCP, being also offered to the new employees of the subsidiary. To the participants of PBS-TNCP was offered and encouraged the migration of their benefits and resources to CELRPEV.

The participant can choose between three types of contributions to CELPREV, being: (i) Normal basic contribution: variable percentage of 0% to 2% of the participation salary; (ii) Additional normal contribution:

variable percentage of 0% to 6% of the part of the participation salary which is greater than one standard reference unit of the plan; (iii) Voluntary contribution: free percentage to be chosen by the participant on the participation salary.

The sponsor can choose between three types of contributions to CELPREV, being: (i) Normal basic contribution: same as normal basic participant's contribution, less contribution for the cost of the medical assistance benefit and the one destined to the cost of administrative expenses; (ii) Additional normal contribution: same as additional basic participant's contribution, less administrative expenses; (iii) Special contribution: contribution exclusively destined to employees of the sponsor which do not belong to the PBS and which entered within the limit of 90 days as of the date of the start of CELPREV.

(iv) Expected plans' results for the year 2009 are as follows:

	Consolidated	
	PBS-A	**TelemarPrev**
Expected return on plan assets	414	234
Current service cost	—	(12)
Interest cost	(262)	(199)
Amortization costs	104	—
Total of revenue (expenses) as expected for 2009	256	23

	Consolidated		
	PBS-A	**PBS-TNCP**	**TelemarPrev**
Expected return on plan assets	414	5	238
Current service costs	—	—	(13)
Interest expense	(262)	(2)	(202)
Amortization expense	104	—	—
Total revenues as expected for 2009	256	3	23

Revenues should not be recorded due to the inexistence of evidence that those assets could reduce future contributions of the sponsors and they are not contractually refundable.

(v) Principal actuarial premises

The main actuarial premises adopted in the calculations of the PBS-A, PBS-Telemar, TelemarPrev, PBS-TNCP and CELPREV plans are as follows:

	PBS-A % per year 2008	2007	PBS-Telemar % per year 2008	2007	PBS_TNCP % p.a. 2008	TelermarPrev % per year 2008	2007	CELPREV % p.a. 2008
Discount rate for actuarial obligation	12.1	10.51	11.98	10.51	11.8	11.79	10.51	12.5
Expected return on plan assets	11.3	10.82	14.59	10.77	14.2	10.77	10.5	14.6
Estimated inflation rate	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
Estimated salary increase	N/A	N/A	8.26	7.32	4.5	8.26	7.32	6.59
Estimated increase in benefits	4.5	4.5	4.5	4.5	4.5	4.5	4.5	4.5
General mortality table	AT2000	AT2000	AT2000	AT2000	AT2000	AT2000	AT2000	AT2000

(b) Employee profit sharing

The employee profit sharing plan was introduced in 1999, as a way to stimulate the employees to meet individual and corporate targets and thereby improve return on investment for stockholders. The plan comes into effect when the following targets are met:

- Economic value added targets (indicators of Earnings Before Interest, income Tax, Depreciation and Amortization — EBITDA, as well as indicators of economic value added); and
- Operational, quality and market indicators.

On December 31, 2008, Telemar, Oi and Oi Internet recorded provisions based on the estimated attainment of these targets, amounting to R$121 (2007 — R$72).

Balance at December 31, 2007	72
Payment of profit sharing referring to year 2008	(89)
Addition to provision in 2008 (Note 8)	138
Balance at December 31, 2008	121

The differences between the provisioned amounts and the ones disclosed in the statement of operations, refer to the reversions or complements of previous year's estimates from actual executed payments.

TNCP and Amazônia account for this profit sharing in the fund for attaining the targets as stipulated for the year, subject to approval of the Meeting of Shareholders.

(c) Other employee benefits

The Company also offers its employees plans covering medical and dental care, pharmaceutical assistance, child day-care assistance and group life insurance, with the discounts from the payroll being made in accordance with the pay scales established in the collective labor agreements.

(d) Stock option plan

At an Extraordinary General Stockholders' Meeting of TNL, held on April 11, 2007, approval was given for a stock option plan, as disclosed on the Company's website () and is also available on CVM's website (www.cvm.gov.br), and attributed to the Fiscal Counsel the management of the plan, with at least one of its members being active. In a meeting, realized on April 12, 2007, the fiscal counsel choose the members of the committee who has to manage the stock option plan and to give it the power to establish other stock option plans, from time to time.

The Stock Option Program initiated in 2007 includes 40 beneficiaries, all employees of the Company, who are entitled to a total corresponding to up to 1.31% of the subscribed and paid in share capital of TNL, representing 5,120 thousand common shares granted under the program of April 2007. The options may be exercised as from April 12, 2008, in four equal annual blocks.

The exercise price that has been set was based on the weighted average Bovespa quotation over the 30 days immediately preceding the concession date, and will be monetarily adjusted according to "Ìndice Geral de Preços — Mercado — IGP-M" (general market inflation index).

In a meeting, realized on September 18, 2007, of the committee who manages the stock option plans , was decided to add to the stock option plan as approved on April 12, 2007 , the right for beneficiaries to also adhere to the stock options to buy 2,713 preferred TNLP4 shares , corresponding to a total of 0.68% of the total subscribed and paid-in capital, for the exercise price of R$27.31. The options can be exercised, as of their grant date, but only together with when exercising the stock options for common shares. All other clauses of the first plan stayed the same and apply to the new plan.

The following table resumes the operations as executed with common shares until December 31, 2008. Yet, no exercise took place for the first lot of the stock options for preferred shares.

	In Reais			
	Stock (in thousand of shares)	Grant date price	Exercise price	
			2008	2007
Granted in April 2007	5,120	50.98	59.65	54.32
Options exercised	(167)			
Options cancelled	(441)			
Options outstanding on December 31, 2008	4,512			

The following table shows the position of the options in effect as at December 31, 2008:

	Stock options outstanding				Stock options exercisable
Exercise price range on the contract's settlement date	Stock (in thousand of shares)	Weighted average remaining life (months)	exercise price	Stock (in thousand of shares)	exercise price
R$ 50.00 — 59.99	4,512	28	59,65		59,65

In the period ended December 31, 2008, expenses were recognized in income for the Stock option plans referring to TNLP3 and TNLP4 shares, in the amount of R$40 (2007 — R$39) and R$3, respectively. The balance of shareholders' equity on December 31, 2008 was R$61 (2007 — R$29).

28 Transactions with related parties

The transactions with related parties have maturities, prices and other conditions, similar to those used for third parties, and the main ones can be summarized as follows:

	2008						
	TNL	Oi	TNL Contax	Oi Internet	AIX	Telemar Partic.	Coari
Assets							
Accounts receivable		255	2	7			
Loans with related parties		8					
Dividends receivable							14
		263	2	7			14
Liabilities							
Suppliers		338	10	13	5		
Loans and financing	91						
Dividends and interest on capital	1,148					81	
Debêntures	1,513						
Other liabilities	7						
	2,759	338	10	13	5	81	
Income							
Income from rendered services		345	20	98			
Other operational income			7				
Interest income		12					
		357	27	98			
Costs							
Costs of services rendered		(1,507)	(139)		(28)		
Selling expenses			(560)	(21)			
Other operational expenses			(20)				
Interest expenses	(49)	(4)					
	(49)	(1,511)	(719)	(21)	(28)		

	2008							
	Serede	WayTV	Amazônia	TNCP	Paggo Admin.	Paggo Acq.	Fundação Atlântico	Total
Assets								
Accounts receivable		1						265
Loans with related parties				13				21
Dividends receivable				30				44
		1		43				330
Liabilities								
Suppliers	5	3	17					392
Loans and financing								91
Dividends and interest on capital								1,229
Debêntures								1,513
Other liabilities								7
	5	3	17					3,231
Income								
Income from rendered services		5	4		19	2		493
Other operational income	1							8
Interest income				1				13
	1	5	4	1	19	2		514
Costs								
Costs of services rendered	(46)		(43)					(1,765)
Selling expenses		(2)						(581)
Other operational expenses							(33)	(53)
Interest expenses								(53)
	(46)	(2)	(43)				(33)	(2,452)

	2007				
	TNL	Oi	TNL Contax	Oi Internet	AIX
Assets					
Accounts receivable		127	3	9	
Loans with controller	2				
	2	127	3	9	
Liabilities					
Suppliers		142	9	17	2
Loans and financing		58			
Dividens and interest on capital	802				
Other liabilities	6				
	808	200	9	17	2
Income					
Income from rendered services		197	18	70	
Other operational income			6		
Interest income	3				
	3	197	24	70	
Costs					
Costs of services rendered		(1,097)	(93)		(27)
Selling expenses			(466)	(30)	
Other operational expenses			(12)		
Interest expenses	(31)	(1)			
	(31)	(1,098)	(571)	(30)	(27)

	2007			
	Telemar Partic.	Serede	Way TV	Total
Assets				
Accounts receivable				139
Loans with controller				2
				141
Liabilities				
Suppliers		3		173
Loans and financing				58
Dividends and interest on capital	56			858
Other liabilities				5
	56	3		1,094
Income				
Income from rendered services			1	286
Other operational income				6
Interest income				3
			1	295
Costs				
Costs of services rendered		(16)		(1,233)
Selling expenses				(496)
Other operational expenses				(12)
Interest expenses				(32)
		(16)		(1,773)

(a) Credit lines opened by Telemar

The lines of credit extended by Telemar to its subsidiaries are for the purpose of providing them with working capital for their operational activities. The maturity dates may be renegotiated, based on those companies' forecasted cash flows, at an interest rate corresponding to 104X% of the CDI rate (2007 — 104% of the CDI rate).

(b) BNDES loan contracts

In December 1999, some of the sixteen subsidiary operators providing wireline telephony services, that were later absorbed by Telemar, took out loans from BNDES, the parent company of BNDESPar, which holds 25% of Telemar Participações S.A's voting capital. The total amount of these loans was R$ 400, maturing in December 2000 and bearing interest based on the SELIC interest rate, plus spread of 6.5% p.a.

In December 2000, these contracts were renegotiated and replaced by two new contracts, providing a line of credit for up to R$ 2,700, with the contract in local currency bearing interest based on the TJLP rate and the contract in foreign currency based on the variable interest rate of the BNDES currency basket (UMBNDES), plus 3.85% p.a. Financial charges were paid quarterly, up to January 2002, and became due on a monthly basis for the period February 2002 to January 2008. Of that total facility, 30% was drawn down directly from BNDES and the remaining 70% was provided by a group of banks.

In December 2003, Telemar signed a new loan contract with BNDES to finance its investment program for expansion and operating improvements of the fixed network, for the years 2002 until 2004. From December 2003 until October 2004, Telemar obtained loans in the total amount of R$530 from this credit line. Interest payment is due on a quarterly basis from May 2005 until the final maturity of the loan in January, 2011.

In September 2004, Telemar signed a new loan contract with BNDES in the amount of R$663 to finance its project for installation of the operating structure of the mobile network, using the standard GSM, in areas of the regions southeast, northeast and north. The principal amount is to be paid by Oi in 78 monthly instalments, with the first one maturing on May 2006 and the last one in October 1012.

In December 2005, Telemar assumed the debt and all financial liabilities from this Financing Contract with Oi with the BNDES, including the approval of the creditor.

In July 2005, Telemar obtained a credit line with the BNDES up to R$218 to finance its program to attain the universal service targets in 2005 and received loans in the amount of R$82 in 2005. This credit line has a maturity of eight years and a grace period of 12 months. Interest is based on the TJLP.

In December 2005, Telemar obtained a new credit line with the BNDES to finance its program to attain the liabilities as established in the Concession Contract of 2006 and received loans in the amount of R$26, with a maturity of eight years and a grace period of 18 months. Interest is based on the TJLP.

In November 2006, Telemar signed a loan contract with BNDES to finance the expansion and technological updating of Telemar's fixed telecommunications network, programmed for the period between 2006 and 2008. Disbursements were made in the amount of R$810 in November 2006, R$700 in September 2007 and R$467 in August 2008, relating to this financing contract. Payment of interest will be on a quarterly basis until June 2009, and thereafter on a monthly basis until June 2014. The principal amount is to be paid in monthly instalments, as from July 2009.

In July 2007, Oi signed a loan contract with BNDES in the amount of R$467 to finance the expansion and technological updating of Telemar's mobile telecommunications network, programmed for the period between 2006 and 2008. Disbursements were made in the amount of R$290 in July 2007, R$150 in October 2007, R$10 in October 2008 and R$17 in November 2008. Payment of interest will be on a quarterly basis until January 2010, and thereafter on a monthly basis until January 2015. The principal amount is to be paid in monthly instalments, as from February 2010.

(c) Leasing of transmission infrastructure

AIX provides services to Telemar involving leasing of pipelines for transmission of CSP 31 (Service Provider Code "31") traffic outside the Region I local network. In 2008, these costs came to a total of R$28 (2007 — R$27) and are classified under "Rentals and insurance" as selling expense (Note 6).

(e) Principal transactions with related parties

Oi

Revenue from services rendered: This refers to leasing of dedicated lines, in the amount of R$ 64 (2007 — R$ 65), interconnection fees of R$ 244 (2007 — R$ 87), collection commissions of R$ 15 (2007 — R$ 27), leasing of infrastructure, towers, circuits and "102" service platform, amounting to R$ 18 (2007 — R$14).

Cost of services provided: This refers to remuneration for network use, of R$ 995 (2007 — R$ 763), EILD leasing, at R$ 52 (2007 — R$ 52), collection commissions of R$ 28 (2007 — R$ 16), customer loyalty campaigns, totaling R$ 334 (2007 — R$ 175), and the cost of leasing the mobile platform to provide wireline telephone services to certain locations using WLL technology, totaling R$ 88 (2007 — R$ 87).

Oi Internet

Revenue from services rendered: This refers to leasing of "dial-up" infrastructure for internet access, amounting to R$ 5 (2007 — R$ 4) and broadband access, totaling R$ 85 (2007- R$ 60) and collection commissions of R$ 5(2007 — R$ 3),

Selling: This refers to sales commissions, amounting to R$ 21 (2007 — R$ 30).

TNL Contax

Cost of services provided/commercialization/general and administrative expenses: The principal transactions involve the providing of call center services, amounting to R$ 356 (2007 — R$ 296), sales support, to the sum of R$ 110 (2007 — R$ 88), and telephone collection, of R$ 95 (2007 — R$ 81).

Serede

Cost of services provided: This refers to network maintenance services, amounting to R$ 46 (2007 — R$16).

Way TV

Revenue from services rendered: This refers to broadband internet access, to the sum of R$ 5 (2007 — R$1).

Amazônia

Cost of services provided: This refers to interconnection fees, totalling R$ 42

Paggo Administradora

Revenue from services rendered: This refers to telecom services and amounted to R$ 19

(e) Remuneration of key-executives

The remuneration of the executives responsible for planning, directing and control over the Company's activities, which include the members of the fiscal counsel and the statutory directors, are as follows:

	2008	2007
Short-term benefits	14	13
Long-term benefits	5	1
Share-based payment	19	17
	38	31

29 Insurance

During the period of the concession, it is the responsibility of the concession holder to maintain the following insurance cover, in accordance with the contractual periods: comprehensive insurance against all risk of material damage to the insurable assets owned under the concession, insurance covering the economic conditions required to continue providing the service, and insurance guaranteeing the fulfilling of all obligations regarding quality and universal access, in accordance with the provisions of Clause XXIV of the Concession Contracts.

Assets and responsibilities of material value and/or high risk are covered by insurance. The Company holds insurance providing cover for material damage and loss of revenue as a result of such damage (loss of business), among other things. Management understands that the amount of the insurance cover is sufficient to ensure the integrity of the Company's assets and going concern, as well as compliance with the rules laid down in the Concession Contracts.

The insurance policies provided the following cover, according to risk and nature of the asset, at December 31, 2008 and 2007:

	Insured amount	
Type of insurance	**2008**	**2007**
Operational risk and loss of business	800	800
Fire — inventory	153	112
Civil liability — third parties(*)	234	106
Warranty insurance	29	32
Theft — inventory	30	30
Civil liability — general	15	20
Civil liability — vehicles	3	3

* at the exchange rate on December 31, 2008

30 Contracted guarantees

(a) From third parties

The Company has contracts of warrants from banks and insurance guarantees with several financial institutions and insurance companies to guarantee obligations and judicial procedures, contractual obligations and biddings with Anatel. The amounts can be summarized as follows:

	Parent company		Consolidated	
	2008	2007	2008	2007
Contingencies — tax	2,117	1,918	2,360	2,018
Contingencies — civil	64	64	64	64
Contingencies — labor	38	38	38	38
Biddings — Anatel	1	1	663	313
Contractual obligations	18	28	35	44
	2,237	2,049	3,160	2,477

(b) From related parties

The loans contracted with BNDES and BNB (note 19) have guarantees in own receivables and endorsement from TNL. The Company recorded in the period, under commission for the endorsement from TNL, expenses in the amount of R$14 (2007 — R$60).

TNL gave guarantees for Telemar's judicial procedures by means of authorizations to block part of its nominative preferred class A shares of the issue of Telemar itself. According to the grant of the guarantee, the Company remunerates TNL in the amount equal to 1.5% p.a., calculated on the guaranteed amount in these judicial procedures.

(c) Guarantees granted

The Company is endorser of its subsidiary Oi for bank loans obtained with BNDES in the amount of R$468. These loans have, besides Telemar's endorsement, guarantees in receivables of subsidiary Oi itself.

31 Subsequent events

(a) Acquisition of a controlling stake in BRASIL TELECOM — developments up to the present moment:

(i) Engagement of the services of Credit Suisse First Boston as Factor in the proposed acquisition of controlling stakes in BrT Part and BrT, acting on behalf and on the instructions of TMAR (in accordance with the Material Information release issued by TNL and TMAR on April 25, 2008);

(ii) Announcement of the completion of the negotiations and details of the transaction in a Material Information release issued by TNL and TMAR on April 25, 2008;

(iii) Payments by TMAR, amounting to R$ 315 million, as provided for in the Material Information release issued by TNL and TMAR on April 25, 2008 (see Note 5 (ii));

(iv) Securing by TMAR of R$ 4.3 billion in financing to fund the operation (see Note 19b (i));

(v) Direct acquisition in the market of BrT Part and BrT preferred stock, in May, June and July 2008 (see Note 1);

(vi) Disclosure of public consultation regarding the final text of the PGO (General Concession Plan), on June 17, 2008.

On June 17, 2008, ANATEL published two public consultations, one on the proposed revision of the PGO and the other in regard to the PGR (General Plan to Update the Regulations).

On October 16, 2008, ANATEL approved the final text of the proposal for a new PGO, which has been submitted to the Advisory Council, for subsequent presentation to the Ministry of Communications.

This proposed new text of the PGO is intended to introduce more flexible regulation of the sector, removing the restrictions against a single group holding STFC concessions in more than one PGO region. Such alteration could give the green light for TMAR's acquisition of Brasil Telecom;

(vii) Public Share Offering for acquisition of the outstanding BrT Part and BrT preferred stock (in accordance with the Material Information release issued by TNL and TMAR on July 22, 2008);

(viii) Issuing by TMAR of R$ 3,600 in Promissory Notes to fund the operation (see Note 19b (ii)).

(ix) Issuing by TMAR of R$ 2,000 in Promissory Notes to fund the operation (see Note 19b (ii)).

(x) Approval by "Conselho Administrativo de Defesa Econômica — CADE" (council for economic defense) , on December 10, 2008, of the "Acordo de Preservação de Reversibilidade da Operação — APRO" (treaty to preserve reversibility of the operation).

(xi) Granting by Anatel on December 19, 2008 of the approval of the acquisition of control over Brasil Telecom by Telemar in Act. 7,828. Antatel also announced the subsequent corporate actions referring to the incorporation of the two firms, or of the shares, of the subsidiaries controlled directly and indirectly by Telemar, for more details please see the Company's website.

(xii) Conclusion of the operation of the acquisition of control over Brasil Telecom

On January 8, 2009, Telemar, by means of its indirect subsidiary Copart 1, acquired control over BrT Part and as a consequence of BrT, after the payment of R$5,371, equivalent of a price per common share of R$77,04 of BrT Part. The amount paid corresponds with the price as approved in the Contract of buy and sell and is restated by the variation in the average daily rate of the CDI, reduced by Invitel's net debt (R$998), and adjusted by the dividends as declared between January 1, 2008, and the closing date.

The handover of BrT's control to Telemar consisted basically in the acquisition of 100% of Invitel's shares, which holds 99.99% of SOLPART Participações S.A. , which has direct control over BrT.

In function of this acquisition , Telemar went indirect holder of 81,093 thousand common shares of BrT Part, representing 61.2% of voting capital of this company.

On February 9, 2009, Telemar, after intermediate indirect control, sent a request to register to the CVM, the requirements of the OPA of the common shares of the minority shareholders' of BrT part and BrT, in a way to assure them the minimum price equal to 80% of the price paid per share part of the block of control (OPA obligatory), reduced by dividends, interest on capital or capital reduction, which could be deliberated until the liquidation of the OPA.

For more detail we refer to the Relevant Fact as released on January 8, 2009, which can be found on or website: http://www.oi.com.br.ri.

(b) Corporate reorganization of TNCP and Amazônia

Due to regulatory restrictions and Anatel determinations on the acquisition of control over TNCP by Telemar, which contain the devolution of the license to provide telecommunication services of AmazOnia or Oi, subsidiary as controlled by Telemar, Telemar, Amaônia, TNCP and Oi pretend to implement a corporate reorganization with the objective to consolidate all assets relating to Amazônia's activities with the ones relating to Oi's activities, and thereafter devolving to Anatel the grant and licenses for the use of certain radio-frequencies ("Corporate Reorganization").

On February 11, 2009, in a meeting together with the board of directors and the fiscal counsel of TNCp and of Amazônia the Corporate Reorganization was deliberated, which proposal includes the incorporation of Amazônia's shares into TNCP. The Corporate Reorganization assures, however, the minority participation of TNCP's and Amazônia's shareholders in an operational company, Oi, and has as objective guaranteeing more efficiency in operating, administrative and corporate activities to the involved companies. In the same way, trying to avoid the dispersion of the entitled shareholders of TNCP and Amazônia into different companies and increasing the operational efficiency, the Corporate Reorganization would unite the shareholding's bases of these companies in to TNCP.

On February 19, 2009, Telemar, TNCP and Amazônia disclosed by means of a Relevant Fact release in detail the information with respect to the Corporate Reorganization, in all facts which involve an operation of that size. The disclosure of the Relevant Fact release is available on the company's website: http://www.oi.com.br.ri.

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Telemar Norte Leste S.A.

Consolidated Financial Statements at
December 31, 2007 and 2006
and for the two years ended December 31, 2007
and Report of the Independent Registered Public Accounting Firm



BDO Trevisan

BDO Trevisan Auditores Independentes
Rua 7 de Setembro, 71
15º e 21º andares - Centro
Rio de Janeiro - RJ - Brasil
20050-005

Tel.: +55 (21) 3534-7500
Fax.: +55 (21) 2221-1395
www.bdotrevisan.com.br

(Convenience translation into English from the original previously issued in Portuguese)
INDEPENDENT AUDITORS' REPORT

To the Shareholders, Board Members and Management of
Telemar Norte Leste S.A.
Rio de Janeiro - RJ

1. We have audited the accompanying balance sheets of Telemar Norte Leste S.A. (Parent Company and Consolidated), as of December 31, 2007 and 2006, and the respective statements of income, changes in shareholders' equity (Parent Company) and changes in financial position for the years ended on those dates, all expressed in Brazilian reais and prepared under the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements. As explained in Note 16, the auditing of the financial statements of the indirect subsidiaries TNL PCS S.A. ("Oi") and Companhia AIX de Participações for the years ended on December 31, 2007 and 2006, used to calculate the equity adjustment and consolidated figures, was performed under the responsibility of other independent auditors. Our report, in as much as it refers to amounts taken from those other financial statements, is based exclusively upon the reports of the other independent auditors.

2. We conducted our audits in accordance with the auditing standards generally accepted in Brazil. Those standards require: a) that we plan and perform our work taking into consideration the significance of balances, the volume of transactions and the company's accounting and internal control systems; b) that we verify, on a test basis, evidence and records supporting the amounts and accounting information disclosed in the financial statements; and c) that we evaluate the accounting practices used and significant estimates made by the company's management, as well as the overall presentation of the financial statements.

3. In our opinion, based on our audits and on the reports of other independent auditors, the financial statements referred to in paragraph 1 represent fairly, in all material respects, the financial position of Telemar Norte Leste S.A. (Parent Company and Consolidated) as of December 31, 2007 and 2006, the results of its operations, the changes in shareholders' equity (Parent Company) and the changes in financial position for the years then ended, in accordance with the accounting practices adopted in Brazil.



BDO Trevisan

INDEPENDENT AUDITORS' REPORT

To the Shareholders, Board Members and Management of
Telemar Norte Leste S.A.
Rio de Janeiro - RJ

4. Our audits were conducted for the purpose of issuance an opinion on the financial statements referred to in paragraph 1, taken as a whole. The consolidated statements of cash flow and value added, along with the breakdown of financial information per business segment, are not a necessary part of the financial statements and are presented here for the purpose of providing additional information about Telemar Norte Leste S.A. and its subsidiaries. The consolidated cash flow and value added statements and the breakdown of financial information per business segment were subjected to the same auditing procedures described in paragraph 2 and, in our opinion, are fairly presented, in all material respects, in relation to the financial statements, taken as a whole.

5. The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

Rio de Janeiro, February 27, 2008

José Luiz de Souza Gurgel
Engagement Partner
CRC RJ-087339/O-4
BDO Trevisan Auditores Independentes
CRC 2SP013439/O-5 "S" RJ

Telemar Norte Leste S.A. and
Telemar Norte Leste S.A. (Consolidated)

Balance sheets as at December 31st
In millions of *reais*

	Note	Parent Company		Consolidated	
		2007	2006	2007	2006
Assets					
Current					
Cash and equivalent	10	3,163	2,444	6,080	3,999
Accounts receivable	11	3,018	3,114	3,278	3,808
Taxes deferred and unrecovered	13	1,327	507	1,731	814
Prepaid expenses	14	83	81	341	333
Inventory		36	39	123	171
Others		111	43	153	204
		7,738	6,228	11,706	9,329
Non-current					
Long term					
Loans to subsidiaries	28	2	10	195	12
Amounts receivable	12	—	71	61	137
Taxes deferred and unrecovered	13	1,126	1,095	2,009	1,956
Prepaid expenses	14	353	113	383	129
Judicial deposits and embargoes	15	1,123	964	1,200	993
Tax incentives		54	54	54	54
Others		26	5	29	7
		2,684	2,312	3,931	3,286
Permanent					
Investments	16	8,629	8,176	374	407
Property, plant & equipment	17	8,214	8,274	11,482	11,729
Intangíble assets	18	343	304	1,432	1,306
Deferred assets	19	—	—	297	360
		17,186	16,754	13,585	13,802
		19,870	19,066	17,516	17,088
Total assets		27,608	25,294	29,222	26,417
Liabilities					
Current					
Suppliers		1,418	1,299	2,046	1,965
Loans and financing	20	1,297	1,633	1,319	1,633
Debentures	24	76	93	76	93
Payroll, taxes and benefits		152	114	195	137
Taxes payable and deferred	21	1,001	640	1,331	805
Refis II — tax refinancing program	22	119	111	119	112
Dividends and Interest on capital	25	1,043	709	1,043	709
Others		112	71	167	176
		5,218	4,670	6,296	5,630
Non-current					
Long term					
Loans and financing	20	3,953	3,799	4,341	3,809
Debentures	24	2,171	2,160	2,171	2,160
Taxes payable and deferred	21	77	57	79	69
Refis II — tax refinancing program	22	531	610	535	614
Provisions for legal contingencies	23	1,850	2,056	1,944	2,152
Others		26	13	66	41
		8,608	8,695	9,136	8,845
Unrealized earnings				8	13
		8,608	8,695	9,144	8,858
Net equity	25				
Capital stock		7,419	7,419	7,419	7,419
Capital reserve		2,140	1,899	2,140	1,899
Revenue reserves		4,223	2,611	4,223	2,611
		13,782	11,929	13,782	11,929
Total liabilities & Net equity		27,608	25,294	29,222	26,417

The accompanying notes are an integral part of these financial statements.

Telemar Norte Leste S.A. and
Telemar Norte Leste S.A. (Consolidated)

Statements of income
for the fiscal years ended on December 31st
In millions of *reais*

	Note	Parent Company		Consolidated	
		2007	2006	2007	2006
Gross operating revenue	4	20,397	20,395	25,138	24,232
Deductions from gross revenue	4	(6,100)	(6,098)	(7,566)	(7,360)
Net operating revenue	4	14,297	14,297	17,572	16,872
Cost of goods sold and services rendered	5	(7,455)	(7,744)	(9,253)	(9,360)
Gross profit		6,842	6,553	8,319	7,512
Operating income (expenses)					
Equity adjustment	16	453	116	11	(1)
Commercialization expenses	5	(2,075)	(1,768)	(2,689)	(2,589)
General and administrative expenses	5	(940)	(945)	(1,195)	(1,159)
Other operating income (expenses), net	6	(374)	(657)	(568)	(819)
		(2,936)	(3,254)	(4,441)	(4,568)
Operating profit before net financial results		3,906	3,299	3,878	2,944
Financial income		651	412	920	645
Financial expenses		(1,053)	(1,614)	(1,216)	(1,747)
Financial income (expenses), net	7	(402)	(1,202)	(296)	(1,102)
Operating income		3,504	2,097	3,582	1,842
Non-operating income (expenses), net	8	27	(8)	31	(10)
Profit before income tax and social contribution		3,531	2,089	3,613	1,832
Income tax and social contribution	9	(839)	(474)	(921)	(217)
Net profit for the year		2,692	1,615	2,692	1,615
Shares outstanding at the balance sheet date (thousand)		238,614	238,614		
Net profit per share at the end of the fiscal year (R$)		11,2809	6,7663		

The accompanying notes are an integral part of these financial statements.

Telemar Norte Leste S.A. and
Telemar Norte Leste S.A. (Consolidated)

Statement of changes in the shareholders' equity of the parent company
In millions of *reais*

	Capital reserves					Revenue reserves				
	Capital stock	Capital surplus	Donations and subsidies for investment	Interest on work in progress	Special Law nº 8,200/1991	Legal reserve	Investments	Treasury stock	Retained earnings	Total
Balance as at December 31, 2005	7,114	86	533	1,417	11	259	1,510	(170)		10,760
Capital increase	305		(305)							
Donations and tax incentives			160							160
Special reserve as per Law nº 8,200/1991					(3)				3	
Prior years' adjustments									45	45
Net profit for the year									1,615	1,615
Proposed allocation of net profit:										
Legal reserve						68			(68)	
Dividend (R$ 0.0042 per share)									(1)	(1)
Interest on capital (R$ 2.7256 per share)									(650)	(650)
Investment reserve							944		(944)	
Balance as at December 31, 2006	7,419	86	388	1,417	8	327	2,454	(170)		11,929
Lapsed dividends and interest on capital									8	8
Donations and tax incentives			243							243
Special reserve as per Law nº 8,200/1991					(2)				2	
Net profit for the year									2,692	2,692
Proposed allocation of net profit:										
Legal reserve										
Dividend (R$ 1.3792 per share)									(329)	(329)
Interest on capital (R$ 3.1890 per share)									(761)	(761)
Investment reserve							1,612		(1,612)	
		86	631	1,417	6	327	4,066	(170)		
Balance as at December 31, 2007	7,419		2,140				4,223			13,782

	2007	2006
Book value per share (R$)	57.7600	49.9919

The accompanying notes are an integral part of these financial statements.

Telemar Norte Leste S.A. and
Telemar Norte Leste S.A. (Consolidated)

Statements of changes in financial position
for the fiscal years ended on December 31st
In millions of *reais*

	Parent Company		Consolidated	
	2007	2006	2007	2006
Sources of funds				
From operations				
Net profit for the year	2,692	1,615	2,692	1,615
Expenses (Income) not affecting working capital:				
Depreciation	1,801	2,408	2,466	3,009
Amortization of deferred assets	—	—	65	65
Amortization of premium	137	137	137	137
Amortization of discount	(6)	(6)	(6)	(6)
Equity adjustment	(453)	(116)	—	1
Residual value of permanent asset write down	(24)	9	(28)	11
Provision/reversal for losses on assets shut down	(3)	4	(3)	4
Provision for legal contingencies	386	938	417	1,053
Long term interest and monetary and exchange variations	17	144	(520)	219
Reversal of provision for losses on tax incentives	—	(5)	—	(5)
Interest on scheduled taxes — REFIS II	37	51	37	51
Long term deferred income tax and social contribution	(1)	(173)	(55)	(173)
Recognition of future earnings	—	—	1	(2)
	4,581	5,004	5,722	5,979
From third parties				
Tax incentives	243	160	243	160
Increase in long-term liabilities; mainly loans and financing	—	—	—	313
Disposal of permanent asset	41	17	45	16
Transfer from long term to current assets	375	578	442	364
Prior years' adjustments	—	46	—	46
Lapsed dividends and interest on capital	8	—	8	—
	667	800	740	898
Total sources of funds	5,249	5,805	6,462	6,877

The accompanying notes are an integral part of these financial statements.

Telemar Norte Leste S.A. and
Telemar Norte Leste S.A. (Consolidated)

Statements of changes in financial position — (Continued)
for the fiscal years ended on December 31st
In millions of *reais*

	Parent Company		Consolidated	
	2007	2006	2007	2006
Uses of funds				
In operations				
Increase in long term assets	707	949	975	927
Increase in permanent assets				
Investments	132	33	104	4
Property, plant & equipment and Intangible assets	1,796	1,601	2,363	2,327
Deferred assets	—	—	2	—
Proposed dividends and interest on capital	1,090	651	1,090	651
Transfer from long term to current liabilities, mainly of loans and financing	561	—	216	—
Total use of funds	4,286	3,235	4,750	3,909
Net increase in working capital	962	2,570	1,712	2,967
Net changes in working capital				
Current assets				
At the end of the year	7,738	6,228	11,706	9,328
At the beginning of the year	6,228	4,791	9,328	7,302
	1,510	1,437	2,379	2,026
Current liabilities				
At the end of the year	5,218	4,670	6,296	5,630
At the beginning of the year	4,670	5,802	5,630	6,571
	548	(1,132)	666	(942)
Net increase in working capital	962	2,570	1,712	2,967

The accompanying notes are an integral part of these financial statements.

Telemar Norte Leste S.A. and
Telemar Norte Leste S.A. (Consolidated)

Notes to the financial statements
for the fiscal years ended on December 31, 2007 and 2006
In millions of *reais*, unless otherwise specified

1 Background

Areas of operation and services provided

Wireline services

The fixed telephone operator, TMAR, is controlled by TNL, which on December 31, 2007 and 2006 held 80.89% of its total capital and 97.24% of its voting capital.

Telemar Norte Leste S.A. ("the Company" or "TMAR") is the leading provider of wireline services in its area of operation — Brazil's Region I — comprising the states of Rio de Janeiro, Minas Gerais, Espírito Santo, Bahia, Sergipe, Alagoas, Pernambuco, Paraíba, Rio Grande do Norte, Ceará, Piauí, Maranhão, Pará, Amazonas, Roraima and Amapá (with the exception of this region's Sector 3, covering the 57 municipalities of the "Triângulo Mineiro [Minas Triangle]" and "Alto Paranaíba [Upper Paranaíba river valley]" areas in the state of Minas Gerais, where CTBC — Companhia de Telecomunicações do Brasil Central, operates). These services are provided under the terms of the concessions granted by ANATEL — National Telecommunications Agency, the regulatory body for the Brazilian telecom sector.

TMAR also holds the ANATEL concession to provide national long distance services within Region I. Until July 20, 2002, this concession only allowed for the provision of outgoing and incoming calls within said operating area. As from that date, TMAR was also allowed to provide outgoing calls from Region I (excluding Sector 3) to other regions, due to the company's early meeting of its obligations under the General Target Plan for Universal Access (PGMU), set for December 31, 2003.

On December 22, 2005, new concession contracts were signed, with effect from January 1, 2006 and valid until December 31, 2025. In return, the concession holder has to pay ANATEL, every two years, the equivalent of 2% of the previous year's net revenue from telecom services. At the same time, new quality and universal access targets, defined under the new PGMQ (General Target Plan for Quality) and PGMU, came into effect.

On July 9, 2007, the government's Official Gazette (D.O.U.) published the contractual amendments covering the transfer, from TNL PCS S.A. ("Oi") to TMAR, of the authorization to provide Commutated Fixed Telephone Services (STFC), in the formats: (i) NLD — National Long Distance: in Region II, Region III and Sector 3 of Region I; and (ii) ILD — International Long Distance: throughout Brazil.

TMAR has six directly controlled subsidiaries, as follows:

- The mobile telephone operator, Oi, acquired by TMAR on May 30, 2003, was established for the purpose of bidding at ANATEL's 001/2000 auction of SMP (Personal Mobile Services) concessions and acquired the rights to provide such services in Region I, for an indefinite period, as long as the authorization terms are met. On March 12, 2001, the regulator ANATEL also granted the company the right to use the corresponding radio frequencies, for a period of 15 years, renewable for another 15 years, under onerous title, in return for the payment, every two years, of 2% of the previous year's net revenue from SMP.

  Due to regulatory conditions, the SMP authorization, together with the associated radio frequency rights, only came into effect as from June 26, 2002, when Oi began its commercial operations.

  As from November 30, 2005, with its takeover of Pégasus Telecom S.A., Oi also began to provide data transmission services in Regions I, II and III.

Along with the authorization for SMP services, Oi was also authorized to provide STFC services, for an unlimited period, in the following formats: (i) NLD services in Region II, which covers the states of Rio Grande do Sul, Santa Catarina, Paraná, Mato Grosso do Sul, Mato Grosso, Goiás, Tocantins, Rondônia and Acre and the Federal District; in Region III, which relates to the state of São Paulo; and in Sector 3 of Region I; and (ii) ILD services throughout Brazil. These authorizations were transferred to TMAR, by means of Appendix nº 1 to ANATEL Authorization nº 205/2002/SPB and Appendix nº 1 to ANATEL Authorization nº 206/2002/SPB, published in the D.O.U. of July 9, 2007.

On December 6, 2007, the D.O.U. published Act nº 68,982, of December 5, 2007, which partially ratifies the result of ANATEL Public Tender nº 001/2007/SPV, authorizing Oi to provide SMP services and use the corresponding radio frequencies in the state of São Paulo, as well as expanding the band range in certain states within Region I, ie: Amazonas, Amapá, Pará, Maranhão, Roraima, Bahia, Espírito Santo, Sergipe, Alagoas, Paraíba, Piauí and Rio Grande do Norte (see Note 18).

- Companhia AIX de Participações ("AIX"), a jointly controlled company acquired by TMAR on December 31, 2003, has the corporate purpose of providing pipeline infrastructure for the installation of optic fiber cables alongside highways in the state of São Paulo, as a service to TMAR;
- Telemar Internet Ltda. ("Oi Internet"), fully owned by TMAR, has the corporate purpose of providing Internet access services and started its operations in January 2005;
- Coari Participações S.A. ("Coari"), bought by TMAR in December 2003, has the corporate purpose of acquiring stakeholdings in other companies, both commercial and civil, as a partner or shareholder, within Brazil or abroad. This company has still not begun operating;
- Calais Participações S.A. ("Calais"), bought by TMAR in December 2004, has the corporate purpose of acquiring stakeholdings in other companies, both commercial and civil, as a partner or shareholder, within Brazil or abroad. This company has still not begun operating; and
- Serede Serviços de Rede S.A. ("Serede"), bought by TMAR on June 11, 2007, has the corporate purpose of constructing, setting up, maintaining and operating networks and buying and selling, importing and exporting equipment. Its operational start-up was in August 2007.

Indirectly controlled subsidiaries

- Telemar Telecomunicações Ltda. ("Telemar Telecomunicações"), which was fully owned by TNL and was purchased by Oi on December 18, 2007, has the corporate purpose of acquiring direct or indirect stakeholdings in other companies, both commercial and civil, as a partner or shareholder, within Brazil or abroad; and
- Paggo Empreendimentos S.A. ("Paggo"), bought by Oi on December 17, 2007, has the corporate purpose of acquiring stakeholdings in other companies, both commercial and civil, and the buying, selling and administration of its own properties and real-estate enterprises. It has a controlling stake in two companies: Paggo Acquirer Gestão de Meios de Pagamentos Ltda. ("Paggo Acquirer") and Paggo Administradora de Crédito Ltda. ("Paggo Administradora").
  - Paggo Acquirer has the following corporate purposes: (i) the registration and administration of payment networks through retail outlets and service providers, using credit systems or some other available means of payment; (ii) the obtaining, transmission, processing, guaranteeing and settlement of transactions carried out at approved establishments; and (iii) supplying the necessary technology and equipment for the suitable functioning of the credit systems;

- Paggo Administradora has the following corporate purposes: (i) registration, analysis and approval of clients who seek to join the company's credit systems; (ii) coordinating the relations between all the integral parts of the credit systems, participating networks, retail establishments, service providers, financial institutions and others; (iii) control and updating of data records and providing information on the transactions carried out using the credit systems; and (iv) providing administrative services for credit or other payment systems, including the obtaining, transmission, processing, guaranteeing and settlement of transactions.

All telephone services in Brazil are subject to regulation and supervision by ANATEL, in accordance with Law nº 9,472, of July 16, 1997.

2 Presentation of the financial statements and the principles of consolidation

(a) Preparation and presentation criteria

The financial statements were prepared and are presented in accordance with the accounting principles adopted in Brazil, based on the provisions of Brazilian Corporate Legislation and the regulations laid down by the CVM (Brazilian Securities Commission).

In the preparation of financial statements, it is necessary to utilize estimates in order to post the values of certain assets, liabilities and other transactions. The company's financial statements therefore include estimates regarding the useful life of property, plant and equipment, the provisions needed to cover contingent liabilities, the provision for corporate income tax and similar items. The realized values may differ from the estimated ones.

The cash-flow statement was prepared in accordance with Technical Pronouncement NPC 20, issued by IBRACON (Brazilian Institute of Accountants), taking into consideration the principal transactions that have affected the company's cash and short-term investments. This statement is broken down into operating, investment and financing activities.

The value-added statement shows the results for the fiscal years ended on December 31, 2007 and 2006 from the point of view of the generation and distribution of wealth, the principal beneficiaries of which are the employees, the government, the local community, third-party capital and the shareholders. This statement was prepared in accordance with Brazilian Accounting Standard — NBC T 3.7, approved by Federal Accounting Council Resolution nº 1,010/2005.

(b) Principles of consolidation

The consolidated financial statements include the financial statements of the directly owned subsidiaries Oi, AIX, Oi Internet, Coari, Calais, Serede, and of the indirectly owned subsidiaries Telemar Telecomunicações e Paggo. Moreover, the financial statements of AIX, a company under joint control, were consolidated proportionally to TMAR's equity stake (50%), as outlined in Note 16. The principal consolidation procedures were:

- taking the sum of the balances of the asset, liability, revenue and expense accounts, according to accounting form;
- eliminating the balances of the inter-company asset and liability accounts and significant inter-company revenues and expenses of the consolidated companies;

- eliminating the TMAR equity stakes in its subsidiaries; and
- reclassifying the AIX discount as "Unrealized earnings".

3 Main accounting practices

The most important accounting practices utilized in the preparation of the financial statements are as follows:

(a) Short-term investments

Short-term investments are recorded at cost plus the earnings accrued, on a pro rata basis, up to the balance sheet dates.

(b) Accounts receivable

The accounts receivable arising from the provision of telecommunications services are assessed according to the prevailing tariff rates on the dates that the services were provided. The accounts receivable also include the value of services provided to the customers that had not been billed at the balance sheet dates. The value of the unbilled services provided is assessed using the readings taken on the closing dates of the fiscal years and through estimates based on the previous month's figures. The respective taxes are also appraised and are recorded in the books on the accrual basis.

The charges levied on accounts in arrears are recognized in the accounts upon the issuing of the invoice for the first billing cycle following payment of the account in arrears.

(c) Provision for doubtful debts

This is made for the purpose of recognizing probable losses in relation to accounts receivable, taking into consideration the measures that are taken to restrict the services provided to customers whose bills are overdue and to obtain settlement of these accounts, implemented once the account is more than 60 days overdue and increasing progressively, as follows:

Accounts in arrears	% loss provided for
1 to 60 days	Zero
61 to 90 days	40
91 to 120 days	60
121 to 150 days	80
151 to 180 days	100

As of 181 days in arrears, the accounts receivable and their respective provision for doubtful debts are written off the balance sheet.

(d) Inventory

The company's stocks are separated and classified as follows:

- Stocks of maintenance materials, classified under current assets according to validity, are shown at the average acquisition cost, which is not to exceed the replacement cost.
- Items that are to be used in the expansion of the telephone network, classified under property, plant & equipment, are recorded at the average acquisition cost.
- Stocks of materials that are for sale, largely comprising mobile handsets and classified under current assets, are shown at the average acquisition cost. Provisions for losses are made in relation to stocks that are considered to be obsolete. Potential losses arising from a difference between the cost to Oi of the mobile handsets and their eventual sale price are recognized at the moment of the effective sale, since such losses are considered to be part of the effort to attract new subscribers.

(e) Pre-paid expenses

Discounts on the post-paid handsets sold by Oi are considered to be pre-paid expenses, since they represent part of the effort to attract subscribers to the customer base for a minimum contractual period. These amounts are amortized over a period of twelve months, given that the contracts provide for reimbursement in the event of disconnection or migration to a pre-paid plan prior to completing a one year subscription. What is more, the handsets have no economic value or other utility apart from enabling the providing of the services specified in the contracts entered into with Oi. Discounts for customers on pre-paid plans are not deferred, as these contracts do not provide for an early cancellation fee.

The FISTEL (Telecommunications Supervision Fund) fee, paid by Oi on the number of telephones in service, is also recorded as a pre-paid expense, and is amortized against the net earnings over the average customer retention period, which is estimated by the management to be 24 months.

Financial charges paid in advance, with regard to loans and financing, are amortized over the period that the contract is in effect. Furthermore, premiums paid on insurance policies are also treated as pre-paid expenses.

(f) Investments

Investments in fully-owned or joint subsidiaries are assessed by the equity adjustment method, plus/minus any amortizable premiums/discounts, in line with CVM Instruction n° 247/1996. Other investments, which are basically tax incentives, are recorded at cost, less a provision for adjustment to the realization value.

(g) Property, plant & equipment

Fixed assets are shown at their acquisition or construction cost, less accumulated depreciation.

Financial charges related to the construction of fixed assets have been capitalized in accordance with the criteria established in CVM Resolution n° 193/1996. Such capitalization was effected by TMAR and Oi until 2002, since which time there have been no further capitalizations by TMAR, due to the short duration of the work carried out and the fact that it was not directly financed by third parties. In the case of Oi, this practice was discontinued for lack of work-in-progress of significant planned duration.

Spending incurred for maintenance and repairs is only capitalized when it clearly represents an increase in installed capacity or in the useful life of the item, while all other spending is recorded against the income for the period. Up to the present date, the capitalization of these amounts has not had any significant impact on the financial statements, given that the greater part of the maintenance costs do not represent any real increase in useful life, obsolescence being the principal determinant in this regard.

Depreciation is calculated by the straight-line method, at rates that take into consideration the expected economically useful life of each item, based on wear and tear, technological obsolescence and reports by specialists (see the depreciation rates and more on useful life in Note 17).

(h) Intangible assets

Intangible assets are shown at their acquisition cost, less accumulated amortization.

The amortization is calculated by the straight-line method, at rates that take into consideration the expected economically useful life of each item or, in the case of usage rights, according to the period of such authorization.

(i) Loans and financing

The value of loans and financing is corrected in line with the relevant monetary or exchange variations, plus the interest incurred up to the balance sheet dates. The results of swap operations are calculated and recorded on a monthly basis, independent of their settlement dates.

(j) Remuneration, payroll charges and benefits

Provision is made for the amounts due to employees in relation to vacation pay, proportional to the period to which it corresponds, together with the corresponding payroll charges.

TMAR, Oi and Oi Internet have profit sharing schemes, in which all the employees who have been with the company for the last eight months of the year in question participate (for more details, see Note 27).

(k) Provisions for legal contingencies

Provisions are made in order to cover the contingent risk of anticipated “probable losses”, based on the opinion of the management and of its internal and external legal advisors, and the amounts recorded are based on estimates of the costs to be incurred in bringing the proceedings to a close. The grounds, amounts involved and the nature of the main provisions are described in Note 23.

(l) Employee benefits

TMAR, Oi and Oi Internet sponsor retirement schemes for the benefit of those employees who opt for them. The PBS-Telemar and TelemarPrev schemes are run by the Atlantic Social Security Foundation (FASS — Fundação Atlântico de Seguridade Social), while the PBS-Assistidos scheme is run by the Sistel Social Security Foundation (SISTEL — Fundação Sistel de Seguridade Social), and their costs are recognized in the financial statements in accordance with CVM Resolution nº 371/2000, which means, in the case of the defined benefit schemes (PBS-Assistidos and PBS-Telemar), over the working life of the participants, and in the case of the defined contribution scheme, in line with the monthly contribution payments, based on actuarial calculations approved by the SPC — Supplementary Social Security Department (for more details, see Note 27).

(m) Operating revenue

The revenues are recognized upon the rendering of the service or the definitive transfer of ownership of the merchandize. The services provided between the billing date ("cycle") and the end of each month are quantified and recognized in the corresponding month.

Revenue sources include the leasing of networks to other companies or operators, charges for services based on the number and duration of calls (the tariffs for local and long-distance calls are based on the time, duration and distance), network services, interconnections, maintenance and additional services. They also include terminal connection fees and pre-paid phone cards. In view of the low margins obtained from connection fees, the management considers that it would not be appropriate to defer this revenue in future. The revenue from the pre-paid phone cards used in fixed public telephones is recognized upon the sale of the card, while the costs are recognized when they are incurred. In view of the considerable turnover of these cards, non-recurring impacts will not have a significant effect on the financial statements. The revenue from calls made from pre-paid mobile phones is recognized when the credits are effectively used.

The revenues from the utilization of the TMAR and Oi networks by other operators are recorded on the basis of the DETRAF (Document for the declaration of traffic and rendering of services), issued by a third party, as well as in accordance with ANATEL's guidelines for the quantifying of such revenues.

(n) Financial income and expenses

This represents, in large part, interest and monetary and exchange variations on financial investments, loans, financing, debentures and derivatives, calculated and recorded in the books on the accrual basis.

In order to meet the legal requirements, interest on shareholders' equity that will count towards the compulsory minimum dividend has been recorded under financial expenses and will be reversed to retained earnings, since it is, effectively, the distribution of earnings. So as not to affect the financial indicators, and to allow a comparison to be made between different fiscal years, the reversals are presented under financial expenses, thereby cancelling out their effects.

(o) Income tax and social contribution

The provisions for income tax and social contribution payable and deferred in relation to timing differences, tax losses and negative social contribution bases are made at the statutory rate of 34%. Income tax and social contribution paid in advance is recorded under "Deferred and unrecovered taxes". TMAR and its subsidiaries carry out technical studies that envisage the generation of future earnings in line with the management's expectations, considering the continuity of the companies and the sustaining of earnings over an indefinite period, as far as in perpetuity. These future results are adjusted to present value and compared with the nominal amounts of tax credits recoverable over a ten-year period. These technical studies are updated annually and the tax credits are adjusted according to the results of these reviews. The studies have to be approved by the Statutory Audit Committee (for more details and the forecasts, see Note 13). The forecasts of future taxable income take into consideration estimates relating to, among other things, the company's performance, the behavior of the market and certain economic factors. The amounts realized may differ materially from the estimates used.

(p) Reclassification

Certain accounts in the financial statements for the fiscal year ended on December 31, 2006 have been reclassified in the balance sheet, for the purpose of comparison with the latest fiscal year, as shown below:

- In accordance with CVM Resolution no 489/2005, the sum of R$ 200 (Consolidated), recorded in long-term assets under the item "Judicial deposits and embargoes", has been offset in the books, with R$ 70 recorded under the item "Provisions for legal contingencies" and R$ 130, under the item "Taxes payable and deferred".

4 Operating revenue

	Parent Company				Consolidated			
	2007	%	2006	%	2007	%	2006	%
Wireline services								
Local:								
Subscriptions	6,980	34.2	6,688	33.0	6,980	27.9	6,660,914	27.5
Excess pulses	1,798	8.8	2,484	12.3	1,797	7.1	2,477,362	10.2
Fixed-to-mobile calls (VC1)	2,772	13.6	2,659	12.8	2,771	11.0	2,649,998	10.9
Collect calls	12	0.1	35	0.2	12		34,929	0.1
Connection fees	94	0.5	69	0.3	94	0.4	69,161	0.3
Other revenues	1		6		1		6,452	
Long distance:								
Intra-sectorial	1,617	7.9	1,680	8.4	1,630	6.5	1,749	7.2
Inter-sectorial	436	2.1	501	2.5	436	1.7	502	2.1
Inter-regional	607	3.0	617	3.1	629	2.5	670	2.8
International	36	0.2			76	0.3	79	0.3
Fixed-to-mobile calls (VC2 and VC3)	805	3.9	660	3.1	816	3.2	703	2.9
Public phone cards	1,106	5.4	1,117	5.6	1,106	4.4	1,117	4.6
Advanced voice (largely 0500/0800)	228	1.1	239	1.2	223	0.9	234	1.0
Additional services	646	3.2	578	2.7	644	2.6	576	2.4
	17,137	84.0	17,334	85.2	17,213	68.5	17,529	72.3
Wireless services								
Subscriptions					937	3.7	746	3.1
Outgoing calls					1,658	6.6	1,403	5.8
Sale of handsets and accessories					239	1.0	319	1.3
Domestic roaming					51	0.2	51	0.2
International roaming					63	0.2	68	0.3
Additional services					335	1.3	277	1.1
					3,283	13.0	2,865	11.8
Remuneration for use of the wireline network								
Fixed-to-fixed calls	491	2.4	513	2.7	503	2.0	549	2.3
Mobile-to-fixed calls	159	0.8	214	0.8	100	0.4	166	0.7
	650	3.2	727	3.5	603	2.4	715	3.0
Remuneration for use of the wireless network								
Fixed-to-mobile calls					239	1.0	224	0.9
Mobile-to-mobile calls					915	3.6	385	1.6
					1,154	4.6	610	2.5
Data communication services								
ADSL ("Velox")	1,121	5.4	935	4.5	1,121	4.5	915	3.8
Transmission ("EILD")	509	2.5	529	2.6	526	2.1	521	2.1
Dedicated line services — SLD	203	1.0	241	1.2	244	1.0	280	1.2
IP services	298	1.5	199	1.0	331	1.3	229	0.9
Bundling and frame relay	217	1.1	209	1.0	286	1.1	264	1.1
Others	260	1.3	221	1.0	372	1.5	304	1.3
	2,608	12.8	2,333	11.3	2,880	11.5	2,513	10.4
Other services	3		1		6		1	
Gross operating revenue	20,397	100.0	20,395	100.0	25,138	100.0	24,232	100.0
Deductions from gross revenue								
Taxes	(5,832)	(28.6)	(5,743)	(28.00)	(6,879)	(27.4)	(6,694)	(27.6)
Other deductions	(268)	(1.3)	(355)	(2.00)	(687)	(2.7)	(666)	(2.7)
Net operating revenue	14,297	70.1	14,297	70.0	17,572	69.9	16,872	69.6

Description of the services

(a) Wireline services

(i) Local

Local services also include certain additional services, such as messages, 'follow me' and conferencing, as well as features such as ISDN — Integrated Services Digital Network ("DVI"), which enables the transmission of voice, data, images and sound over a single digital line, thus allowing the customer to talk on the phone while simultaneously using the internet, for example.

The metered services include all calls where the origin and destination are within a single local area of Region I, bearing in mind that the basic residential plan monthly subscription fee carries an exemption covering the first 100 pulses, while the non-residential fee has an exemption covering the first 90 pulses. The revenue from excess pulses refers to the charge for pulses in excess of these exemptions. The billing of pulses is calculated as follows: (i) at the normal rate, using the Karlsson Incremented method KA — 240 (multi-metering), whereby a charge is made for a completed connection, at a defined rate per pulse, with an additional pulse charged every 240 seconds. The initial charge is made at random once the call has begun; and (ii) at a reduced rate, using the simple metering method, whereby a charge is made for a completed connection, regardless of the call's duration. The reduced rate applies to working days, between 12:00 pm and 6:00 am, Saturdays, between 12:00 pm and 6:00 am and from 2:00 pm on, all day on Sundays and on public holidays. On July 31, 2007, the process of migration from pulses to minutes was completed. Under the minutes scheme, the monthly exemption is 200 minutes for residential lines and 150 minutes for non-residential lines. As with the pulses, calls made at the reduced rate are charged a fixed amount (VCA — Completed Call Flat Fee), equivalent to two minutes. At the normal rate, calls are charged according to their duration, the initial charge being made after 30 seconds, with subsequent increments every six seconds.

TMAR also offers business clients with PABX — Private Automatic Branch Exchange (switchboard) systems a DDR service (automatic transfer of outside calls to the appropriate extensions). For companies that need a large number of lines, TMAR offers digital trunk services, which optimize the client's telephone system.

TMAR has been authorized to provide local services in Regions II and III and in Sector 3 of the PGO (General Licensing Plan) since August 2002. However, the revenues from such services are not significant.

(ii) Fixed-to-mobile calls

These refer to calls made from customers' fixed phones to customers' mobile phones. These services also include collect calls made by mobile phone customers to fixed line customers.

(iii) Long distance

Each state within TMAR's operating region is divided into various local areas. The calls made from one local area to another are designated "national long-distance calls" (NLD). The STFC national long-distance service includes intra-sectorial and inter-sectorial calls (calls between two distinct sectors, even if they are both located within the same state).

• Intra-sectorial and inter-sectorial long-distance service

Until July 1999, Embratel was the exclusive operator for inter-state long-distance services, but the company was not authorized to provide intra-state long-distance services. At that time, ANATEL enhanced the competition between the operators of long-distance wireline telephony, by requiring the customer to choose the desired operator for each long-distance call made, by dialing an operator code (CSP) before the national area code (CN) and the number of the phone being called. At the same time, Embratel was authorized to provide an intra-state long-distance service throughout the country, including the states of Region I, while TMAR initiated inter-state long-distance services between the states in Region I.

• Inter-regional long-distance service

The inter-regional long-distance service corresponds to calls where the origin and destination are in distinct regions of the PGO. Having attained certain universal coverage targets in the 2Q02, TMAR began, in July 2002, to provide inter-regional long-distance services from Region I and, in February 2003, services originating in Regions II and III and in Sector 3 of the PGO. To this end, TMAR signed interconnection contracts with other local wireline operators, so as to be able to directly interconnect with their networks.

Furthermore, since July 2002, TMAR has been providing international long-distance STFC services from Regions I, II and III, through the license obtained by Oi, although the customer making the call accesses these services using the same CSP 31. That authorization was transferred by Oi to TMAR, as mentioned in Note 1. For the purpose of providing these services, the company has signed various international contracts, to be able to interconnect its network with those of the leading telecom operators abroad.

(iv) Public telephone phone cards

TMAR owns and operates public telephones throughout Region I, with the exception of GPO Sector 3. On December 31, 2007, TMAR had approximately 583,775 public telephones in service (2006 — 577,139), all of them using pre-paid cards (unaudited figures).

(v) Advanced voice services

These comprise the 0300, 0500 and 0800 services, through which business deals can be arranged or problems solved by calling a number with one of these prefixes, at a predetermined tariff, to be paid either by the caller or by the company offering the service.

(vi) Additional services

Other services that are provided include changing or reorganizing lines, 102 directory inquiries, call blocking, follow-me, messages, and call waiting, among others.

(b) Wireless services

The revenue from wireless services comes from: (i) the utilization rates for outgoing calls and additional services, such as internet access, data transmission, short messages, call transfer, call waiting and call blocking; (ii) monthly subscriptions; (iii) roaming fees; and (iv) the sale of handsets and accessories. The post-paid services include messages, call identification, conferencing, follow-me, call waiting and special services, depending on the type of handset and whether it has WAP — Wireless Application Protocol or GPRS — General Packet Radio Service. The services are offered at reduced rates at certain times of day.

The WAP portal is a channel for making services and content available to the customer, and the following are just some of the facilities available: sending and receiving e-mails; setting up contact groups; access to banking facilities; and purchasing tickets for events. The WAP portal can also be used on-line to schedule personal activities or to start up contact groups.

Depending on the handset model, customers can have access to the GPRS service, which is available in all the main towns and cities in Region I. This service enables internet access over a mobile phone, laptop or palm pilot, allowing the customer to connect to the internet even while speaking on the phone.

Customers on post-paid plans pay a monthly subscription fee and the services provided are billed on a monthly basis, while the customers on pre-paid plans purchase cards, the prices of which vary according to the number of minutes of use and type of services they allow. These cards are valid for a limited period of time, once the credit has been activated.

Mobile telephone services in Brazil are provided on the basis of "the caller pays", meaning that the customer only pays for the calls s/he makes, plus any applicable roaming fees.

The tariffs vary according to the plan adopted, the origin of the call, its destination and its duration. The minimum charge for a call is 30 seconds, even if the call doesn't last that long. After the first 30 seconds, the user is charged for every six additional seconds.

Oi also earns revenue from roaming contracts with other operators providing domestic and international mobile telephone services.

Oi's billing may be broken down as follows:

(i) Subscriptions and outgoing calls

This covers the charges for services based on the number and duration of local and national long-distance calls made, together with the revenue from subscriptions to the post-paid plans.

(ii) Sale of handsets and accessories

This refers to the revenue from the sale of mobile phones, Simcards (Subscriber Identity Module Cards) and other accessories.

(iii) Domestic and international roaming

This refers to the revenue from roaming contracts with other operators providing domestic and international mobile telephone services. Every time another mobile operator's subscriber makes a call within Region I, that operator will pay a contractually agreed fee to Oi, and the inverse occurs if an Oi customer makes a call from another region, in which case the fee is then charged to the Oi subscriber.

(iv) Additional services

These refer mainly to shared-network services and other value-added services, such as sending text messages.

(c) Remuneration for use of the wireline network

TMAR has contracts with service providers to fixed and mobile (individual and special mobile services) customers covering interconnection and voice traffic. The operators are not allowed to discriminate in any way in providing interconnection services. It is a regulatory requirement that the terms of the contracts be freely negotiated between the parties, although they are still subject to review and approval by the regulator, ANATEL. If the parties are unable to reach an agreement, either of them may request ANATEL to arbitrate the defining of the contractual terms. Should ANATEL not approve any contractual provision, the regulator may demand alterations, as a condition of its ratification.

The services provided under the use of the TMAR network are largely related to competition in the long distance market. Consequently, TMAR's main customers for network use are long distance operators, who pay for use of the network, whether it be local or long distance, to provide such services to their customers. Whenever a slice is won of the long distance operators' market, this is reflected by an increase in the revenue from TMAR's long-distance services and a reduction in its revenue from network use, though with a positive net effect on total revenue, due to the difference in the tariffs for the two kinds of service.

Although TMAR holds 32 concessions, with separate accounting records (16 local and 16 long distance concessions), because the consolidated balances in these financial statements represent a single legal entity, there is no disclosure of the transactions between the separate concessions, such as, for example, the amounts relating to the TU-RL (tariff for use of the local network) that is charged by the local concession to the long-distance concession. The consolidated figures also do not show the revenues and expenses involved in transactions between TMAR and Oi, which are eliminated in the consolidation process.

(d) Remuneration for use of the wireless network

Oi's wireless network is directly interconnected with the domestic and international long distance wireline networks of all the companies operating in Region I and of all the Band A, B and E mobile operators in Region I.

Oi has contracts with all the other mobile telephone operators in Brazil for roaming, thus providing its subscribers with automatic access to roaming services when they are traveling in areas of Brazil where mobile services using GSM (Global System for Mobile Communications) technology are available. Most of the revenue from the growth of the pre-paid customer base represents interconnection tariffs charged when the customers of other wireline or wireless operators utilize the Oi network to make calls to customers in Region I.

With the migration of all the mobile operators to the SMP system, customers may now choose the code (CSP) of the desired operator for each call made.

Up until July 12, 2006, in dealings between mobile operators within the same area, network usage fees would only become due when the traffic originating from either of the two parties represented more than 55% (fifty-five percent) of the total traffic between those two operators. With the publication of Resolution nº 438 in the D.O.U. (government official gazette) of July 10, 2006, there was a significant change in the system of remuneration for use of the mobile network. As from July 13, 2006, the system of full billing came into force, whereby the VU-M (mobile network usage fee) is due to a mobile operator whenever its network is utilized as the origin or destination of a call.

(e) Data communication services

TMAR provides its clients with a variety of customized high speed data transmission services. These data communication services include interconnection between local area networks at transmission speeds of 34 Mbps or more, as well as videoconferencing, the transmission of video/still pictures, multimedia applications and dedicated internet access through internet service providers, and also private network services that allow clients to avail themselves of networks such as intranet or extranet. TMAR also provides SLD (dedicated line services), leasing these lines to other operators, as well as internet providers and business clients. Other operators, especially those providing wireless telephony services, also lease trunk lines from TMAR to use in their independent networks (EILD — Industrial Use of Dedicated Lines).

Data transmission services are provided utilizing TMAR's regional data transmission network and multiple service network platform, in addition to Oi's national radio and optic fiber network.

TMAR provides its data communication services, in the main towns and cities of Region I, utilizing ISDN (Integrated Services Digital Network) and ADSL (Asymmetrical Digital Subscriber Line) technology. ISDN lines were first offered to residential customers in January 2000, and ADSL subscriptions became available to small and medium-sized companies in April 2001. In recent years, TMAR has placed emphasis on the commercializing of its ADSL-based data communication service, going by the name of "Velox", as a means for the residential segment to access the internet. The ADSL technology allows voice and data to be transmitted at high speed over a single pair of copper wires in the access network. Since voice transmission over telephone lines utilizes just one of the many possible frequency bands, the remaining bands can be utilized for data transmission.

An ADSL modem is installed on the customer's conventional line and this, in turn, is connected to a DSLAM (Digital Subscriber Line Access Multiplexer) at the telephone exchange. Customers can use the telephone line and the internet simultaneously and pay a rental fee for the modem plus a fixed monthly subscription fee, independent of the amount of their internet use. The tariffs for the data communication services are determined solely in accordance with market criteria, and are not regulated by ANATEL.

Tariff adjustments (unaudited)

The tariffs for telecom services are subject to broad control. The concessions establish a ceiling mechanism for annual tariff adjustments (net of taxes), based on the weighted average of the tariffs in the baskets of local and long distance services. The interconnection fees are also adjusted annually.

On July 17, 2007, in accordance with Acts nº 66,028 and nº 66,031, ANATEL ratified the following fixed-to-fixed local and NLD tariff adjustments, with the new tariffs coming into effect as from July 20, 2007.

- Connection: 1.83%
- Subscription: 1.83%
- Local calls (measured in pulses — average): 1.83%(i)
- Local calls (measured in minutes): 1.83%(i)
- Phone card credits: 1.85%
- Basket of NLD services: 1.83%
- TU-RL: 1.83%
- TU-RIU: 1.83%

(i) Due to the change in the form of billing for local fixed-to-fixed calls, from pulses to minutes, TMAR maintained the tariffs that were in effect for these services prior to the tariff adjustment, on a promotional basis, until September 30, 2007, with the new local minute rates coming into effect as from October 1, 2007.

	Average tariff in reais (including taxes)	
	Current	Previous
Local services		
Connection	55.10	53.93
Residential subscription	40.42	40.00
Non-residential subscription	69.48	69.00
Trunk line subscription	69.34	69.04
AICE (Special Class Individual Access) subscription	24.18	24.06
Local calls measured in pulses (average)	0.15325	0.15040
Local minute of use (Basic Minutes Plan)	0.09849	0.09673
Local minute of use (Obligatory Alternative Services Plan)	0.03830	0.03762
Phone card unit	0.11850	0.11600
Long distance (km)(i)		
0 – 50	0.33439	0.33581
51 – 100	0.43646	0.44353
101 – 300	0.49108	0.49921
+ 300	0.54606	0.54975

(i) Weighted according to the minutes of use on long-distance calls at peak times.

On the same date, July 17, 2007, in accordance with Act nº 66,029, ANATEL authorized a 2.88% adjustment in the tariffs for fixed-to-mobile local (VC1) and domestic long distance (VC2 and VC3) calls, effective from July 20, 2007.

The estimated average tariffs for fixed-to-mobile services (VC1, VC2 and VC3), at normal hours, including taxes, are:

	Average tariff in reais (including taxes)	
	Current	Previous
Fixed-to-mobile services		
VC1	0.7617	0.7163
VC2	1.5560	1.5472
VC3	1.7719	1.7605

The adjustment in the mobile interconnection fee (VU-M) was 1.97%, equivalent to 68.5% of the VC1, VC2 and VC3 tariff adjustment.

The main service tariffs for Oi's most popular plans are:

Oi Conta Total 200(*)

	Amounts in reais (including taxes)
Subscription fee	R$ 238.15 fixed per month
Mobile-to-Fixed and Mobile-to-Mobile	R$ 0.60 per minute
Oi Mobile-to-Mobile between two phones registered under the plan	R$ 0.10 per minute
Mobile-to-Fixed in roaming mode — within Oi's coverage area	R$ 0.60 per minute
Mobile-to-Fixed in roaming mode — outside Oi's coverage area	R$ 0.78 per minute
Additional charge — roaming	R$ 1.05 per call

(*) This plan includes the provision of services by TMAR, the Oi Fixo subscription fee, unlimited fixed-to-fixed calls and Oi Velox.

Oi Controle

	Amounts in reais (including taxes)
Subscription fee	R$ 37.16 fixed per month
Oi Mobile-to-Fixed and Mobile-to-Mobile	R$ 0.85 per minute
Other Operator Mobile-to-Mobile	R$ 0.97 per minute
Additional charge — roaming	R$ 1.38 per call

The tariff for mobile-to-fixed and mobile-to-mobile calls under pre-paid plans is R$ 1.09 per minute.

5 Cost of services provided, goods sold and operating expenses — by type

	Parent Company		Consolidated	
Cost of services provided and goods sold	**2007**	**2006**	**2007**	**2006**
Interconnection(i)	3,058	2,858	3,332	2,792
Depreciation(ii)	1,681	2,242	2,256	2,762
Network maintenance services(iii)	1,282	1,220	1,363	1,378
Rents and insurance(iv)	504	478	671	599
Third-party services(v)	323	319	447	348
Materials(vi)	256	276	280	288
Cost of handsets, etc.(vii)			262	578
Personnel	234	182	253	192
ANATEL — Concession Contract extension fee (Note 1)	96	139	96	139
Other expenses(ix)	21	30	293	284
	7,455	7,744	9,253	9,360

Commercialization of services	Parent Company		Consolidated	
	2007	2006	2007	2006
Third-party services(v)	1,006	944	1,488	1,534
Provision for doubtful debts(viii)	536	365	650	475
Advertising and publicity	354	254	298	308
Personnel	137	147	167	181
Depreciation(ii)	23	42	34	48
Materials(vi)	—	1	3	6
Rents and insurance(iv)	1	2	1	2
Other expenses(ix)	18	13	48	35
	2,075	1,768	2,689	2,589

General and administrative expenses	Parent Company		Consolidated	
	2007	2006	2007	2006
Third-party services(v)	557	514	641	579
Personnel	182	188	265	258
Depreciation(ii)	97	124	176	199
Rents, insurance, etc.(iv)	84	98	88	99
Materials(vi)	12	10	12	11
Other expenses(ix)	8	11	13	13
	940	945	1,195	1,159

(i) The interconnection costs refer, basically, to the fees charged by the other mobile telephone operators for the use of their networks, which substantially reduces the margin on fixed-to-mobile services (VC1, VC2 and VC3). In July 2006, with the publication of ANATEL Resolution no 438/2006, approving the Regulation of Remuneration for Use of SMP Provider Networks, the offsetting of traffic was discontinued, adopting instead the full recognition of the revenue and expenses in relation to this traffic, a process known as "full billing".

(ii) The cost of depreciating the switching and transmission equipment is declining, in line with the gradual increase in the amount of TMAR equipment that has been fully depreciated.

(iii) The cost of network maintenance services is largely represented by spending on hiring outsourced plant maintenance services, notably for the expansion of the Velox installations and of Oi's subscriber base, with no increase in the useful life of the assets.

(iv) The increased cost of rents and insurance is basically due to higher amounts being paid for the leasing of circuits, mobile platforms, electricity poles, satellite, use of right of way and the dedicated lines of other telephone service providers, as well as of areas used for the installation of Oi transmission towers.

TMAR has a network lease contract with Oi for the provision of switched wireline telephone services (STFC) using Wireless Local Loop (WLL) technology, the cost of which, in 2007, amounted to a total of R$ 87 (2006 — R$ 84).

(v) The increased cost of third-party services is basically due to higher energy spending, as a result of a tariff adjustment and the enlarged network, more sales commissions and agency fees, resulting from the offers made to high-end post-paid customers, and spending on freight and data processing.

(vi) The cost of materials is largely represented by materials used in network maintenance, with no increase in the useful life of the items, plus spending on fuels and lubricants.

(vii) This item refers to the cost of selling mobile handsets, Simcards (Subscriber Identity Module Cards) and other Oi accessories, the reduction in which is due to the lower volume of mobile handset sales resulting from the stimulating of direct sales by the supplier to the respective sales outlets, as well as the reversal of the provision for obsolete stock (R$ 55), because of the fire at Oi's Rio de Janeiro distribution center, on January 19, 2007.

(viii) The increased provision for doubtful debts is due to the company's strategy of introducing a more flexible credit policy for lower income customers, while maintaining profitability.

(ix) This item mainly refers to the FISTEL fee levied on the connection of terminals and the maintenance of network equipment, as well as indemnifications, donations and sundry fines.

6 Other operating revenue (expenses), net

	Parent Company		Consolidated	
	2007	2006	2007	2006
Other operating revenues				
Renting of infrastructure(i)	137	140	211	198
Fines levied on accounts in arrears (Note 11)	147	148	179	169
Expenses recovered	80	28	91	34
Technical and administrative services	70	83	45	43
Allowances obtained(ii)	—	7	10	64
Amortization of the discount on the acquisition of AIX (Note 16)	7	7	7	7
Other revenues	49	26	48	26
	490	439	591	541
Other operating expenses				
Taxes(iii)	(269)	(268)	(390)	(383)
Provisions/reversals in regard to legal contingencies (Note 23c)	(280)	(553)	(310)	(621)
Amortization of the premium paid on the acquisition of Pegasus (Note 16)	(84)	(84)	(84)	(84)
Amortization of deferred assets (Note 19)	—	—	(65)	(65)
Amortization of the premium paid on the acquisition of Oi (Note 16)	(53)	(53)	(53)	(53)
Net loss caused by fire(iv)	—	—	(53)	—
Employee profit sharing (Note 27b)	(62)	(45)	(84)	(53)
Discounts conceded	(37)	(29)	(43)	(37)
Fines	(10)	(6)	(11)	(8)
Other expenses	(69)	(58)	(66)	(56)
	(864)	(1,096)	(1,159)	(1,360)
	(374)	(657)	(568)	(819)

(i) This refers to the rent charged to the mobile telephone operators for the utilization of buildings and infrastructure belonging to TMAR and Oi for the installation of ERBs (radio base-stations).

(ii) This refers to allowances obtained from Oi and TMAR's suppliers, in accordance with contractual clauses regarding the attainment of specified volumes of handset and equipment purchases. The reduction is due to the drop in the volume of handsets sold, caused by the company's encouragement of direct sales by the supplier to the retail outlets.

(iii) During the fiscal year ended on December 31, 2007, TMAR and its subsidiary Oi recorded a total of R$ 239 (2006 — R$ 250) in relation to FUST (Fund for Universal Access to Telecommunications Services) and FUNTTEL (Fund for the Technological Development of Brazilian Telecommunications) fees. The provision is in relation to the calculation change introduced by ANATEL Abridgement no 7 (no longer allowing the exclusion of EILD and interconnection charges from the calculation base, applied retroactively). In regard to the FUST fees, acting through ABRAFIX (Brazilian Association of Fixed Telephony Companies), TMAR has issued an injunction to prevent the application of the rule in question, and has been making judicial deposits of the differences in the calculations.

(iv) This item refers to the writing off of Oi inventory as a result of the fire at the Rio de Janeiro distribution center, on January 19, 2007, and the calculation includes taxes and the insurance indemnification.

7 Net financial income (expenses)

	Parent Company		Consolidated	
	2007	2006	2007	2006
Financial income				
Earnings on financial investments (Note 10)	222	115	437	308
Interest and monetary variation on other assets(i)	282	201	305	221
Financial discounts obtained(ii)	141	90	148	102
Interest and monetary variation on outstanding loans to subsidiaries (Note 28)	3	6	21	7
Other	3	—	9	7
	651	412	920	645
Financial expenses				
Interest on capital payable(iii)	(761)	(650)	(761)	(650)
Reversal of interest on capital(iii)	761	650	761	650
Result of hedging operations(iv)	(372)	(483)	(372)	(483)
Interest on outstanding loans from third parties	(343)	(366)	(358)	(366)
Monetary and exchange variation on outstanding loans from third parties(iv)	284	231	283	231
Interest on debentures (Note 24)	(257)	(238)	(257)	(238)
Withholding tax on financial transactions and bank charges, including CPMF	(179)	(164)	(206)	(191)
Interest and monetary variation on other liabilities	(25)	(39)	(129)	(51)
Monetary correction of provisions for legal contingencies (Note 23c)	(72)	(326)	(81)	(350)
Interest on scheduled taxes and contributions — REFIS II (Note 22)	(44)	(59)	(44)	(59)
Interest on loans and commissions payable to related parties (Note 28)	(32)	(141)	(31)	(125)
Other	(13)	(29)	(21)	(115)
	(1,053)	(1,614)	(1,216)	(1,747)
	(402)	(1,202)	(296)	(1,102)

(i) This item largely refers to the monetary correction of judicial deposits and tax credits and interest on accounts in arrears.

(ii) This item refers, basically, to discounts obtained as a result of payments in advance to suppliers.
(iii) Taking into consideration the tax benefit offered by the alteration of the income tax legislation, under Law nº 9,249/1995, TMAR declared R$ 761 in interest on capital during the fiscal year 2007 (2006 — R$ 651), (see Note 25(d)).
(iv) In 2007, the local currency (real) appreciated by 20.7% against the U.S. dollar (2006 — appreciation of 9.5%).

8 Non-operating income (expenses), net

	Parent Company		Consolidated	
	2007	2006	2007	2006
Net result of the disposal of permanent assets(i)	24	(9)	28	(11)
Provision/reversal in regard to losses on discontinued assets(ii)	3	(4)	3	(4)
Reversal of provision for losses in relation to tax incentives(iii)	—	5	—	5
	27	(8)	31	(10)

(i) This item refers mainly to the sale of properties and the writing off of network equipment.
(ii) This refers to a provision and subsequent reversal regarding losses on property sales (see Note 12).
(iii) This item refers to the partial reversal of a provision for losses in relation to tax incentives (see Note 16v).

9 Income tax and social contribution

The reconciliation of corporate income tax and social contribution, calculated at the effective and nominal rates, is shown below:

	Parent Company		Consolidated	
	2007	2006	2007	2006
Net income before income tax, social contribution and minority interest	3,531	2,089	3,613	1,832
Income tax and social contribution, calculated at the statutory rate (34%)	(1,201)	(710)	(1,228)	(623)
Adjustments to determine the effective rate:				
Taxation effects of interest on capital (Note 7)	259	221	259	221
Permanent exclusion (addition) of the result of the equity adjustment (Note 16)	154	39	4	—
Income tax and social contribution on tax loss and negative base, in accordance with CVM Instruction nº 371 (Note 13)	—	1	97	216
Taxation effects on permanent additions(i)	(72)	(42)	(83)	(48)
Tax incentives	20	15	23	15
Others	1	2	7	2
Income tax and social contribution, according to the income statement	(839)	(474)	(921)	(217)
Effective rate	23.77%	22.70%	25.49%	11.85%

(i) Refers to the cost of fines, donations, gifts and sponsorship that are considered non-deductible. Furthermore, the result of the equity adjustment of subsidiaries with unsecured liabilities is also treated as a permanent addition to taxable income and to the social contribution calculation base.

The income tax and social contribution credits (expenses) included in the net income for the fiscal year are as follows:

	Parent Company		Consolidated	
	2007	2006	2007	2006
Prior years(a)				
Income tax	—	(3)	—	(3)
Social contribution	1	—	1	—
	1	(3)	1	(3)
Current				
Income tax	(630)	(513)	(729)	(538)
Social contribution	(212)	(173)	(248)	(182)
	(843)	(686)	(977)	(720)
Deferred				
Income tax on temporary additions	(2)	163	(14)	292
Social contribution on temporary additions	4	52	1	99
Income tax on tax losses(b)	—	—	49	83
Social contribution on a negative calculation base(b)	—	—	19	33
	2	215	55	506
	(839)	(474)	(921)	(217)

(a) This basically refers to corporate income tax and social contribution adjustments with regard to previous fiscal years.

(b) According to the prevailing legislation, the tax losses in relation to income tax and a negative social contribution calculation base may be offset against future taxable income, up to an annual limit of 30% of that income.

10 Cash and equivalent

	Parent Company		Consolidated	
	2007	2006	2007	2006
Cash and banks	70	107	258	158
Open foreign exchange position(i)	201	—	201	—
Short-term investments:				
Investment funds(ii)	2,745	1,619	5,203	2,765
Government securities(iii)	79	94	259	260
Committed transactions(iv)	1	267	82	429
CDBs(iv)	69	119	76	149
Notes(v)	—	236	—	236
Interest-bearing deposits(vi)	18	2	21	2
	3,183	2,444	6,100	3,999
Short term	3,163	2,444	6,080	3,999
Long term	20	—	20	—

(i) On December 28, 2007, TMAR took out a foreign exchange position in relation to the realization of an investment abroad. These funds entered the country on January 3, 2008.
(ii) The short-term investments in investment funds are fully liquid. Of the consolidated total, R$ 320 (2006 — R$ 230) is held in an investment fund abroad, in a portfolio essentially comprising U.S. government securities and private securities issued by financial institutions. The other R$ 4,882 (2006 — R$ 2,535) has been placed in Brazilian investment funds with portfolios comprised of non-government securities.
(iii) This item refers to investments in government securities such as treasury bills, which are fully liquid.
(iv) These financial investments are indexed to the variations in the rate of the Interbank Deposit Certificate (CDI). The short-term portion is fully liquid, while the long-term portion, in the sum of R$ 20, refers to reinvestment in the Banco do Nordeste do Brasil S.A. (BNB), under the terms of article 3 of Provisional Measure MP nº 2,199-14/2001, and is recorded under "Other assets".
(v) These represent investments in notes issued by foreign governments.
(vi) This item refers to very short-term interest-bearing deposits, indexed to the variations in the CDI rate, which are fully liquid.

The management of the investment portfolios is the responsibility of the fund managers, and the consolidation of the financial statements in relation to these funds is not required under the terms of CVM Instruction nº 408/2004.

11 Accounts receivable

	Parent Company		Consolidated	
	2007	2006	2007	2006
Services invoiced	2,423	2,390	2,610	2,993
Services to be invoiced	820	945	923	1,054
Handsets and accessories sold	—	—	59	86
Provision for doubtful debts	(225)	(221)	(314)	(325)
	3,018	3,114	3,278	3,808

The breakdown of the amounts receivable, by maturity, is shown below:

	Parent Company			
	2007	%	2006	%
To be invoiced	820	25.3	945	28.3
Coming due	1,020	31.4	1,018	30.6
Receivable from other providers	417	12.9	274	8.2
Overdue by up to 30 days	508	15.7	605	18.1
Overdue between 31 and 60 days	156	4.8	190	5.7
Overdue between 61 and 90 days	89	2.8	103	3.1
Overdue more than 90 days	233	7.1	200	6.0
	3,243	100.0	3,335	100.0

	Consolidated			
	2007	**%**	**2006**	**%**
To be invoiced	923	25.7	1,054	25.5
Coming due	1,070	29.8	1,143	27.7
Receivable from other providers	513	14.3	623	15.1
Overdue by up to 30 days	547	15.2	659	15.9
Overdue between 31 and 60 days	170	4.7	206	5.0
Overdue between 61 and 90 days	99	2.7	213	5.1
Overdue more than 90 days	270	7.6	235	5.7
	3,592	100.0	4,133	100.0

A fine of 2% is charged on the total value of the debt outstanding under accounts in arrears (recorded under "Other operating income"), plus interest of 1% per month, charged on a pro rata basis (recorded under "Financial income"), which are recognized in the books upon the issuing of the first invoice following the settlement of the overdue invoice.

TMAR may block outgoing calls, when the bill is 30 days or more overdue, block incoming calls also, when a bill is 60 days or more overdue, and remove the customer's terminal when the bill is 90 days or more overdue, as long as the customer is given 15 days' advance warning. After the removal of the terminal, which is carried out when the payment is between 95 and 110 days overdue, the name of the customer in default is forwarded to the appropriate credit protection agencies.

The collection policy adopted by Oi, in accordance with the rules established by ANATEL in Resolution nº 316, provides for the partial suspension of services, until full payment has been made of all amounts due, in the case of a payment that is more than 15 days overdue and the customer has not paid and/or straightened out the situation, after receiving notification requesting the payment. The same policy also determines that all outgoing and incoming calls be blocked when a payment is still overdue 15 days after the partial suspension of services (30 days after the bill became due). When a payment has not been settled 45 days after all calls have been blocked (75 days after the bill became due), all services are suspended and the name of the delinquent customer may be included in the records of the credit protection services.

As from February 13, 2008, modifications to the SMP regulations, introduced under ANATEL Resolution nº 477 of August 7, 2007, came into effect. This resolution made the following alterations to the rules regarding default:

- blocking of all calls may be effected after 45 days, 30 days after the partial suspension, instead of after 15 days;
- the period for the suspension of all services and cancelling of the contract is now 90 days after the bill became due, because of the abovementioned alteration, the other periods remaining constant.

12 Amounts receivable

	Parent Company	Consolidated	
	2006	2007	2006
Amounts receivable — Barramar S.A.(i)	—	60	66
Property set aside for disposal(ii)	39	—	39
Amounts receivable — Hispamar S.A.(iii)	36	—	36
Others	—	1	—
Provision for losses(iii)	(4)	—	(4)
	71	61	137

(i) The amount receivable from the company Barramar S.A. represents 50% of the amounts recorded by AIX as realizable in the long term. Due to the bankruptcy of Barramar S.A., declared by the São Paulo State Supreme Court's 5th Chamber of Private Law in a ruling handed down on March 24, 2004, AIX is taking the appropriate legal steps to file its claims against the bankrupt estate and to have an appraisal made of the operating assets of that company, by virtue of its participation in the Refibra Consortium.

(ii) On July 26, 2006, the TMAR Board of Directors approved the sale of 13 properties at the average valuation price, which does not exceed the acquisition cost. During the fiscal year ended on December 31, 2007, the unsold properties for which there was no prospect of sale were reincluded under fixed assets.

(iii) In November 2001, TMAR signed an association agreement with Hispamar Satélites S.A., with the aim of reducing the cost of providing services in the north of the country, more specifically, the cost of leasing transponders from Embratel. On December 31, 2002, TMAR, together with Hispamar Satélites S.A., a subsidiary of Hispasat Brasil Ltda., signed a contract for the onerous transfer of TMAR's right to use a geostationary Band C satellite launched on August 4, 2004. The price of this transfer of usage rights was determined by means of a report drawn up by an independent firm of specialists, and came to a total of R$ 29, which is corrected monetarily in accordance with the IPC (Consumer Price Index).

On November 30, 2007, TMAR, Hispasat Brasil Ltda. and Hispasat S.A. signed a "Settlement Agreement", a private agreement for the settlement of mutual obligations, containing the following terms:

- Not to demand the fines, penalties and monetary correction that would be applicable between the parties, arising from (i) non-settlement by TMAR of unpaid capital in Hispamar; and (ii) non-settlement by Hispamar of obligations in relation to the transfer of TMAR's satellite usage rights, in accordance with the terms provided for at a meeting held on December 31, 2002.
- TMAR is to pay for the subscribed stock issued by Hispamar, amounting to 28,659,000 no par value shares, by cancelling the credit held by TMAR in relation to the transfer of the satellite usage rights. This transaction was agreed to by Hispamar's other shareholders.

As a result of the abovementioned subscription payment, TMAR became a shareholder of Hispamar, with a 19.04% stake (see Note 16).

13 Deferred and recoverable taxes

	Parent Company				Consolidated			
	2007		2006		2007		2006	
	Short term	Long term	Short term	Long term	Short term	Long term	Short term	Long term
ICMS recoverable	292	199	244	169	491	248	395	249
IR on temporary additions(i)	125	693	125	695	144	790	144	805
CS on temporary additions(i)	45	234	45	231	52	272	52	271
IR on tax losses(i)	—	—	—	—	1	514	—	464
CS on negative calculation base(i)	—	—	—	—	—	185	—	167
IR recoverable	536	—	11	—	612	—	30	—
CS recoverable	257	—	5	—	287	—	12	—
Taxes withheld at source	45	—	52	—	86	—	89	—
Other taxes recoverable	27	—	25	—	58	—	93	—
	1,327	1,126	507	1,095	1,731	2,009	814	1,956

(i) TMAR and its subsidiaries record their deferred tax credits arising from timing differences, tax losses and a negative social contribution calculation base in accordance with the provisions of CVM Resolution nº 273/1998 and CVM Instruction nº 371/2002. According to a technical study approved by TMAR's administrative bodies and submitted for the approval of the Statutory Audit Committee, the company's generation of taxable income over the next ten fiscal years, adjusted to present value, will be sufficient to absorb these tax credits, as shown below:

	Parent Company	Consolidated
To December 31st:		
2008	170	197
2009	201	259
2010 to 2012	527	815
2013 to 2017	198	687
	1,096	1,958

In the case of those direct subsidiaries that, as at December 31, 2007, had not turned a profit and/or did not have any expectation of generating sufficient taxable income over the next ten fiscal years, the tax credits in relation to the income tax losses, the negative social contribution base and the temporary differences were not fully recognized in the fiscal year 2006. The credits that have not been recognized in the books amount to a total of R$ 38(2006 — R$ 136). In the fiscal year 2007, Oi's record and prospects of generating sufficient taxable income over the next ten years were such that all the credits accrued to 2006, amounting to R$ 109 were recorded in the books (see Note 9).

14 Pre-paid expenses

	Parent Company		Consolidated	
	2007	2006	2007	2006
FASS(i)	260	—	260	—
Subsidy on Oi handsets(ii)	—	—	194	179
Financial charges(iii)	130	149	133	149
FISTEL fee(iv)	—	—	83	85
Taxes and contributions	10	10	10	10
Insurance	—	10	—	12
Others(v)	36	25	44	27
	436	194	724	462
Short-term portion	83	81	341	333
Long-term portion	353	113	383	129

(i) On October 29, 2007, the companies of the Oi group provided funding of R$ 260 to the Atlantic Social Security Foundation (FASS). This amount, calculated by the foundation's actuaries, is intended to bring the institution's finances into line with the latest actuarial premises, so as to better reflect the new economic scenario, of falling interest rates, and adjust the mortality and disability tables of the foundation's plans. According to the current premises (see Note 27, item (a), sub-item (iv)), this amount should be appropriated over approximately ten years, the estimated average remaining working life of the employees participating in the scheme.

(ii) This item refers to the sale of post-paid handsets, on which the average subsidy is R$ 300.00. The calculation is based on the effective additions, recoverable in up to 12 months, the period provided for in the contract during which the subscriber will be liable to a fine if s/he cancels or migrates to a pre-paid plan.

(iii) Financial charges and premiums paid in advance, against loans, financing and the issuing of debentures, are amortized over the periods that the contracts are in effect (see Notes 20 and 24).

(iv) This item refers to the FISTEL (Telecommunications Supervision Fund) fee, paid on the activation of a phone connection (2007 and 2006 — R$ 26.83 per connection). This fee is deferred for amortization over the average customer loyalty period, estimated at 24 months.

(v) This item refers to the expense of annual contracts involving rights of way and the renting of circuits, equipment and poles, among other things.

15 Judicial deposits and embargoes

	Parent Company		Consolidated	
	2007	2006	2007	2006
Civil	371	239	393	252
Fiscal(*)	294	353	344	365
Labor(*)	200	129	201	129
Judicial embargoes	258	243	262	247
	1,123	964	1,200	993

(*) The net amounts of judicial deposits linked to the corresponding liabilities (see Notes 21 and 23), in accordance with CVM Resolution nº 489/2005.

TMAR and its subsidiaries maintain judicial deposits in order to ensure their right of appeal in civil, labor and fiscal proceedings. The tax claims include the following:

	Consolidado			
	2007	%	2006	%
ICMS — value added tax assessments	80	23.2	68	18.8
INSS — social security	74	21.6	105	28.9
PAES — tax rescheduling program	56	16.4	18	5.0
COFINS — social security contribution	28	8.2	17	4.8
IPTU — municipal real-estate tax	25	7.2	25	6.7
CSLL — social contribution on net income	21	6.2	14	3.9
PIS/PASEP — social integration and public servant programs	19	5.6	18	4.8
ISS — tax on services	13	3.7	12	3.3
IRPJ — corporate income tax	10	2.9	62	17.0
Others(i)	16	5.0	25	6.8
	342	100.0	364	100.0

(i) This item refers to deposits made to ensure fiscal foreclosure in relation to the collection of taxes administered by the SRF (Brazilian Internal Revenue Service), as well as the suspension of liability for additional charges by the State and Municipal Public Treasuries.

Pursuant to the pertinent legislation, during the fiscal year ended on December 31, 2007, the judicial deposits were corrected monetarily, generating an income on the fiscal claims of $ 50 (2006 – R$ 49), on the labor claims of R$ 30 and on the civil claims of R$ 50, recorded under "Net financial income (expenses) – Interest and monetary variation on other assets" (see Note 7).

16 Investments

	Parent Company		Consolidated	
	2007	2006	2007	2006
Shareholdings evaluated by the equity accounting method:	8,367	7,782	23	—
Net premium paid on the acquisition of Oi(i)	257	310	257	310
Net premium paid on the acquisition of Pegasus(ii)	—	84	—	84
Net premium paid on the acquisition of Paggo(iii)	—	—	80	—
Net discount on the acquisition of AIX(iv)	(6)	(13)	—	—
Tax incentives(v)	38	38	38	38
Provision for losses on tax incentives(v)	(29)	(29)	(29)	(29)
Other investments	2	4	5	4
	8,629	8,176	374	407

(i) On May 30, 2003, following the approval of the Boards of Directors of both companies, TMAR bought from its parent company TNL 99.99% of the shares of Oi.

The price, of R$ 1.00 (one real), was defined after a market price assessment of the company's shareholders' equity by a firm of specialists, based on the financial statements of March 31, 2003, adjusted

to reflect the results of the trial balance prepared for Oi as at April 30, 2003 and the injection of capital by TNL, to the sum of R$ 562, prior to the transaction. This deal also involved TMAR assuming Oi's debts in 2003, with a R$ 600 capitalization in Oi.

The amount paid was higher than the book value, thus generating a premium of R$ 500, justified in economic terms by the appreciation of the value of that company's fixed assets, confirmed by an appraisal carried out by a firm of technical experts. This premium, calculated as shown below, will be fully amortized in 9 years and five months, which corresponds to the average depreciation period of said assets.

Unsecured liabilities of Oi as at April 30, 2003	1,062
Capitalization of credits by TNL prior to the sale to TMAR	(562)
Premium represented by the purchase price of R$ 1.00 (one real)	500

The benefits deriving from the optimization of the support and operations areas of TMAR and Oi, together with the alignment of the interests and commercial strategies of the two companies, will lead to the more rational use of the available resources, and a consequent reduction in costs and gains in productivity, as well as the better utilization of the synergies between the companies.

(ii) This item refers to the premium paid by TMAR to third parties in its acquisition of Pegasus, on December 27, 2002, based on the expected future profitability of its operations, derived from economic-financial evaluations carried out by other third parties, as well as the gains from synergies between the operations of TMAR and Pegasus.

This premium was fully amortized over the period from January 2003 to December 2007.

(iii) On December 17, 2007, Oi acquired a split-off from Paggo Participações S.A., bearing the name Paggo, for R$ 75, and recorded a premium of R$ 80, based on an appraisal issued by a firm of specialists. Their opinion was based on the expected profitability of the business during the next 10 years, the period over which said premium will be amortized. Paggo is a holding company with two fully-owned subsidiaries, Paggo Administradora and Paggo Acquirer. Paggo Administradora utilizes the technology that allows the use of credit cards over mobile phones, manages a portfolio of clients and handles billing. Paggo Acquirer is responsible for administering the payments to associated retailers (See Note 1).

(iv) This item refers to TMAR's shareholding in AIX, whose corporate purpose is to provide pipeline infrastructure for the installation of optic fiber alongside the principal highways in the state of São Paulo. On November 19, 2003, AIX's shareholders (at that time, Alcatel Telecomunicações S.A., Telecomunicações de São Paulo S.A. — Telesp and Pegasus) approved an economic-financial evaluation performed by a firm of specialists, including credits in relation to the company Barramar S.A., the realization of which is conditional on the future profitability of the Refibra Consortium. The profitability of this consortium stems from the fulfilling of contracts for the utilization of pipelines and networks by Telesp and Pegasus. As a result of its forecast, the Board of Directors of AIX approved, in a meeting held on November 20, 2003, the recording of a provision for losses, amounting to R$ 157. On December 16, 2003, Alcatel sold its shareholding in AIX to Pegasus and Telesp, with Pegasus acquiring 79.1% of those shares for the price of R$ 1.00 (one real), while recognizing a discount of R$ 54. At the same time, Pegasus and Telesp increased the capital stock of AIX, through the capitalization of credits in relation to that company, amounting to R$ 60 and R$ 106, respectively. As a result of the buy-out and the capitalization of the credits, Pegasus raised its stake in AIX from 18.1% to 50%.

On December 31, 2003, Pegasus sold its entire stake in Aix to TMAR, at book value. As a result of this transaction, the value of the discount was written off, with recognition of a non-operating revenue of R$ 54, that has been eliminated for the purpose of the consolidation.

In December 2004, AIX's Board of Directors approved a new technical study, prepared by third parties, as to the potential for realizing the assets, and supplemented the provision for losses, mentioned previously, by a further R$ 54. Consequently, the value of the discount was adjusted by R$ 17, proportional to the ratio between the loss complement and the book value of AIX prior to said adjustment. In December 2007, the technical study was updated, without any further supplementing of the provision.

In accordance with the provisions of Article 26 of CVM Instruction nº 247/1996, this discount is classified as "Unrealized Earnings" and is being amortized over a period of five years, based on the economic feasibility study.

The components of AIX's assets and liabilities, as well as its revenues and expenses, have been added to the consolidated financial statements, in proportion to TMAR's stake in the capital of that company.

The figures for the principal groups of balance sheet items of AIX, as at December 31, 2007 and 2006, together with the respective income statements for the fiscal years ended on those dates, taking into consideration TMAR's proportional shareholding, of 50%, are shown below:

Balance Sheets

	2007	2006		2007	2006
Assets			**Liabilities**		
Current			**Current**		
Cash and equivalent	4	4	Suppliers	1	10
Accounts receivable	2	2	Taxes, payable and deferred	7	6
Other assets	2	3	Other liabilities	1	—
	8	9		9	16
Non-Current			**Non-Current**		
Long term			**Long term**		
Amounts receivable	60	66	Loans and financing	12	22
Judicial deposits	1	—	Other liabilities	18	3
	61	66		30	25
Permanent			**Net equity**		
Fixed assets	11	8	Capital stock	230	230
Intangible assets	7	11	Accumulated losses	(174)	(166)
Deferred assets	8	11			
	26	30		56	64
Total assets	95	105	**Total liabilities and net equity**	95	105

Income Statements

	2007	2006
Gross operating revenue	25	26
Deductions from gross revenue	(3)	(3)
Net operating revenue	22	23
Cost of services provided	(9)	(10)
Gross income	13	13
Operating income (expenses):		
General and administrative	(5)	(4)
Other operating income (expenses), net	(8)	(4)
	(13)	(8)
Operating income before net financial result		5
Financial income (expenses), net	(4)	(5)
Operating profit (loss) before income tax and social contribution	(4)	—
Income tax and social contribution	(2)	(2)
Net profit (loss) for the year	(6)	(2)

(v) This item refers to FINOR (Investment Fund for the Northeast of Brazil) and FUNRES (Fund for the Economic Revival of the State of Espírito Santo).

	As at December 31, 2007 - Parent Company								
				Number of shares (thousand)		Equity stake -%			
Subsidiary	**Net equity**	**Capital stock paid up**	**Net profit (loss) for the year**	**Common**	**Preferred**	**Total capital**	**Voting capital**	**Equity adjustment**	**Investment value**
Oi	8,184	9,613	456	6,101		100	100	475	8,184
AIX	112	461	(12)	299		50	50	(8)	56
Oi Internet(i)	99	189	(10)	189		100	100	(10)	99
Coari				6	11	100	100		
Calais				5	10	100	100		
Serede(ii)	4	3	1	3		100	100	1	4
Affiliate									
Hispamar(iii)	122	151	6	151		19	19	(5)	23
Total								453	8,367
Oi premium									257
AIX discount									(6)
Other investments									13
Total investments									8,630

	As at December 31, 2006 - Parent Company								
				Number of shares (thousand)		Equity stake -%			
Subsidiary	Net equity (unsecured liabilities)	Capital stock paid up	Net profit (loss) for the year	Common	Preferred	Total capital	Voting capital	Equity adjustment	Investment value
Oi	7,709	9,613	138	6,101		100	100	138	7,709
AIX	127	461	(4)	299		50	50	(2)	63
Oi Internet(i)	9	89	(20)	89		100	100	(20)	9
Coari				6	11	100	100		
Calais				5	10	100	100		
Total								116	7,782
Oi and Pegasus premiums									394
AIX discount									(13)
Other investments									13
Total investments									8,176

(i) On March 23, 2007, TMAR approved an increase in the capital of its subsidiary Oi Internet, amounting to R$ 100, through the capitalization of the balance of a loan, to the sum of R$ 11, and an injection of funds totalling R$ 89.

(ii) On June 11, 2007, TMAR acquired Serede, whose main corporate purpose is to provide network services, as mentioned in Note 1. On June 21, 2007, at an Extraordinary General meeting of the shareholders, TMAR increased the capital of Serede by means of a capital subscription for the sum of R$ 3, which was paid in full on July 18, 2007.

(iii) The main corporate purposes of Hispamar Satélites S/A are the hiring of third party manufacturing services, the launching and operation of satellites and the utilization and commercialization of the useful capacity of orbital satellites that are duly licensed to handle a variety of different frequency bands, as well as to provide communications services, especially via satellite, and other services necessary to the performance of its corporate purposes. TMAR has a 19.04% stake in this company.

17 Property, plant and equipment

	Parent Company				
	2007			2006	Annual rate of depreciation (%)
	Cost	Accumulated depreciation	Residual value	Residual value	
Cables (access network)	6,491	(4,145)	2,346	2,418	5 to 20
Transmission equipment	9,650	(7,550)	2,100	1,673	5 to 20
Underground pipelines	2,044	(1,329)	716	740	4
Buildings	2,046	(1,387)	659	697	4 to 10
Poles and towers	817	(397)	420	415	4 to 5
Trunking switches	5,509	(5,093)	416	619	5 to 20
Other equipment	1,763	(1,357)	406	347	10 to 20
Switching equipment	9,282	(8,913)	369	387	20
Work in progress	232	—	232	416	—
Land	141	—	141	138	—
Hardware	505	(386)	119	113	20
Inventory for network expansion	110	—	110	114	—
Terminals	2,213	(2,152)	61	71	13 to 20
Improvements to third-party property	142	(83)	59	51	10
Other fixed assets	359	(299)	60	74	10 to 20
	41,303	(33,089)	8,214	8,274	

	Consolidated				
	2007			2006	Annual rate of depreciation (%)
	Cost	Accumulated depreciation	Residual value	Residual value	
Cables (access network)	6,696	(4,192)	2,503	2,581	5 to 20
TMAR transmission equipment	9,650	(7,550)	2,100	1,673	5 to 20
Oi transmission equipment(i)	2,272	(837)	1,435	1,500	10 to 20
Oi switching equipment(i)	1,160	(405)	755	819	10 to 20
Underground pipelines	2,057	(1,331)	726	740	4
Buildings	2,054	(1,389)	665	703	4 to 10
Other equipment	2,040	(1,481)	559	501	4 to 20
Poles and towers	959	(421)	537	535	4 to 5
Trunking switches	5,514	(5,093)	421	624	5 to 20
Improvements to third-party property	688	(290)	398	390	10
TMAR switching equipment	9,282	(8,913)	369	387	20
Work in progress	331	—	331	515	—
Hardware	714	(506)	208	223	20
Land	141	—	141	138	—
Inventory for network expansion	133	—	133	135	—
Terminals	2,219	(2,156)	63	72	13 to 20
Other fixed assets	621	(482)	139	192	10 to 20
	46,531	(35,049)	11,482	11,729	

(i) The rates of depreciation for the transmission and switching equipment belonging to Oi are supported by the internal appraisal of their useful lives. The assessment is based mainly on the questions of technological obsolescence and physical wear, and is in line with the normal practices adopted in the wireless telephony segment.

Additional information

(a) The management periodically reviews the profit generating potential of its assets, for the purpose of assessing the possible need for a reduction to its recovery value (impairment analysis).

(b) In accordance with the ANATEL Concession Contracts, all the fixed assets belonging to TMAR that are indispensable to the providing of the services authorized in said contracts are considered escheatable and form part of the cost of the respective concession. These assets will automatically revert to ANATEL upon the expiry of any concession contract that is not renewed.

At December 31, 2007, the residual balance of these escheatable assets was estimated at R$ 6,842 (2006— R$ 6,496), and comprised the assets and installations forming part of the work in progress, switching and transmission equipment and terminals for public use, equipment that is part of the external network, electrical equipment and systems and operational support equipment.

The increase in the balance of the escheatable assets was due to composition changes arising from the release of ANATEL Official Notice nº 244, providing an interpretation of ANATEL Resolution nº 447, which was previously subject to different interpretations.

The table below provides a summary of the comparative positions as at December 31st, taking into consideration the effects of the new interpretation:

	2007	2006
Balance using the previous methodology	6,404	6,496
Balance according to Official Notice nº 244	6,842	6,157

(c) TMAR and its subsidiaries have a variety of contracts for the leasing of computer equipment, the values of which are appropriated to the results over the duration of these contracts (see "Rents and insurance" in Note 5), given that the management has no intention of purchasing this equipment at the end of the contracts. Should these operations be recorded as fixed assets, against payable liabilities, the values of the contracts could be summarized as shown below:

			Asset balance		Liability balance		Expenses over the year	
Lessor	**Starting date**	**Expiry date**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
IBM Leasing	01/26/2007	01/25/2010	29	30	25	10	15	33
IBM Leasing	01/03/2006	01/03/2009	57	76	35	61	39	31
IBM Leasing	04/10/2006	04/10/2009	5	6	3	5	3	2
IBM Leasing	10/25/2006	10/24/2010	3	4	2	4	1	—
IBM Leasing	08/30/2006	08/30/2009	2	3	2	3	1	—
IBM Leasing	02/25/2007	02/25/2012	2	—	2	—	1	—
IBM Leasing	10/25/2006	10/24/2009	2	3	2	3	1	—
IBM Leasing	03/25/2007	03/25/2010	2	—	2	—	1	—
IBM Leasing	03/29/2006	03/29/2009	1	2	1	1	1	1
IBM Leasing	20/25/2004	10/25/2008	1	2	1	2	2	1
IBM Leasing	07/28/2005	07/28/2008	1	1	—	1	—	—
IBM Leasing	05/10/2005	05/10/2008	1	1	—	—	—	—
IBM Leasing	03/28/2002	02/28/2006	—	1	—	—	—	1
SAFRA	02/27/2007	02/27/2011	5	—	4	—	1	—
Visa Net	10/13/2003	10/13/2006	—	1	—	—	—	2
Itaú Leasing	02/27/2004	02/27/2007	—	1	—	—	—	1
Fináustria	10/21/2002	10/21/2006	—	1	—	—	—	6
			111	132	79	90	66	78

18 Intangible assets

	Parent Company				
	2007			2006	Annual rate of amortization (%)
	Cost	Accumulated amortization	Residual value	Residual value	
Software	1,144	(819)	325	284	20
Right of way	22	(6)	16	18	20
Others	49	(47)	2	3	5 to 10
	1,215	(872)	343	304	

	Consolidated				
	2007			2006	Annual rate of amortization (%)
	Cost	Accumulated amortization	Residual value	Residual value	
Oi usage rights(i)	1,415	(496)	919	843	7 to 13
Software	1,476	(989)	487	432	20
Others	85	(59)	26	31	5 to 20
	2,976	(1,544)	1,432	1,306	

(i) This item largely refers to the right to use certain radio frequencies, acquired by Oi in March 2001, for the sum of R$ 1,102, and in July 2003 and January 2004, for R$ 111, the amortization of which is calculated in accordance with the validity period of these authorizations, which extends up to March 13, 2016. The financial charges incurred prior to Oi's operational start-up, totaling R$ 64, have been capitalized.

With regard to the contracts signed in 2003 and 2004, Oi made a down-payment of 10% of the contract value, when the contract was signed, and recognized the balance under its liabilities, separated into short and long term, with final maturities in 2011 and 2012, respectively. The outstanding balance is corrected monetarily according to the IGP-DI inflation index, plus interest of 1% per month.

In December 2007, Oi was the winning bidder for 16 of the 105 frequency lots put out to tender by ANATEL, thus conferring the right to provide personal mobile services (SMP) for an indefinite period and the use of radio frequencies in São Paulo for a period of 15 years, renewable for an equal period (involving an additional R$ 120,580), as well as increased band width in some states within Region I (Amazonas, Amapá, Pará, Maranhão, Roraima, Bahia, Espírito Santo, Sergipe, Alagoas, Paraíba, Piauí and Rio Grande do Norte), valid until March 13, 2016 (which involved a further R$ 11). At the signing of the contract, Oi paid 10% of the contract value and fully recognized the balance outstanding to ANATEL for these concessions, under its liabilities.

According to the rules of the tender, the outstanding balance may be settled in up to 6 equal, consecutive annual installments, with the first coming due in 2010, though it may be paid in advance. The installments will incur IST, plus interest of 1% per month.

19 Deferred assets

These amounts correspond to expenses incurred by certain subsidiaries during their pre-operational phase, and they are being amortized based on economic feasibility studies conducted by third parties. The average amortization period is estimated at ten years for Oi Internet, AIX and Oi, and at five years for Paggo.

The consolidated deferred assets may be broken down as follows:

	Consolidated net value	
	2007	2006
Financial expenses	343	343
Third-party services	223	223
Personnel	48	48
Materials (mainly handsets)	31	31
Rents and insurance	30	30
Revenue from the sale of handsets	(20)	(20)
Others	5	3
Accumulated amortization	(363)	(297)
	297	360

The balances per subsidiary may be summarized as follows:

	2007			2006
	Cost	Accumulated amortization	Residual value	Residual value
Oi	632	(349)	283	346
AIX	22	(13)	9	11
Oi Internet	4	(1)	3	3
Paggo	2	—	2	—
	660	(363)	297	360

20 Loans and financing

	Take up	Maturity	Guarantees	Financial charges	Parent Company 2007	Parent Company 2006	Consolidated 2007	Consolidated 2006
(a) In local currency								
BNDES(i)	11/2006	06/2014	TNL surety and TMAR receivables	TJLP + 2.50 % p.a. and 4.50% p.a.	1,514	811	1,514	811
BNDES(ii)	09/2004	10/2012	TNL surety and Oi receivables	TJLP + 4.50% p.a.	461	555	461	555
BNDES(iii)	07/2007	01/2015	TNL surety and Oi receivables	TJLP + 4.50% p.a.	—	—	440	—
BNDES(iv)	12/2003	01/2011	TNL surety and TMAR receivables	TJLP + 4.50% p.a.	245	323	245	323
BNDES(v)	07/2005	08/2013	TNL surety and TMAR receivables	TJLP + 3.50 % p.a. and 4.50% p.a.	69	81	461	555
BNDES(vi)	12/2000	01/2008	TNL surety and TMAR receivables	TJLP + 3.85% p.a.	36	468	36	468
BNDES	12/2005	12/2013	TNL surety and TMAR receivables	TJLP + 4.50% p.a.	23	24	23	24
Banco do Nordeste do Brasil S.A.	06/2004	12/2014	TMAR receivables	10.5% p.a.	174	195	174	195
Others					—	—	19	11
With subsidiaries			No guarantee	104% of CDI	58	—	—	—
Financial charges					9	11	19	11
				Total in local currency	2,590	2,470	3,001	2,480

	Take up	Maturity	Guarantees	Currency	Financial charges	Parent Company 2007	Parent Company 2006	Consolidated 2007	Consolidated 2006
(b) In foreign currency									
ABN AMRO Bank N.V.(vii)	08/2001	08/2009	No guarantee	US$	LIBOR + 0.25% p.a. to 0.76% p.a.	233	507	233	507
ABN AMRO Bank S.A.	09/2005	09/2008	No guarantee	US$	5.45% p.a.	107	129	107	129
ABN AMRO Bank N.V.	01/2004	04/2009	No guarantee	US$	LIBOR + 3.00% p.a. to 4.83% p.a.	89	128	89	128
ABN AMRO Bank S.A.	06/2005	05/2008	No guarantee	US$	5.05% p.a.	53	64	53	64
ABN AMRO Bank S.A.	12/2005	11/2008	No guarantee	US$	5.43% p.a.	35	43	35	43
ABN AMRO Bank S.A.	06/2005	12/2010	No guarantee	US$	5.51% p.a.	33	50	33	50
ABN AMRO Bank S.A.	10/2005	10/2008	No guarantee	US$	5.28% p.a.	27	33	27	33
ABN AMRO Bank S.A.	02/2006	01/2009	No guarantee	US$	5.40% p.a.	24	29	24	29
Citibank Tokyo(viii)	09/2007	09/2017	No guarantee	Yen	Japanese interbank rate + 0.48% p.a.	661	—	661	—
FINNVERA(vii)(ix)	02/2003	02/2012	No guarantee	US$	LIBOR + 0.29% p.a.	159	235	159	235
FINNVERA(vii)	11/2004	11/2010	No guarantee	US$	LIBOR + 0.76% p. a.	75	106	75	106
KFW(vii)(ix)	02/2003	08/2012	No guarantee	US$	LIBOR + 0.22% p.a.	72	105	72	105
KFW	07/2002	01/2011	No guarantee	US$	LIBOR + 0.5% p.a.. and 2.0% p.a.	55	95	55	95
KFW	06/2000	10/2009	No guarantee	US$	8.75% to 11.87% p.a.	—	73	—	73
Société Générale / Coface(ix)	02/2003	11/2012	No guarantee	US$	LIBOR + 0.22% p.a.	51	74	51	74
Société Générale/Natexis	12/2004	10/2009	No guarantee	US$	LIBOR + 1.95% p.a.	30	55	30	55
BNDES(iv)	12/2003	01/2011	TNL surety and TMAR receivables	UMBNDES(x)	BNDES variable rate + 4.50% p.a.	35	55	35	55
BNDES(vi)	12/2000	01/2008	TNL surety and TMAR receivables	UMBNDES(x)	BNDES variable rate + 3.85% p.a.	8	120	8	120
NIB(vii)	11/2004	11/2010	No guarantee		LIBOR + 0.76% p.a.	30	43	30	43
NIB(vii)(ix)	03/2003	02/2012	No guarantee	US$	LIBOR + 0.75% p.a.	30	44	30	44
Banco Santander do Brasil S/A	04/2005	04/2008	No guarantee	US$	5.9% p.a.	22	26	22	26
BANESPA	01/2004	01/2007	No guarantee	US$	6.5% p.a.	—	17	—	17
Deustche Bank GB	01/2004	01/2007	No guarantee	US$	LIBOR+ 4% p.a.	—	8	—	8
Unibanco	12/2004	12/2007	No guarantee	US$	4.90% p.a.	—	8	—	8
Financial charges						51	78	51	79
					Total in foreign currency	1,881	2,125	1,881	2,125
					Balance of foreign currency swap operations	778	837	778	837
					Total loans and financing	5,250	5,432	5,660	5,442
					Loans and financing — short term	1,297	1,633	1,319	1,633
					Loans and financing — long term	3,953	3,799	4,341	3,809

(a) Turnover of loans and financing during the fiscal years ended on December 31st (consolidated)

Year	Opening balance	Additions	Amortization	Financial charges	Closing balance
2007	5,442	1,873	(2,090)	435	5,660
2006	6,565	1,980	(3,772)	669	5,442

The average interest rate on the debt denominated in local currency, which amounted to R$ 3,001 as at December 31, 2007 (2006 — R$ 2,480), is approximately 10.5% p.a. (2006 — 10.4%). The average interest rate charged on the foreign currency debt, which totalled R$ 1,881 on that same date (2006 — R$ 2,125), is 5.9% p.a. (2006 — 6.8%) for funding obtained in U.S. dollars, 1.6% p.a. for funding denominated in Japanese Yen and 11.0% p.a. (2006 — 9.9%) for funding pegged to the BNDES (Brazilian Development Bank) currency basket. The financial charges on the debt are basically composed of interest and monetary and exchange variations, net of the results of currency swap operations.

(b) Description of the principal loans and financing

(i) In November 2006, TMAR signed a contract for financing from the BNDES, amounting to R$ 1,971, and drew down R$ 810 to finance the expansion and technological upgrading of its fixed telecommunications network, scheduled to be carried out over the period 2006 to 2008. In September 2007, TMAR drew down a further R$ 700. The financial charges are due on a quarterly basis up to June 2009, from which time the payments will be monthly, between July 2009 and June 2014. The principal will become due on a monthly basis, as from July 2009.

(ii) In September 2004, Oi closed a financing contract with the BNDES, amounting to R$ 663, and has drawn down R$ 585 of this, R$ 400 in September 2004 and R$ 185 in May 2005, with the aim of financing its planned capital expenditure. The financial charges were due on a quarterly basis, until April 2006, when they became monthly, from May 2006 until October 2012. The principal has been payable on a monthly basis, since May 2006. On December 29, 2005, with the consent of the BNDES, Oi transferred the full amount of this financing to TMAR.

(iii) In July 2007, Oi closed a financing contract with the BNDES, amounting to R$ 467, and drew down R$ 290 in that same month and a further R$ 150 in October, to finance the expansion and technological upgrading of its mobile telecommunications network, scheduled to be carried out between 2006 and 2008. The financial charges come due on a quarterly basis, until January 2010, becoming monthly for the period February 2010 to January 2015. The principal will be payable on a monthly basis, as from February 2010.

(iv) During the period December 2003 to October 2004, TMAR drew down R$ 530 against a loan contract closed with the BNDES in December 2002, with the aim of financing its planned capital expenditure for the years 2002, 2003 and 2004. The funds were invested in the expansion of the telecoms network and in operational improvements. The financial charges came due on a quarterly basis, until January 2005, becoming monthly from May 2005 until January 2011. The principal has been payable on a monthly basis since May 2005.

(v) In July 2005, TMAR closed a loan contract with the BNDES, amounting to R$ 218, drawing down R$ 80 in that same month, with the aim of financing its work towards the PGMU (General Target Plan for Universal Telecoms Access). The financial charges were due quarterly, until August 2006, becoming monthly from September 2006 until August 2013. The principal has been payable on a monthly basis since September 2006.

(vi) This item refers to the utilization of resources provided under special lines of credit, for the acquisition and installation of equipment, infrastructure and other items, under the terms of the government's "Program of Support to Investment in Telecommunications". The financial charges and principal were payable on a monthly basis, until January 2008.

(vii) In August 2001, Oi obtained a line of credit for US$ 1,425 million from a consortium of banks and suppliers (Nokia, Siemens and Alcatel), led by the Dutch bank ABN ARNO Bank N.V., to cover both capital expenditure and working capital. After carrying out four restructurings of this facility, the most recent in November 2007, the balance on this line of credit at December 31, 2007, after discounting amortization, was US$ 193 million (2006 — US$ 310 million). The resources made available under this line of credit have been fully utilized. In November 2003, the debt was transferred from Oi to TMAR.

(viii) In September 2007, TMAR obtained a syndicated loan of R$ 664 (US$ 360 million), to finance the expansion and technological upgrading of its wireline network. This international facility was put together by a consortium of banks, led by Citibank Tokyo and the Sumitomo Mitsui Banking Corporation. The Japan Bank for International Cooperation (JBIC — the Japanese Development Bank) is the guarantor. The Mizuho Corporate Bank, Bank of Tokyo-Mitsubishi UFJ and the Tokyo branches of Societé Générale, Banco Bilbao Vizcaya Argentaria and ING Bank N.V also participated in the consortium.

(ix) In December 2002, Oi closed a financing contract with KFW — Kreditanstalt Fur Wiederaufbau, NIB — Nordic Investment Bank, Société Générale/Coface and FINNVERA — Finnish Export Credit, amounting to US$ 300 million, to partially replace the line of credit taken out with ABN AMRO Bank N.V.. In November 2003, the debt was transferred from Oi to TMAR.

(x) BNDES discloses its currency basket rate (UMBNDES) on a daily basis.

The repayment of long-term debt has been scheduled as follows:

	Parent Company				Consolidated			
	2007	%	2006	%	2007	%	2006	%
In local currency								
2008			257	6.8			268	7.0
2009	432	10.9	302	8.0	380	8.8	302	7.9
2010	526	13.3	383	10.1	607	14.0	383	10.1
2011	4523	11.5	310	8.2	541	12.5	310	8.2
2012	420	10.6	278	7.3	508	11.7	278	7.3
2013 onwards	490	12.4	276	7.2	674	15.4	276	7.2
	2,322	58.7	1,808	47.6	2,710	62.4	1,818	47.7
In foreign currency								
2008			984	25.9			984	25.8
2009	684	17.3	652	17.2	684	15.8	652	17.1
2010	249	6.3	188	4.9	250	5.8	188	4.9
2011	175	4.4	106	2.8	175	4.0	106	2.8
2012	133	3.4	62	1.6	133	3.1	62	1.7
2013 onwards	389	9.9			389	8.9		
	1,631	41.3	1,991	52.4	1,631	37.6	1,991	52.3
Total								
2008			1,242	32.7			1,252	32.8
2009	1,117	28.2	954	25.2	1,065	24.6	954	25.0
2010	776	19.6	571	15.0	857	19.8	571	15.0
2011	628	15.9	416	11.0	716	16.5	416	11.0
2012	553	14.0	340	8.9	641	14.8	340	9.0
2013 onwards	879	22.3	276	7.2	1,063	24.3	276	7.2
	3,953	100.0	3,799	100.0	4,341	100.0	3,809	100.0

21 Taxes payable and deferred

	Parent Company				Consolidated			
	2007		2006		2007		2006	
	Short term	Long term	Short term	Long term	Short term	Long term	Short term	Long term
ICMS(i)	266		307		444		408	
ICMS — Covenant 69/1998(ii)		77		57		77		57
PIS and COFINS	73		74		99		96	
Corporate income tax payable	414		154		494		179	
Social contribution payable	212		66		248		75	
Deferred corporate income tax and social contribution — Law n° 8,200/1991	11		12		11		12	
Others	25		27		35	2	35	12
	1,001	77	640	57	1,331	79	805	69

(i) A variety of municipal, state and federal taxes are levied on telecommunications services, the main one being ICMS (Value Added Tax on sales and services), which is charged by the states at differing rates. The ICMS rate for Rondônia is 35%; it is 30% for the states of Pará, Paraíba, Mato Grosso and Rio de Janeiro; 29% for Goiás and Mato Grosso do Sul; 28% for Pernambuco; 27% for Bahia, Ceará, Rio Grande do Norte, Sergipe, Paraná and Alagoas. For all the other states, the ICMS rate is 25%.

(ii) In June 1998, the state finance secretaries approved Covenant 69, broadening the range of the ICMS, which could now be levied on other services, including the connection fee. According to the new interpretation, this ICMS could be applied retroactively to the preceding five years. TMAR's management and legal advisors consider that the broadening of the range to include services that are supplementary to those of telecommunications is questionable because: (a) the state finance secretaries acted beyond the limits of their authority; (b) the new interpretation embraces services that are not considered to be those of telecommunications; and (c) new taxes cannot be applied retroactively.

Upon the publication of the abovementioned Covenant, TMAR filed a writ against the levying of ICMS on the services of installation and connection (the principal revenues under discussion), and has been recording a monthly provision, corrected monetarily, in relation to this case. Recently, TMAR obtained favorable definitive rulings in the proceedings it filed in the states of Sergipe, Amazonas and Amapá, with the declaration that it was unconstitutional to charge ICMS on such services. The Supreme Court (STJ) is also tending towards the understanding that ICMS should not be levied on the revenues from connection and other services that prepare the way for telecommunications services.

In view of the position of the STJ, the management understands that the amounts that have been charged to the subscribers ought to be returned to them, as the legal proceedings are decided in the different states. However, the management considers that the reimbursement of these amounts is conditional upon the subscriber still forming part of the active customer base and being up to date in his or her payments.

The amount is shown in the consolidated figure net of judicial deposits amounting to R$ 146 (2006 — R$ 130).

22 REFIS II — Tax Refinancing Program

TMAR and its subsidiary Oi have both adhered to the PAES – Special Scheduling (also known as the REFIS II Tax Refinancing Program), governed by Law nº 10,684/2003, with the registration of a substantial portion of the debt to the National Treasury and the INSS that was due up to February 28, 2003. According to the provisions of Article 7 of the aforementioned law, TMAR and its subsidiary are obliged to keep up to date in their payment of the installments under the REFIS II, and may be excluded from the program in the event of late payment in three consecutive months or in six alternating months, whichever should happen first.

The refinancing has been scheduled over 120 months and the amounts of R$ 115 (parent company) (2006 — R$ 108) and R$ 116 (consolidated) (2006 – R$ 108), were settled on time during the year ended on December 31, 2007, in compliance with the provisions of CVM Instruction nº 346, which address the prompt meeting of the payments as an essential requirement for sustaining the conditions provided for under the REFIS II.

The amounts covered by the REFIS II are as follows:

	Parent Company				Consolidated			
	2007		2006		2007		2006	
	Short term	Long term	Short term	Long term	Short term	Long term	Short term	Long term
COFINS	69	307	65	354	70	311	66	357
CPMF	25	110	23	126	25	110	23	127
Corporate income tax	13	54	12	63	13	54	12	63
Social contribution	4	23	4	25	4	23	4	25
INSS — SAT	3	19	3	21	3	19	3	21
IOF	4	15	3	18	3	15	3	18
PIS	1	3	1	3	1	3	1	3
	119	531	111	610	119	535	112	614

A breakdown of the REFIS II amounts, showing principal, fines and interest, is presented below:

	Consolidated				
	2007				2006
	Principal	Fines	Interest	Total	Total
COFINS	274	27	79	380	422
CPMF	97	10	28	135	151
Corporate income tax	37	9	21	67	75
Social contribution	15	3	9	27	29
INSS — SAT	13	2	7	22	24
IOF	13	1	5	19	21
PIS	2	1	1	4	4
	451	53	150	654	726

These amounts are corrected monetarily according to the variations of the TJLP (Long Term Interest Rate), with R$ 44 in the parent company (2006 – R$ 59) and R$ 44 in the consolidated figures (2006 – R$ 59) being recognized as "Financial expenses" for the fiscal year ended on December 31, 2007 (see Note 7).

As at December 31, 2007, the payment flows through the REFIS II, adjusted to present value at the rate of 12% p.a. (forecast average rate of remuneration), for the remaining five years and five months, totaled R$ 585 (parent company) and R$ 589 (consolidated).

Faced with the undue classification, by the SRF (Federal Internal Revenue Department) and the PGFN (Office of the Chief Attorney for the National Treasury), of debts under the PAES program, TMAR felt obliged to file a lawsuit in order to prove its good standing with regard to payment of the installments under the program, as well as to correctly attest to the debts that were included in that program. To this effect, and in view of the concession of a preliminary injunction conditional upon a guarantee, supplementary judicial deposits of approximately R$ 3 per month were made until such time as an administrative or judicial decision be handed down determining the correct balance of the debts included in the PAES scheme. In May 2006, TMAR obtained a judicial ruling authorizing the monthly guarantee presented in this legal action to be effected by means of a bank guarantee, instead of a cash deposit.

In the case of Oi, the same error has been committed by the administrative authorities, with the undue inclusion of amounts other than those specified by the companies. On August 22, 2006, the SRF removed Oi from the REFIS II program, on the grounds of alleged payment default. Since the management and its legal advisors consider that this exclusion is totally unfounded, given that the calculation of the installments to be paid is based on the amounts that the companies themselves asked to be included, Oi is taking the necessary administrative and judicial steps for their reinstatement in the REFIS II program. In the event that the REFIS II debt is recalculated without including the benefits provided for in Law nº 10,684/2003, the amount of the long-term debt, totaling R$ 4 will be transferred to current liabilities.

23 Provisions for legal contingencies

(a) Composition of the book balance

		Parent Company		Consolidated	
		2007	2006	2007	2006
	Fiscal				
(i)	ICMS	309	225	389	286
(ii)	FUST	79	56	79	65
	Offsetting of tax losses and negative contribution base	54	89	54	89
	INSS (joint responsibility, professional fees and indemnifications)	50	47	50	47
(iii)	ISS	49	49	49	49
	FUNTTEL	44	28	45	28
(iv)	ILL	43	41	43	41
(v)	Other claims	77	135	80	138
	Associated judicial deposits(*)	(134)	(70)	(152)	(70)
		571	600	637	673
	Labor				
(i)	Overtime	191	368	192	371
(ii)	Pay differences	126	127	126	128
(iii)	Indemnifications	89	106	89	107
(iv)	Fines	82	36	82	37
(v)	Sundry extras	78	121	78	121
(vi)	Knock-on effect	60	261	63	262
(vii)	Professional fees	41	24	41	24
(viii)	Pension differences	32	26	32	26
(ix)	Contractual rescission	23	19	23	19
(x)	FGTS	15	9	15	9
(xi)	Employment links	14	1	15	1
(xii)	Other claims	59	23	61	23
	Associated judicial deposits(*)	(233)	(201)	(235)	(204)
		577	920	582	924
	Civil				
(i)	ANATEL estimates	298	157	303	160
(ii)	Small claims courts	73	70	81	77
(iii)	ANATEL fines	65	53	68	55
(iv)	Other claims	266	256	273	263
		702	536	725	555
		1,850	2,056	1,944	2,152

(*) In accordance with CVM Resolution nº 489/2005.

In accordance with the terms of the respective legislation, the provisions for legal contingencies are corrected monetarily on a monthly basis, using the following indices and interest rates:

Fiscal: Variations of the SELIC (Brazilian Central Bank base rate) and UFIR (Fiscal Unit of Reference);

Labor: Indices of the Regional Labor Courts (TRTs), plus interest of 1% per month;

Civil: Variations of the UFIR, plus monthly interest (0.5% up to January 9, 2003 and 1% as from January 10, 2003) and, for ANATEL, the IGP-DI inflation index.

(b) Breakdown of the claims according to level of risk, net of judicial deposits, as at December 31st (consolidated)

	2007			
	Fiscal	**Labor**	**Civil**	**Total**
Probable	637	582	725	1,944
Possible	5,345	387	1,093	6,825
Remote	692	684	375	1,751
	6,674	1,653	2,193	10,520

	2006			
	Fiscal	**Labor**	**Civil**	**Total**
Probable	673	924	555	2,152
Possible	4,226	958	597	5,781
Remote	273	1,084	626	1,983
	5,172	2,966	1,778	9,916

(c) Summary of the changes in the balances of the provisions for legal contingencies

	Parent Company			
	Fiscal	**Labor**	**Civil**	**Total**
Balance at December 31, 2005	465	999	452	1,916
Additions, net of reversals	232	128	252	612
Write downs due to settlement	(127)	(134)	(265)	(526)
Monetary correction (Note 7)	100	129	97	326
Associated judicial deposits	(70)	(202)	—	(272)
Balance at December 31, 2006	600	920	536	2,056
Additions, net of reversals(i)	101	(68)	281	314
Write downs due to settlement	(103)	(237)	(157)	(497)
Monetary correction (Note 7)	37	(7)	42	72
Associated judicial deposits	(64)	(31)	—	(95)
Balance at December 31, 2007	571	577	702	1,850

	Consolidated			
	Fiscal	**Labor**	**Civil**	**Total**
Balance at December 31, 2005	472,489	1,001,758	460,482	1,934,729
Additions, net of reversals	293,958	130,391	278,259	702,608
Write downs due to settlement	(143,091)	(134,565)	(282,855)	(560,511)
Monetary correction (Note 7)	120,146	130,515	99,240	349,901
Associated judicial deposits	(70,424)	(203,899)	—	(274,323)
Balance at December 31, 2006	673	924	555	2,152
Additions, net of reversals(i)	104	(67)	299	336
Write downs due to settlement	(104)	(238)	(171)	(513)
Monetary correction (Note 7)	45	(6)	42	81
Associated judicial deposits	(81)	(31)	—	(112)
Balance at December 31, 2007	637	582	725	1,944

(i) The total additions in the period, net of reversals, amounting to R$ 335, comprise the provisions for legal contingencies, to the sum of R$ 310 (see Note 6), and the amounts shown in the table below, totalling R$ 26. During the fiscal year ended on December 31, 2007, the management altered the method of calculating losses in relation to labor claims, basing the new calculation on the record of payments already made. This change brought about a reversal against the provision for legal contingencies, to the sum of R$ 407, with R$ 264 recorded under "Other operating expenses — provisions for legal contingencies and reversals" (Note 6), and R$ 143 under "Net financial income (expenses) — monetary correction of provisions for legal contingencies" (Note 7).

The amounts of the provisions in relation to ICMS on the leasing of IP gateways, INCRA, FUST, FUNTTEL and an ICMS power consumption credit are recorded in the respective accounts for these charges, as shown below:

	Parent Company		Consolidated	
	2007	**2006**	**2007**	**2006**
Deductions from gross revenue:				
Leasing of IP gateways	—	—	—	(15)
Payroll expenses:				
INCRA	(1)	(1)	(1)	(1)
Other operating expenses:				
FUNTTEL	(13)	(11)	(13)	(11)
FUST	(17)	(38)	(10)	(47)
ICMS credit on power consumption	(2)	(8)	(2)	(8)
	(33)	(58)	(26)	(82)

(d) Provisions for probable losses (consolidated)

Fiscal:

(i) ICMS (Value Added Tax on Sales and Services) — Refers to a provision that is considered by the management to be sufficient to cover the various tax assessments in relation to: (a) insistence on levying ICMS, instead of ISS, on certain revenues; (b) offsetting and appropriation of credits on the acquisition of goods and other inputs required for network maintenance; and (c) assessments relating to non-compliance with obligations regarding access.

(ii) Offsetting of tax losses and a negative contribution base — As disclosed in Note 9, TMAR has obtained a preliminary injunction ensuring the offsetting of tax losses and a negative calculation base, ascertained for the base years prior to and including 1998, against 100% of taxable income.

(iii) ISS (Tax on Services) — TMAR maintains provisions for tax assessments in relation to queries regarding the levying of ISS tax on a variety of value-added technical and administrative services, such as the leasing of equipment. The amount set aside represents that portion of the assessments that the company's legal advisers consider to be subject to the incurring of losses.

(iv) ILL (Tax at Source on Net Income) — TMAR has offset the ILL paid up to the calendar year 1992, based on decisions by the STF (Federal Supreme Court) regarding the unconstitutional nature of said tax. Even though the merits of the argument have been made clear in the forum of the higher courts, a provision is still maintained, in view of the fact that a definitive decision has not yet been made regarding the criteria for correcting these credits monetarily.

(v) Other claims — These largely refer to provisions to cover IPTU (municipal real-estate tax) assessments, amounting to R$ 10 (2006 — R$ 10) and sundry tax assessments relating to income tax and social contribution charges, to the sum of R$ 39(2006 — R$ 35).

Labor:

(i) Overtime — Claims relating to demands for overtime payments, for work done outside normal working hours.

(ii) Pay differences — Largely represents amounts arising from pay differences among the employees in relation to claims for equal pay/reinstatement, by those whose receive less pay for doing an identical job, in association with other requirements provided for in the applicable legislation.

(iii) Indemnifications — The indemnities correspond to demands for reimbursement or compensation for losses incurred during the validity of the employment contract, due to a variety of reasons, among which one may cite: work-related accident, provisional job stability, pain and suffering, restoration of payroll deductions, child day-care benefit and productivity bonus provided for in the collective labor agreement.

(iv) Labor fines — These are fines provided for under the Brazilian Labor Laws (CLT) in the event of non- or late payment of labor-related items.

(v) Sundry extras — These, in large part, reflect the company's expectation of losses in proceedings relating to demands for a risk premium by employees who work in environments that may be considered hazardous, particularly those close to high-voltage electrical installations.

(vi) Knock-on effect — Claims filed by former employees of contractors, holding TMAR secondarily responsible for amounts possibly owing and not paid by those contractors, usually because they went out of business.

(vii) Professional fees — These refer to the legal costs awarded to winning plaintiffs, including the fees due in claims supported by a pertinent labor union, as well as the fees of specialists and their assistants.

(viii) Pension differences — These are claims relating to differences due to former employees under the private pension scheme, arising from payroll extras that were not taken into consideration when calculating the pension value.

(ix) Contractual rescission — Represents amounts due but not paid upon the rescission of the contracts of former employees, including indemnification provided for in the company's plan to encourage voluntary contractual rescissions (PIRC).

(x) FGTS — These are claims regarding differences relating to the depositing of the plaintiff's FGTS (Length of Service Indemnity Fund), and the issue of compensation for the losses generated by government economic plans in the 1980s and 90s, as well as in relation to the payment of a fine, equivalent to 40% of the FGTS, in the event of unfair dismissal.

(xi) Employment links — These are claims by former employees of contractors, attempting to establish a direct employment link with the company, on the grounds of unlawful outsourcing and/or elements of a connection, such as direct subordination.

(xii) Other claims — Refer to a variety of issues, relating to requests for reinstatement, profit share, and making up payroll shortfalls, among others.

Civil:

(i) ANATEL estimates — The change during the fiscal year ended on December 31, 2007 is largely due to a R$ 143 (2006 — R$ 52) provision supplement, arising from non-compliance with General Target Plan for Universal Access (PGMU) obligations.

(ii) Small claims courts — Questions raised by customers, for whom the individual indemnification amounts do not exceed the equivalent of forty minimum wages. During the fiscal year ended on December 31, 2007, payments were made in settlement of various of these suits, to the sum of R$ 83 (2006 — R$ 85), offset by new provisions amounting to R$ 79 (2006 — R$ 106).

(iii) ANATEL fines — These largely refer to the payment of fines arising from failures to meet quality targets under the Quality Target General Plan (PGMQ) and Regulation of Quality Indicators (RIQ).

(iv) Other claims — These relate to various lawsuits in progress covering the rescission of contracts, indemnification of former suppliers and contractors, and expansion plans linked to the issuing of shares, among others. The change that occurred during the fiscal year ended on December 31, 2007 is due to a review of the risk of incurring losses in regard to these proceedings, based on the opinion of the company's legal advisors, as well as on a re-assessment of the amounts of the provisions to cover losses arising from lawsuits over the rescission of contracts.

(e) Possible contingencies (not provided for)

TMAR and its subsidiaries also have a number of proceedings wherein the expectation of incurring losses is classified as possible, in the opinion of their legal advisors, and for which no provisions for contingencies have been made.

The principal contingencies classified as involving possible losses, in the opinion of the legal advisors, are summarized below:

Fiscal:

ICMS — There have been a number of ICMS tax assessments against TMAR, amounting to approximately R$ 1,751 (2006 — R$ 1,198), most notably in regard to two situations: i) the levying of ICMS on certain revenues from services that are already taxed for ISS or that do not form part of the ICMS tax base; and ii) the offsetting of credits in relation to the acquisition of goods and other inputs necessary for network maintenance.

ISS — Assessments relating to the levying of ISS on the leasing of equipment, wake-up calls and other communication services, amounting to a total of approximately R$ 1,221 (2006 — R$ 1,061), have not been provided for, being considered by the lawyers to represent potential losses, given that these activities are either not subject to the levying of ISS or are already being taxed for ICMS. Furthermore, and strengthening the arguments of the defense, the Federal Supreme Court (STF) decided, in the fourth quarter of 2001, that ISS should not be levied on the leasing of equipment, to which a substantial portion of these assessed amounts are related.

INSS (National Institute of Social Security) — There are proceedings totaling approximately R$ 808 (2006 — R$ 720), mainly relating to joint liability, the applicable percentage of Workplace Accident Insurance (SAT) and items liable to incurring social security charges. Notable among these is the questioning of the levying, by the INSS (Tax Assessment Notifications — NFLDs in July 2005), of social security contributions on payments in regard to TMAR employee profit sharing, effected under the terms of Law no 10,101 and Article 7 of the 1988 Federal Constitution. Such items should not form part of the calculation base for this contribution. The amount involved in this assessment comes to R$ 290.

Federal taxes — There are various tax assessments with regard to federal taxes, largely relating to alleged failure to pay or to undue compensatory procedures, amounting to approximately R$ 1,031 (2006 — R$ 522). Based on the opinion of its legal advisors, the company's management considers that there is a good chance of success in these proceedings, and for this reason has made no provisions for possible losses.

There follows a list of other charges imposed by the federal authorities:

(i) IRRF, IRPJ, CSLL, PIS and COFINS — Undue disallowances — In August 2000, TMAR was assessed by the Federal Internal Revenue Department of Rio de Janeiro, based on events that occurred in 1996, and therefore prior to the privatization, for a total of R$ 994. Of the aforementioned sum, approximately R$ 51 was registered under the REFIS II program. After the final decision, the remaining amount, which is being legally questioned and for which the maximum risk level is considered to be possible, totals approximately R$ 82 (2006 — R$ 118).

(ii) PIS and COFINS — Undue disallowances — On June 30, 2006, TMAR received a tax assessment from the SRF, for the sum of R$ 677 (2006 — R$ 519), in relation to a number of disallowances of exclusions from the PIS and COFINS calculation bases, due to the inspectors failing to consider the information contained in rectified returns (DCTFs) when calculating the due amounts, and inaccuracies on the part of the inspectors in the comparison of the specified PIS and COFINS against the DCTFs. TMAR has compiled the documentary evidence to sustain the accuracy of its own calculations and payments and, based on the opinion of its legal advisers, the management considers the risk of incurring losses in this case to be possible.

A partially favorable decision has been obtained in the lower court, which is still provisional, leading to a reduction of approximately R$ 385 in the amount assessed, and the company has appealed against the unfavorable part of the decision. Given that the reduction is a consequence of the identification of errors committed, TMAR's management believes that liability for this reduced portion should be considered remote, with the remaining balance considered possible.

(iii) Fine — IRRF on loan — Assessment of December 2007 — The taxation authorities fined TMAR the sum of R$ 160 for not having deducted corporate income tax at source (in the calendar years 2002 and 2003) on the gains arising from loan agreements with the parent company, TNL. The company's legal advisors believe there are strong arguments for the defense, since, in addition to part of the amount in question having already lapsed, said retention was waived by Article 77, clause II of Law nº 8,981/95, which was only later revoked by Law nº 10,833/2003.

Labor:

These relate to questions regarding various claims in relation to pay differences, overtime, risk premium and joint liability, among others, amounting to a total of around R$ 387 (2006 — R$ 958), which are mainly before lower courts and for which no ruling has been handed down regarding the merits of these cases. The change in the amount of this contingency is due to the new calculation methodology mentioned in item (c) (i).

Civil:

These refer to lawsuits in relation to which no judicial ruling has been handed down, the principal objectives of which are associated with issues regarding network expansion plans, indemnification for pain and suffering and material damages, collection proceedings, and tendering processes, among others. These issues are represented by more than 24,490 lawsuits (2006 — 24,676), amounting to a total value of approximately R$ 1,093 (2006 — R$ 597).

This total is based, exclusively, on the amounts claimed by the plaintiffs (which are typically exaggerated), and the final judicial decisions are still pending.

24 Debentures

At an Ordinary General Meeting of the shareholders, held on March 7, 2006, approval was given for a public issue by the subsidiary TMAR of 216,000 (two hundred and sixteen thousand) simple, non-convertible debentures, in two series, at a nominal unit value of R$ 10,000.00, making a total of R$ 2,160. The issue date was set for March 1, 2006, with the placement date on March 27, 2006. The maturity of the 1st series is five years and of the 2nd series is seven years, from the issue date, and the remuneration is equivalent to 103% p.a. of the CDI rate, for the 1st series, and the CDI rate plus a spread of 0.55% p.a. for the 2nd series. The interest recorded under current liabilities, as at December 31, 2007, amounting to R$ 76 (2006 — R$ 93), is amortized half-yearly, the latest due date being September 1, 2007 and the next falling on March 1, 2008. TMAR's Board of Directors approved this operation on March 15, 2006.

At an Ordinary General Meeting of the shareholders, held on April 17, 2007, approval was given for a private issue by TMAR of 5,400 (five thousand, four hundred) simple, non-convertible debentures, in up to five series, at a nominal unit value of R$ 10,000.00, making a total of R$ 54, with a view to financing the expansion of the mobile telephone services in a variety of locations within the state of Minas Gerais ("Projeto Minas

Comunica"). The indenture was signed on December 18, 2007 and subscription to the 1st series, to the sum of R$ 11, took place on December 28th. The final maturity of these debentures is on July 5, 2021, with partial amortization in 2018, 2019 and 2020. The debentures are to be remunerated according to the IPCA (inflation index) + 0.5% p.a..

25 Shareholder's equity

(a) Capital stock

The company's authorized capital is represented by 700 million shares. At an Extraordinary General Meeting of the shareholders held on March 30, 2006, approval was given for a capital increase of R$ 215 through the incorporation of tax incentive reserves in relation to the profits for the fiscal years 1999 to 2004. At another Extraordinary General Meeting, held on September 29, 2006, approval was given for a capital increase of R$ 90, through the incorporation of the tax incentive reserves in relation to the profit for the fiscal year 2005, plus a residual amount in relation to 2004.

At an Extraordinary General Meeting of the shareholders held on January 4, 2008, approval was given for the conversion of 47,000 of the company's class "B" preferred shares into 47,000 class "A" preferred shares, in accordance with a notice to the shareholders published on June 21, 2007.

The subscribed capital amounts to R$ 7,426, with a total of R$ 7,419 fully paid up as at December 31, 2007. The company's capital stock is represented by:

	Number of shares (thousand)			
	2007	%	2006	%
Common stock	107,187	44.4	107,187	44.4
Class A preferred stock	133,416	55.2	133,369	55.2
Class B preferred stock	1,065	0.4	1,112	0.4
Total	241,668	100.0	241,668	100.0
Treasury stock	(3,054)		(3,054)	
Total shares outstanding	238,614		238,614	

(b) Capital reserves

Reserve for premiums on share subscription

This represents the difference in the issue price of new shares over the nominal value of the portion allocated to the capital stock.

Reserve for donations and subsidies for capital expenditure

Although there are donations and subsidies that were received in the past, under the plan for self-financing, this balance basically refers to investment related to tax incentives — FINAM, FINOR, FUNRES and the ensuing profits.

As a result of constitutive reports issued by an extrajudicial administrator of the now extinct SUDENE (Superintendency for the Development of the Northeast of Brazil), deriving from the designation established in Ruling nº 370, of May 31, 2002, TMAR became the beneficiary of a reduction in income tax payable on profits from the telecoms services provided by ten of its sixteen regional offices. The benefits conceded are calculated at the following rates:

For activities relating to the maintenance of the telephone network:

- 25% between January 1, 2004 and December 31, 2008; and
- 12.5% between January 1, 2009 and December 31, 2013.

For activities relating to the expansion of the telephone network, the benefits are calculated at 75%, effective up to December 31, 2010.

The calculation base for this benefit is the net pre-tax profit, adjusted for equity adjustment gains and losses and net non-operating results, as determined by Law nº 7,959 of December 21, 1989.

This incentive is recorded as a capital reserve, against a reduction in the amount of income tax payable, and in 2007 a total of R$ 243 (2006 — 142) was utilized in relation to these benefits, plus a further R$ 17 under FINOR, in 2006.

Reserve for interest on work in progress

This corresponds to the excess of interest incurred, calculated on a monthly basis at the rate of 12% p.a., on the balances of TMAR's work in progress, as defined in Ruling nº 21 of January 21, 1994 and in Ruling nº 3 of February 25, 1994, issued by the Ministry of Communications. The interest charged at 12% p.a. that exceeds the financial expenses on the loans to finance this work in progress was recorded in this capital reserve account. This interest was calculated by TMAR up to December 31, 1999.

Special reserve: Law nº 8,200/1991

This reserve was set up in view of the special monetary correction adjustments to the fixed assets, the purpose of which was to correct the distortions in the monetary correction indices prior to 1991. The reserve is realized based on the depreciation of the fixed assets for which it was set up.

(c) Revenue reserves

Legal reserve

According to Article 193 of the Brazilian Corporate Legislation, TMAR must allocate 5% of its net profit for the year to a legal reserve, up to the limit of 20% of the capital stock. This allocation is optional in the event that the sum of the legal reserve plus the capital reserves exceeds the capital stock by 30%. The legal reserve may be utilized for a capital increase or for absorbing losses, but may not be distributed in the form of dividends.

Investment reserve

The investment reserve is to retain financial resources in the company to cover its capital budgets and those of its subsidiaries. These resources have been invested in the expansion of the wireline network, in connection with ANATEL's targets for universal telephone access, and in Oi's wireless network, with a total of R$ 2.5 billion invested in permanent assets in 2007 (2006 — R$ 2.3 billion). The expected return on this capital

expenditure is in 7 years from the date of the investment. In 2007, the company set up an investment reserve amounting to R$ 1,612 (2006 — R$ 944), with a view to safeguarding its cash flows. Nevertheless, whenever the company's financial situation allows, this reserve may be utilized for the distribution of dividends.

(d) Dividends and interest on capital

According to the company's by-laws, TMAR must pay out a minimum compulsory dividend for each fiscal year, equivalent to not less than 25% of the net profit, adjusted in accordance with Article 202 of the Brazilian Corporate Legislation. The Class "B" preferred shares take priority in the reimbursement of capital, without premium, and in the distribution of dividends, being guaranteed a fixed, non-cumulative dividend of 10% p.a. proportional to the capital stock. The remaining amount of the minimum compulsory dividend is allocated to the holders of common and Class "A" preferred shares, the latter being ensured a dividend value 10% higher than that paid to the holders of common shares.

The by-laws also provide for the payment of interest on capital to the shareholders. This interest on capital is tax deductible and remuneration is limited to the average TJLP for the period in question, applied to the shareholders' equity at the end of the previous fiscal year, and may not exceed (i) 50% of the net profit (before considering this distribution and any deduction of income tax) for the period in which the declaration is made, or (ii) 50% of the sum of the retained earnings plus the revenue reserves, whichever is the greater. The amount paid or designated as interest on capital is considered to be part of the distribution of compulsory dividends. Hence, according to the Brazilian Corporate Legislation, TMAR is obliged to distribute to the shareholders an amount sufficient to ensure that the net value received, after payment of income tax withheld at source, is at least equal to the minimum compulsory dividend.

At an Ordinary General Meeting held on April 11, 2007, approval was given for the allocation of the net profit for the year ended on December 31, 2006, amounting to R$ 1,615, as follows: (a) R$ 69 to the legal reserve; (b) R$ 944 to an investment reserve; and (c) distribution of the remaining R$ 651 with R$ 1,000 in dividends and R$ 650 as interest on capital, payment of which began on April 20, 2007.

	Proposal 2006/R$		
	Common	**Preferred "A"**	**Preferred "B"**
Interest on capital — historical values			
March 31, 2006	0.930	1.023	0.930
June 30, 2006	0.850	0.936	0.850
September 29, 2006	0.803	0.883	0.803
Dividend (proposed by the management)			0.901

The minimum compulsory dividends were calculated as follows:

	2007	2006
Net profit for the year	2,692	1,615
Appropriation to the legal reserve — 5%		(69)
Adjusted net profit	2,692	1,546
Minimum compulsory dividend — 25%	673	387
Proposed dividend	329	1
Interest on capital, gross	761	650
Withholding tax on interest on capital	(108)	(66)
Total for distribution to the shareholders, net of withholding tax	982	585

The statutory dividend on the Class "B" preferred shares was calculated as follows:

	2007	2006
	Preferred "B"	Preferred "B"
Capital stock subscribed	7,426	7,426
Total shares outstanding	238,614,355	238,614,355
Total Class "B" preferred shares outstanding	1,063,967	1,110,794
Calculation base	33	34
Minimum compulsory dividend — percentage	10%	10%
Minimum compulsory dividend	3	3

From the net profit for the fiscal year ended on December 31, 2007, the management is proposing the allocation of R$ 329 in the form of dividends and R$ 761 in the form of interest on capital, the total value being superior to the minimum compulsory dividend (statutory). For the purpose of determining the interest on capital for distribution, the calculation base considered the amounts net of income tax withheld at source (IRRF).

	Proposal 2007/R$		
	Common	Preferred "A"	Preferred "B"
Interest on capital — historical values December 10, 2007	3.0237	3.3260	3.0237
Dividend (proposed by the management)	1.3122	1.4434	0.5418

The dividends and interest on capital payable by the parent company, shown under current liabilities, are made up as follows:

Base year of the proposal	2007	2006
2007	985	—
2006	14	653
2005	20	20
2004	24	25
2003	—	11
	1,043	709

(e) Prescribed dividends

This refers to dividends and interest on capital that have not been claimed by the shareholders, within a period of three years from the date that this remuneration was placed at their disposal.

(f) Treasury stock

As at December 31, 2007, TMAR held 3,054,000 shares in treasury, of which 124,000 were common shares and 2,930,000 were preferred shares. At an Extraordinary General Meeting of the shareholders, held on January 4, 2008, approval was given for the cancelling of all these shares.

On January 7, 2008, TMAR's Board of Directors approved the resumption of the company's program to repurchase its own shares for subsequent cancellation or holding in treasury, during a period of 365 days from the date of that decision and up to a limit of 283,522 common shares, 2,615,835 class "A" preferred shares (TMAR 5) and 106,396 class "B" preferred shares, representing less than 10% of the outstanding shares in each class.

26 Financial instruments

The market exposure of TMAR and its subsidiaries stems mainly from changes in the currency exchange rates, since a large part of their debt is denominated in foreign currency, while their revenues are in local currency (real). In order to reduce this risk exposure, the companies use derivatives such as swap contracts. TMAR and its subsidiaries do not use derivatives for any other purpose.

These transactions are carried out through the company's treasury area, in line with a strategy that has been previously approved by the management.

(a) Foreign exchange risk

Approximately 26% (2006 — 31%) of the consolidated debt, including debentures and excluding currency swap operations and transactions between related parties, is denominated in foreign currency (U.S. dollars or Japanese yen or linked to the BNDES basket of currencies).

The sum of the nominal values of the currency swaps and foreign currency investments, as at December 31, 2007 was US$ 633 million (2006 — US$ 758 million) for the parent company and the consolidated figures, providing 60% cover of the foreign exchange risk (2006 — 76%).

A summary of the position of these transactions is shown below:

	Value of hedging contracts		Hedging gain (loss)	
	2007	2006	2007	2006
Parent Company and Consolidated				
Foreign currency investments(i)	320	230	(30)	(14)
Foreign exchange swaps	801	1,391	(351)	(479)

The currency swap operations transfer the risk of foreign exchange variations to the variations of the CDI rate.

(i) Earnings on financial investments denominated in foreign currency are recorded in the results of hedging transactions (see Note 7).

(b) Interest rate risk

TMAR has loans and financing that is subject to floating interest rates, based on the TJLP or the CDI, in the case of debt denominated in local currency, and on the LIBOR, in the case of debt denominated in U.S. dollars, on the Japanese interbank rate ("Japanese LIBOR"), in the case of debt denominated in Japanese yen, and on the BNDES variable currency basket rate (UMBNDES), in the case of debt linked to BNDES's foreign currency funding. In order to reduce its exposure to LIBOR variations, TMAR engages in swap transactions that convert the LIBOR rates into fixed rates.

As at December 31, 2007, approximately 93% (2006 — 80%) of the debt incurred, including debentures, was subject to floating interest rates, and 7% (2006 — 12%) was exchanged for fixed rates, by means of swap transactions.

	Value of the contracts		Hedging gain (loss)	
	2007	2006	2007	2006
Interest rate swaps:				
Parent Company and Consolidated	494	762	9	9

(c) Credit concentration risk

The concentration of credit risk associated with accounts receivable from customers is not material, due to a highly diversified portfolio and the monitoring controls applied. The doubtful debts are adequately covered by a provision for potential losses in this respect (see Note 11).

Transactions with financial institutions (financial investments, loans and financing) are distributed among first class institutions, thereby minimizing the risk of concentration.

(d) Market value of the financial instruments

The market values of the principal financial instruments are similar to their book values, as shown below:

		2007			
		Parent Company		Consolidated	
		Book value	Market value	Book value	Market value
(i)	Loans and financing	5,249	5,248	5,660	5,659
(ii)	Investments in marketable securities	2,894	2,894	5,619	5,619
(ii)	Debentures	2,247	2,247	2,247	2,247

		2006			
		Parent Company		Consolidated	
		Book value	Market value	Book value	Market value
(i)	Loans and financing	5,431	5,424	5,442	5,435
(ii)	Investment in marketable securities	2,335	2,335	3,839	3,839
(ii)	Debentures	2,253	2,253	2,253	2,253

(i) The market values of loans & financing were calculated at the present value of these financial instruments, considering the interest rate adopted by the market for transactions of a similar kind, term and level of risk.

(ii) The book balances of investments in marketable securities and debentures, at December 31, 2007 and 2006, are similar to their market values, because they are recorded at their realizable values.

27 Employee benefits

(a) Private pension schemes

SISTEL (Sistel Social Security Foundation) is a not-for-profit private welfare business entity, set up in November 1977 with the corporate purpose of establishing private plans to provide savings, income, supplementary benefits or the like, to supplement the government pension, for the employees and their family members who are linked to the sponsors of SISTEL.

With the statutory alterations approved by the SPC (Supplementary Social Security Department) in January 2000, the sponsors negotiated the terms for creating plans tailored to the individual sponsor, with joint benefits restricted to those participants who retired up to January 31, 2000 (pension plan denominated "PBS-Assistidos" or "PBS-A").

TMAR sponsors private defined benefit pension plans (PBS-A and PBS-Telemar) and TMAR, Oi and Oi Internet sponsor private variable contribution pension plans (TelemarPrev).

Pursuant to Article 33 of Complementary Law nº 109, of May 29, 2001, SISTEL's Steering Committee formally requested, in October 2004, that the administration of the PBS-Telemar and TelemarPrev plans be transferred to the Atlantic Social Security Foundation (Fundação Atlântico de Seguridade Social — FASS). This foundation was set up by TMAR and authorization to begin its activities was granted by the SPC on January 12, 2005. The aforementioned transfer process was completed on February 28, 2005. SISTEL continues to be responsible for the PBS-A plan.

The Atlantic Social Security Foundation (FASS), a closed supplementary pensions entity with multiple sponsors and multiple plans, is a not-for-profit private welfare business entity, with independent management of its assets, administration and finances, based in the city of Rio de Janeiro, in the state of Rio de Janeiro, for the purpose of administering and executing plans providing social security benefits for the employees of its sponsors.

In December 2006, the SPC approved new alterations to the regulations governing TelemarPrev, aimed at simplifying the regulatory text and operational procedures.

The bookkeeping for the pension and welfare plans is kept entirely separate, allowing the results to be ascertained for each benefit plan.

The disclosure of information and effects, a requirement of the pronouncement issued by IBRACON (Brazilian Institute of Accountants) regarding the recording of employee benefits, approved by CVM Resolution nº 371/2000, is shown below:

(i) Defined benefit pension plans (PBS-A and PBS-Telemar)

The PBS-Telemar (individual) scheme was introduced at the time of the statutory alterations at SISTEL and retained the same benefits provided for under the PBS-A (joint) scheme. In addition to the benefit of supplementing monthly income, medical assistance (PAMA — Pensioners' Medical Care Scheme) is provided for retired employees and their dependents, with the cost being shared with the other sponsors.

The contributions of the active participants under the PBS-Telemar scheme correspond to the sum of: (i) 0.5% to 1.5% of the participation stipend (according to the age of the participant); (ii) 1% of that portion of the participation stipend that is equivalent to between half and one Standard Unit; and (iii) 11% of that portion of the participation stipend that exceeds one Standard Unit. The contribution of the sponsors is equivalent to 9.5% of the payroll of the employees actively participating in the scheme, of which 8 % goes to the PBS-Telemar plan and 1.5% to PAMA. The capitalization method is used for determining the costing of the plan.

The PBS-A plan has been closed to new participants ever since TelemarPrev was set up, in September 2000, and about 96% of the participants have migrated to TelemarPrev.

Reconciliation of the assets and liabilities:

	Parent Company and Consolidated			
	2007		2006	
	PBS-A(*)	PBS-Telemar	PBS-A(*)	PBS-Telemar
Fair value of the plan's assets	3,778	201	3,357	191
Present value of the actuarial liabilities	(2,425)	(178)	(2,209)	(160)
Fair value of the surplus of assets over actuarial liabilities	1,353	23	1,148	31

(*) Does not include active participants, there being a sufficient surplus to cover the future actuarial liabilities.

Although the plans show a surplus of assets in relation to the actuarial liabilities, as at December 31, 2007 and 2006, these surpluses will not be recognized, due to their being no legal provision for their reimbursement, in addition to the fact that the PBS-A is not a contributory plan.

Asset turnover of the plans:

	Parent Company and Consolidated	
	PBS-A	PBS-Telemar
Fair value of the assets, as at December 31, 2006	3,357	191
Benefits paid out during the year	(192)	(12)
Effective earnings on the assets of the plans	613	22
Actuarial assets, as at December 31, 2007	3,778	201

Turnover of the actuarial liabilities:

	Parent Company and Consolidated	
	PBS-A	PBS-Telemar
Value of the liabilities, as at December 31, 2006	2,209	160
Interest on actuarial liabilities	217	16
Benefits paid out during the year	(193)	(12)
Actuarial loss	31	1
Impact of changes in the actuarial premises	161	13
Value of the liabilities, as at December 31, 2007	2,425	178

The above amounts do not take into consideration the assets and liabilities of the PAMA medical scheme, as it has multiple sponsors and is similar to the defined contribution plans (payment of benefits is limited to the amount of the contributions received by the plan), so there are no liabilities beyond the level of the existing balances.

(ii) Variable contribution private pension plan (TelemarPrev)

TMAR, Oi and Oi Internet sponsor the TelemarPrev plan, which was approved by the SPC in September 2000.

The benefits ensured to the participants under the plan are classified as: (i) risk benefits—supplements; and (ii) programmable benefits — income.

Normal contributions by the participants are made up of two parts: (i) basic — equivalent to 2% of the participation stipend; and (ii) standard — equivalent to 3% of the positive difference between the total participation stipend and the social security value. Additional contributions by the participants are optional, to be made in percentages representing multiples of 0.5% of the participation stipend and for a period of not less than 6 months. Contingent contributions by the participants are also optional and must not be less than 5% of the participation stipend ceiling.

The plan's regulations stipulate the parity of contributions made by the participants and the sponsors, up to the limit of 8% of the participation stipend, with the proviso that the sponsor has no obligation to match any additional contributions made by the participants. The capitalization method is used for determining the costing of the plan.

Details of the variable contributions in relation to the defined benefits under the TelemarPrev plan are shown below:

Reconciliation of the assets and liabilities:

	Parent Company		Consolidated	
	2007	2006	2007	2006
	TelemarPrev			
Fair value of the plan's assets	2,110	1,750	2,146	1,775
Present value of the actuarial liabilities	(1,843)	(1,604)	(1,872)	(1,626)
Fair value of the surplus of assets over actuarial liabilities	267	146	274	149

Asset turnover of the plan:

	Parent Company	Consolidated
	TelemarPrev	
Fair value of the assets, as at December 31, 2006	1,750	1,775
Benefits paid out during the year	(97)	(98)
Contributions paid in during the year	213	234
Effective earnings on the assets of the plan	244	235
Fair value of the assets, as at December 31, 2007	2,110	2,146

Turnover of the actuarial liabilities:

	Parent Company	Consolidated
	TelemarPrev	
Value of the liabilities, as at December 31, 2006	1,604	1,626
Gross current service cost (with interest)	6	7
Interest on actuarial liabilities	160	162
Benefits paid out during the year	(97)	(98)
Actuarial loss	32	32
Impact of changes in the actuarial premises	138	143
Value of the liabilities, as at December 31, 2007	1,843	1,872

(iii) The forecast results of the plans for 2008 are as follows:

	Parent Company		
	PBS-A	PBS-Telemar	TelemarPrev
Expected earnings on the assets	398	22	217
Cost of the current service	—	—	(11)
Interest	(245)	(18)	(188)
Amortization	6	—	(25)
Total income (expenses) forecast for 2008	159	4	(7)

	Consolidated		
	PBS-A	PBS-Telemar	TelemarPrev
Expected earnings on the assets	398	22	220
Cost of the current service	—	—	(12)
Interest	(245)	(18)	(191)
Amortization	6	—	(26)
Total income (expenses) forecast for 2008	159	4	(9)

The income should not be recognized, as there is no evidence that these assets could bring about a future reduction in the sponsors' contributions and it is not contractually reimbursable.

(iv) Principal actuarial premises

The main actuarial premises adopted in the calculations of the PBS-A, PBS-Telemar and TelemarPrev plans are as follows:

	% p.a.			
	2007		2006	
	PBS-A	PBS -Telemar and TelemarPrev	PBS-A	PBS -Telemar and TelemarPrev
Actuarial liability discount rate	10.51	10.51	10.24	10.24
Expected earnings rate on the assets of the plans	10.82	11.50(*)/10.50(**)	13.18	12.20(*)/10.70(**)
Estimated rate of inflation	4.50	4.50	4.00	4.00
Estimated pay increase	(***)	7.32	(***)	4.00
Estimated benefit increase	4.50	4.50	4.00	4.00
General mortality chart	AT2000	AT2000	UP94	UP94

(*) PBS-Telemar
(**) TelemarPrev
(***) Does not include active participants.

New actuarial premises were adopted in 2007, which better reflect the current economic scenario of falling interest rates, as well as providing a better fit with the hypotheses regarding disability and death rates.

There follows a list of the changes in the actuarial premises that are reflected in the welfare schemes, when applicable:

- The mortality chart for able-bodied individuals was changed from UP-94 to AT-2000;
- The onset of disability was changed from the Álvaro Vindas to the Zimmermann Nichzugs method;
- The mortality of the disabled was changed from the CAP Experience to the Winklevoss method;
- Morbidity was changed from the STEA Experience to a chart based on the FASS Experience; and
- The actuarial interest rate was changed from 6% to 5.75%.

(b) Employee profit sharing

The employee profit sharing scheme was introduced in 1999, as a way to stimulate the employees to meet individual and corporate targets and thereby improve the return on investment for the shareholders. The scheme comes into effect when the following targets are met:

- Economic value added targets (indicators of earnings before interest, income tax, depreciation and amortization — EBITDA, as well as indicators of economic value added); and
- Operational, quality and market indicators.

On December 31, 2007, TMAR, Oi and Oi Internet recorded provisions based on the estimated attainment of these targets, amounting to R$ 72 (2006 — R$ 34).

Balance as at December 31, 2006	34
Payment in relation to 2007	(47)
Addition to the provision in 2007 (Note 6)	85
Balance as at December 31, 2007	72

(c) Other employee benefits

The company also offers its employees plans covering medical and dental care, pharmaceutical assistance, child day-care assistance and group life insurance, with the discounts from the payroll being made in accordance with the pay scales established in the collective labor agreements.

28 Transactions with related parties — parent company

Transactions with related parties are carried out over terms, at prices and under other conditions similar to those with third parties. The principal transactions are summarized below:

	2007								
	TNL	Oi	TNL Contax	Oi Internet	AIX	Telemar Participações	Serede	Way TV	Total
Assets									
Accounts receivable		127	3	9					139
Loans to subsidiaries	2								2
	2	127	3	9					141
Liabilities									
Suppliers		142	9	17	2		3		172
Loans and financing		58							58
Dividends and interest on capital	802					56			858
Other liabilities	6								5
	808	200	9	17	2	56	3		1,094
Revenues									
Revenue from services rendered		197	18	70				1	286
Other operating revenues			6						6
Financial income	3								3
	3	197	24	70				1	295
Expenses									
Cost of services provided		(1.097)	(93)		(27)		(16)		(1,233)
Commercialization			(466)	(30)					(496)
Other operating expenses			(11)						(11)
Financial expenses	(31)	(1)							(32)
	(31)	(1,098)	(570)	(30)	(27)		(16)		(1,772)

	2006						
	TNL	Oi	TNL Contax	Oi Internet	AIX	Telemar Telecomunicações	Total
Assets							
Accounts receivable	3	81	2	3			89
Loans to subsidiaries and parent company	1			9			10
	4	81	2	12			99
Liabilities							
Suppliers		184	8	18	2		212
Dividends and interest on capital	540						540
Other liabilities	10						10
	550	184	8	18	2		762
Revenues							
Revenue from services rendered		303	18	39			360
Other operating revenues			9				9
Financial income	5						5
	5	303	27	39			374
Expenses							
Cost of services provided		(969)	(147)		(28)		(1,144)
Commercialization			(448)	(14)			(462)
Other operating expenses			(10)				(10)
Financial expenses	(122)	(16)				(3)	(141)
	(122)	(985)	(605)	(14)	(28)	(3)	(1,757)

(a) Lines of credit opened by the parent company

The lines of credit extended by TMAR to its subsidiaries are for the purpose of providing them with working capital for their operational activities. The maturity dates may be renegotiated, based on those companies' forecast cash flows, at an interest rate corresponding to 104% of the CDI rate (2006 — 104% of the CDI rate).

(b) BNDES loan contracts

In December 1999, some of the sixteen subsidiary operators providing wireline telephony services, that were later absorbed by TMAR, took out loans from the BNDES, the parent company of BNDESPar, which holds 25% of the voting capital of Telemar Participações S.A.. The total amount of these loans was R$ 400, maturing in December 2000 and bearing interest based on the SELIC rate, plus a spread of 6.5% p.a.. In December 2000, these contracts were renegotiated and replaced by two new contracts, providing a line of credit for up to R$ 2,700, with the contract in local currency bearing interest based on the TJLP rate and the contract in foreign currency based on the variable interest rate of the BNDES currency basket (UMBNDES), plus 3.85% p.a.. The

financial charges were paid quarterly, up to January 2002, and became due on a monthly basis for the period February 2002 to January 2008. Of that total facility, 30% was drawn down directly from BNDES and the remaining 70% was provided by a group of banks. Banco Itaú and Banco do Brasil led this consortium, which also comprised Banco Bradesco, Banco Alfa, Unibanco, Citibank, Safra, Votorantim, Sudameris and Santander. Since 2002, no further withdrawals have been made against this line of credit, which started to be amortized in January 2002. The balance of this line of credit in the company's balance sheet, as at December 31, 2007, stood at R$ 44 (2006 — R$ 591).

During the period December 2003 to December 2007, TMAR and Oi drew down R$ 2,146 and R$ 1,025, respectively, in relation to new loan contracts, signed with BNDES in December 2003, September 2004, July 2005, December 2005, November 2006 and July 2007, for a total of R$ 3,863. These funds have been invested in the expansion of the telecom networks and in operational improvements. On December 29, 2005, with the consent of the BNDES, Oi transferred the full amount of its financing to TMAR (see Note 20, item (b), sub-item (ii)).

(c) Leasing of transmission infrastructure

AIX provides services to TMAR involving the leasing of pipelines for the transmission of CSP 31 (Service Provider Code "31") traffic outside the Region I local network. In 2007, these costs came to a total of R$ 27 (2006 — R$ 28) and are classified under "Rents and insurance" (Note 5).

(d) Leasing of WLL mobile platform

As mentioned in Note 5, TMAR has a network leasing contract with Oi to provide wireline telephone services using WLL (Wireless Local Loop) technology.

(e) Principal transactions with related parties

Oi

Revenue from services rendered: This refers to the leasing of dedicated lines, to the sum of R$ 65 (2006 — R$ 82), interconnection fees of R$ 87 (2006 — R$ 82), telecommunications and "0800" prefix services, at R$ 1 (2006 — R$ 3), collection commissions of R$ 27 (2006 — R$ 41), the leasing of infrastructure, towers, circuits and "102" service platform, amounting to R$ 14 (2006 — R$ 14), and customer loyalty campaigns, totaling R$ 3 (2006 — R$ 81).

Cost of services provided: This refers to remuneration for network use, of R$ 763 (2006 — R$ 732), EILD leasing, at R$ 52 (2006 — R$ 52), collection commissions of R$ 16 (2006 — R$ 16), customer loyalty campaigns, totaling R$ 175 (2006 — R$ 84), and the cost of leasing the mobile platform to provide wireline telephone services to certain locations using WLL technology.

Oi Internet

Revenue from services rendered: This refers to the leasing of "dial-up" infrastructure for internet access, amounting to R$ 4 (2006 — R$ 3) and broadband access, totaling R$ 60 (2006 — R$ 33).

Commercialization: This refers to sales commissions, amounting to R$ 30 (2006 — R$ 14).

TNL Contax

Cost of services provided/commercialization/general and administrative expenses: The principal transactions involve the providing of call center services, amounting to R$ 296 (2006 — R$ 290), sales support, to the sum of R$ 88 (2006 — R$ 81), and telephone collection, of R$ 81 (2006 — R$ 778).

Serede

Cost of services provided: This refers to network maintenance services, amounting to R$ 16.

29 Insurance

During the period of the concession, it is the responsibility of the concession holder to maintain the following insurance cover, in accordance with the contractual terms: comprehensive insurance against all risks, insurance covering the economic conditions required to continue providing the service, and insurance guaranteeing the fulfillment of all obligations regarding quality and universal access.

The assets and responsibilities of material value and/or high risk are covered by insurance. TMAR and its subsidiaries hold insurance providing cover for material damage and loss of revenue as a result of such damage (loss of business), among other things. The management understands that the amount of the insurance cover is sufficient to ensure the integrity of the company's assets and the continuity of its operations, as well as compliance with the rules laid down in the Concession Contracts.

The insurance policies provided the following cover, according to risk and the nature of the asset, as at December 31st:

	Insurance cover (consolidated)	
Type of insurance	**2007**	**2006**
Operational risk and loss of business	800	800
Fire — inventory	112	
Civil liability — third parties(*)	106	129
Concession guarantee	32	74
Theft — inventory	30	
Civil liability — general	20	20
Civil liability — vehicles	3	3

* at the exchange rate on December 31, 2007

30 Other information

(i) Acquisition of SMP licenses by Oi

On December 31, 2007, the D.O.U. (government official gazette) published formal notice of the Announcement of Licensing and Adjudication, of December 27, 2007, authorizing the use of certain radio frequencies by Oi to provide 3G (third generation) personal mobile telephone services (SMP) in the areas of Regions I and III for which it won licensing in ANATEL Tendering Process nº 002/2007/SPV, for the total sum of R$ 867.

On January 3, 2008, the D.O.U. published formal notice of the Announcement of Licensing and Adjudication, of December 28, 2007, authorizing the use of certain radio frequencies by Oi to provide 2G (second generation) SMP in the interior of the state of São Paulo for which it won licensing in ANATEL Tendering Process nº 001/2007/SPV, for the total sum of R$ 139.

(ii) Changes in the corporate legislation

Law nº 11,638/2007 was enacted on December 28, 2007, with effect as of January 1, 2008. The new law introduces changes to Law no 6,404/1976 (Corporate Law), bringing it into line with the international accounting principles (IFRS — International Financial Reporting Standards). The changes introduced by Law no 11,638/2007 provide the framework for the CVM to consider alterations to the accounting rules, for greater international convergence in this area.

The following are among the main changes to the Brazilian Corporate Legislation:

- Replacing the Statement of Changes in Financial Position with the Cash Flow Statement, and the inclusion of the Value Added Statement, as obligatory financial statements;
- Disclosure of the premium paid in the acquisition of intangible assets;
- Tax reduction gains, obtained by means of tax incentives, are to be recorded in the Income Statement. The amounts may be allocated to a revenue reserve (tax incentives), instead of the capital reserve, and deducted in the calculation of the compulsory minimum dividend and of the revenue reserve ceiling;
- The revaluation reserve has been done away with, which doesn't affect the Oi group's financial statements. However, an equity appraisal adjustment reserve has been set up to record the increases and/or reductions in assets and liabilities in response to their valuation at market value;
- Recording of financial instruments at market value or by the amortized cost method, depending on whether they are classified as: up for sale, earmarked for trading or to be held to maturity;
- Financial instruments classified as long term assets or liabilities are to be recorded at net present value; and
- In the case of business combinations, the assets and liabilities of companies that are taken over or created as a result of a merger or split are to be recorded at market value.

At the present moment, in the absence of further clarification of the new law, particularly as to the manner in which it is to be applied and its regulation, the management feels that it is not yet possible to assess and quantify with any reasonable precision the potential impact on the company's financial statements.

(iii) TMAR acquisition of Tele Norte Celular Participações S.A.

In December 2007, TMAR closed a contract for the acquisition of 1,292,679 common shares and 3,716 preferred shares issued by Tele Norte Celular Participações S.A. (TNCP), representing 51.86% of that company's common stock, 0.09% of its preferred stock and 19.34% of all the shares issued by TNCP that Telpart Participações S.A. ("Telpart") undertook to sell and transfer to Vivo Participações.

This contract shall be submitted for approval at a general meeting of the shareholders of TMAR. The effective transfer of the shares to TMAR is also subject to the fulfillment of essential contractual conditions, including the necessary approval by ANATEL.

The acquisition price of the shares came to a total of R$ 120, corrected monetarily according to the average daily rate of the CDI, as from August 2, 2007, the same terms offered to Telpart by Vivo. This amount corresponds to a price per common share of R$ 92.74 for TNCP, implying a price per common share issued by its subsidiary, Amazônia Celular, of R$ 141.80.

Following the effective transfer of the shares, TMAR intends to maintain the OPAs (Public Share Offering) for the purchasing of up to one third of each type and class of outstanding preferred stock belonging to shareholders who do not have a controlling stake in TNCP or Amazônia Celular, at the indicative prices of R$ 33.00/share and R$ 25.55/share, respectively, as well as the corresponding compulsory OPAs (tag along rights) for minority shareholders of common stock, at the following prices: TNCP — R$ 74.19/share and Amazônia Celular — R$ 113.44, both corrected monetarily at the average daily CDI rate.

(iv) Material Information disclosure of February 6, 2008 (transcribed in full):

Telemar Participações S.A., (Tmar Part), together with its subsidiaries Tele Norte Leste Participações S.A. and Telemar Norte Leste S.A, in order to supplement the disclosures issued on January 9th, 10th and 30th, informs the market and the public in general of the following:

1. The negotiations being carried out, with a view to: (i) the restructuring of Tmar Part.'s shareholder base, with some shareholders selling up and others repositioning their stakes ; and (ii) the acquisition of a controlling stake in Brasil Telecom Participações S.A. ("BrTP"), continue to proceed, but have not yet been concluded.
2. With specific regard to the negotiations surrounding BrTP, we wish to clarify that, although there is as yet no definitive outline to this transaction, the options analyzed do not include a merger, but simply the acquisition of a controlling stake, which may be purchased from one or more of the companies that directly or indirectly control the company BrTP.
3. Moreover, as pointed out in the disclosure of material information on January 10th, the amounts being discussed in these negotiations are by no means definitive, and are thus subject to modification, but tend to converge on a mid-point value in the range R$ 4.5 billion to R$ 5.2 billion, for a full direct controlling stake in BrTP. Nevertheless, no final value has yet been determined in the event that these negotiations should come to fruition.
4. We emphasize that, so far, no agreement has been reached as to the terms of the transaction and no document has been signed by the parties, even in draft form, to this effect.

(v) New SMP regulations

On February 13, 2008, the addendum to ANATEL Resolution nº 477 of August 7, 2007, dealing with the new rules governing Personal Mobile Services (SMP), came into effect.

Among the principal changes introduced by the new regulations, certain guarantees provided to the customers, listed below, could have a material impact on the company's financial statements for the fiscal year ended on December 31, 2008:

1. Reimbursement in double of amounts unduly charged to (and paid by) customers, plus interest and monetary correction;
2. Calls made more than 60 days prior to the billing date must be successfully negotiated with the customer before they may be charged;

3. Customers in default may request the suspension of services for a period of 30 to 120 days, within any given year, without incurring any additional charges;
4. If a customer receives a call under the conditions of the roaming service, the revenue for the inter-municipal routing will now be due to the mobile (SMP) service provider, and no longer to the fixed (STFC) long distance service provider (s);
5. Prohibition of a waiting period when switching from one service plan to another;
6. The obligation to provide pre-paid cards with a validity of 180 days or more, in addition to the existing 90 day cards;
7. Allows service providers to offer pecuniary benefits when purchasing a handset and, through a contractual instrument quite distinct from the service contract, make those benefits conditional on the customer remaining within the subscriber base for a period of up to 12 months;
8. Allows the possibility of adding new pre-paid credits to the already existing ones, even if those have expired, with the latest validity date applying to all the credits (we emphasize that the revalidation of credits is a procedure that Oi has always adopted);
9. Requires the provision of customer care outlets, as per micro-region, with a minimum number of outlets in relation to the number of inhabitants, following a chronogram defined in the new regulations.

Telemar Norte Leste S.A. and
Telemar Norte Leste S.A. (Consolidated)

Information supplementary to the financial statements
for the fiscal years ended on December 31, 2007 and 2006
In millions of *reais*

Cash flow statements — Consolidated

	2007	2006
Operating cash flow		
Net profit for the year	2,692	1,615
Adjustments to reconcile net profit with operational cash generation:		
Interest and monetary and exchange variations (mainly on loans, financing and debentures)	693	910
Depreciation	2,466	3,008
Amortization of deferred assets	65	65
Amortization of premium	137	137
Amortization of discount on the acquisition of AIX	(6)	(6)
Provisions for legal contingencies	417	1,053
Reversal of provision for losses on investments	—	(5)
Equity adjustment	6	1
Monetary correction in regard to REFIS II	44	59
Residual value of fixed asset disposal	17	27
Provision/reversal for losses on discontinued assets	(3)	4
Realization of future earnings	1	(2)
	6,529	6,866
(Increase) reduction in assets		
Accounts receivable	530	(89)
Amounts receivable	57	(31)
Taxes deferred and recoverable	(971)	(29)
Judicial deposits and embargoes	(206)	(374)
Pre-paid expenses	(261)	94
Inventory	48	(11)
Other assets	(116)	5
Increase (reduction) in liabilities		
Suppliers	81	161
Payroll, social charges and benefits	59	8
Taxes payable and deferred	536	(234)
REFIS II — Tax Scheduling Program	(116)	(108)
Provisions for legal contingencies	(625)	(660)
Other liabilities	148	256
Net operational cash generation	5,693	5,854

Telemar Norte Leste S.A. and
Telemar Norte Leste S.A. (Consolidated)

Information supplementary to the financial statements
for the fiscal years ended on December 31, 2007 and 2006
In millions of *reais*

Cash flow statements — Consolidated (continued)

	2007	2006
Investment cash flow		
Acquisition of fixed and intangible assets	(2,363)	(2,327)
Increase in deferred assets	(2)	—
Increase in permanent investment	(104)	(4)
Net cash used for investment	(2,469)	(2,331)
Financing cash flow		
Funding	1,884	4,165
Payment of principal and interest on loans, financing and debentures	(2,364)	(4,289)
Payment of dividends and interest on capital	(643)	(1,000)
Net cash used in financing	(1,123)	(1,124)
Net cash increase (reduction)	2,101	2,399
Cash at the beginning of the year	3,999	1,600
Cash at the end of the year	6,100	3,999
Change in cash position	2,101	2,399

Telemar Norte Leste S.A. and
Telemar Norte Leste S.A. (Consolidated)

Information supplementary to the financial statements
for the fiscal years ended on December 31, 2007 and 2006
In millions of *reais*

Value added statements — Consolidated

	2007	2006
Revenues		
Sale of goods and services	25,138	24,232
Provision for doubtful debts	(649)	(475)
Other operating revenue, net	413	434
Non-operating income (expenses), net	31	(10)
	24,933	24,181
Inputs acquired from third parties		
Interconnection costs	(3,332)	(2,792)
Materials and energy (estimate of 18% ICMS tax on top of Note 5 amount)	(622)	(602)
Cost of goods sold (12% ICMS tax on top of Note 5 amount)	(440)	(803)
Third-party services (including 11% INSS tax on top of Note 5 amount)	(4,405)	(4,304)
Others	(426)	(469)
	(9,225)	(8,970)
Gross value added	15,708	15,211
Amounts withheld		
Depreciation	(2,466)	(3,009)
Amortization of deferred assets	(65)	(65)
Amortization of premium	(137)	(137)
Amortization of discount (AIX)	6	6
Provisions for legal contingencies	(417)	(1,053)
	(3,079)	(4,258)
Net value added by the business	12,629	10,953
Value added through transfers		
Equity adjustment	11	(1)
Financial income	919	644
	930	643
Total value added for allocation	13,559	11,596
Allocation of value added		
Payroll and taxes	(685)	(632)
Taxes and contributions (including interest on REFIS II)	(8,247)	(7,266)
Interest and other financial charges (not including taxes)	(1,090)	(1,331)
Rents and insurance	(761)	(699)
Employee profit sharing	(84)	(53)
Retained earnings	(2,692)	(1,615)
	(13,559)	(11,596)

DELOITTE TOUCHE TOHMATSU
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(Convenience Translation into English from the Original Previously Issued in Portuguese)

Brasil Telecom Participações S.A.

Financial Statements for the Years Ended December 31, 2008 and 2007 and Independent Auditors' Report

Deloitte Touche Tohmatsu Auditores Independentes

(Convenience Translation into English from the Original Previously Issued in Portuguese)

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Management of
Brasil Telecom Participações S.A.
Brasília - DF

1. We have audited the accompanying individual (Company) and consolidated balance sheets of Brasil Telecom Participações S.A. and subsidiaries as of December 31, 2008 and 2007, and the related statements of income, changes in shareholders' equity (Company), cash flows, and value added for the years then ended, all expressed in Brazilian reais and prepared under the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements.

2. Our audits were conducted in accordance with auditing standards in Brazil and comprised: (a) planning of the work, taking into consideration the significance of the balances, volume of transactions, and the accounting and internal control systems of the Company and its subsidiaries; (b) checking, on a test basis, the evidence and records that support the amounts and accounting information disclosed; and (c) evaluating the significant accounting practices and estimates adopted by the Company's Management, as well as the presentation of the financial statements taken as a whole.

3. In our opinion, the financial statements referred to in paragraph 1 present fairly, in all material respects, the individual and consolidated financial positions of Brasil Telecom Participações S.A. and subsidiaries as of December 31, 2008 and 2007, and the results of their operations, the changes in their shareholders' equity (Company), their cash flows, and the value added in operations for the years then ended, in conformity with Brazilian accounting practices.

4. As mentioned in note 2, in view of the changes in Brazilian accounting practices in 2008, the financial statements for the prior year, presented for comparative purposes, have been adjusted and are being restated as set forth in NPC 12 - Accounting Policies, Changes in Accounting Estimates and Errors.

5. As mentioned in note 5.m, there are plans for the merger of the Company into the subsidiary Brasil Telecom S.A.

6. The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

Brasília, February 10, 2009

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

Marco Antonio Brandão Simurro
Engagement Partner



BRASIL TELECOM PARTICIPAÇÕES S.A.

BALANCE SHEETS
On December 31, 2008 and 2007
(In thousands of Brazilian *reais* – R$)



	Notes	Company 12/31/08	Company 12/31/07 (Restated)	Consolidated 12/31/08	Consolidated 12/31/07 (Restated)
ASSETS					
CURRENT ASSETS		**1,639,357**	**1,959,747**	**7,591,486**	**7,462,192**
Cash and cash equivalents:	**17**	1,231,247	146,012	2,709,805	730,004
Financial Investments	**18**	213.635	1,316,891	775,502	3,163,487
Clients	**19**	—	—	2,210,090	2,189,701
Inventories	**20**	—	—	54,048	32,711
Loans and financing	**21**	—	—	1,758	1,797
Derivatives	**35**	—	—	29,179	—
Deferred and recoverable taxes	**22**	6,543	13,683	973,963	834,615
Escrow deposits	**23**	40	40	679,012	329,396
Dividends receivable	**24**	185,427	474,247	—	—
Other	**25**	2,465	8,874	158,129	180,481
NONCURRENT ASSETS		**4,506,641**	**4,079,325**	**11,845,949**	**9,926,259**
Long-term assets		**308,342**	**346,806**	**4,301,280**	**2,953,685**
Loans and financing	**21**	—	—	5,110	6,176
Derivatives	**35**	—	—	—	6,218
Deferred and recoverable taxes	**22**	302,610	341,191	1,924,930	1,794,488
Escrow deposits	**23**	5,732	5,615	2,230,724	1,069,127
Other	**25**	—	—	140,516	77,676
Investments	**26**	**4,197,772**	**3,731,731**	**3,744**	**32,222**
Property, plant and equipment	**27**	**517**	**778**	**5,902,640**	**5,691,212**
Intangible assets	**28**	**10**	**10**	**1,638,285**	**1,249,140**
TOTAL		**6,145,998**	**6,039,072**	**19,437,435**	**17,388,451**
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES		**366,449**	**824,149**	**4,971,033**	**4,761,837**
Payroll, social charges and benefits	**29**	15	21	110,173	103,571
Accounts payable and accrued expenses	**30**	11,864	22,786	2,072,279	1,637,188
Indirect taxes	**31**	1	18	669,437	746,234
Taxes on income	**32**	—	—	66,720	74,707
Dividends	**33**	277,874	725,922	516,469	1,097,844
Loans and financing	**34**	—	—	670,707	399,231
Derivatives	**35**	—	—	89,920	118,752
Telecom service exploitation permits	**36**	—	—	160,074	78,844
Provisions for contingencies	**8**	213	15	218,510	197,472
Provisions for pension plan	**7**	—	—	148,391	101,467
Advances from customers	**37**	—	—	79,227	62,957
Other	**38**	76,482	75,387	169,126	143,570
NONCURRENT LIABILITIES		**15,937**	**15,797**	**6,658,902**	**5,624,764**
Long-term liabilities		**15,937**	**15,797**	**6,658,902**	**5,624,764**
Payroll, social charges and benefits	**29**	—	—	11,483	—
Accounts payable and accrued expenses	**30**	—	—	—	13,456
Indirect taxes	**31**	4,933	6,560	262,060	104,243
Taxes on income	**32**	6,991	4,226	109,084	66,877
Loans and financing	**34**	—	—	3,993,198	3,602,633
Derivatives	**35**	—	—	132,153	287,762
Telecom service exploitation permits	**36**	—	—	623,585	174,632
Provisions for contingencies	**8**	3,733	5,011	714,114	700,239
Provisions for pension plan	**7**	—	—	607,400	586,278
Advances from customers	**37**	—	—	189,172	72,133
Other	**38**	280	—	16,653	16,511
MINORITY INTEREST		**—**	**—**	**2,043,888**	**1,802,724**
SHAREHOLDERS' EQUITY	**9**	**5,763,612**	**5,199,126**	**5,763,612**	**5,199,126**
Paid up capital stock		2,596,272	2,596,272	2,596,272	2,596,272
Capital reserves		309,178	309,178	309,178	309,178
Profit reserves		2,858,162	2,293,676	2,858,162	2,293,676
TOTAL		**6,145,998**	**6,039,072**	**19,437,435**	**17,388,451**

The accompanying notes are an integral part of these financial statements.



BRASIL TELECOM PARTICIPAÇÕES S.A.

STATEMENTS OF INCOME
For the Years ended December 31, 2008 and 2007
(In thousands of Brazilian *reais* – R$)



	Notes	Company		Consolidated	
		2008	2007 (Restated)	2008	2007 (Restated)
GROSS REVENUE FROM SALES AND/ OR SERVICES	**10**	**—**	**—**	**17,007,142**	**15,997,388**
Deductions from gross revenue	**10**	**—**	**—**	**(5,710,307)**	**(4,938,842)**
NET REVENUE FROM SALES AND/ OR SERVICES	**10**	**—**	**—**	**11,296,835**	**11,058,546**
Cost of goods and services sold	**11**	**—**	**—**	**(6,209,418)**	**(6,382,201)**
GROSS PROFIT		**—**	**—**	**5,087,417**	**4,676,345**
OPERATING REVENUES (EXPENSES)		**26,616**	**(17,999)**	**(3,223,511)**	**(3,332,228)**
Selling expenses	**12**	—	—	(1,364,223)	(1,485,352)
General and administrative expenses	**13**	(26,751)	(18,405)	(1,428,101)	(1,336,866)
Other operating income (expenses)	**14**	53,367	406	(431,187)	(510,010)
OPERATING INCOME (EXPENSES) BEFORE FINANCIAL INCOME (EXPENSES) AND EQUITY IN SUBSIDIARIES		**26,616**	**(17,999)**	**1,863,906**	**1,344,117**
Financial expenses, net	**15**	(143,014)	(109,602)	(524,551)	(500,982)
Equity in subsidiaries	**26**	691,122	533,406	—	—
OPERATING INCOME		**574,724**	**405,805**	**1,339,355**	**843,135**
INCOME BEFORE TAXES		**574,724**	**405,805**	**1,339,355**	**843,135**
Income tax and social contribution	**16**	(39,487)	(64,312)	(590,955)	(359,340)
INCOME AFTER TAXES AND BEFORE MINORITY INTEREST		**535,237**	**341,493**	**748,400**	**483,795**
Minority interest		—	—	(337,145)	(261,572)
INCOME BEFORE REVERSAL OF INTEREST ON CAPITAL		**535,237**	**341,493**	**411,255**	**222,223**
Reversal of interest on capital	**9**	264,800	336,300	370,951	450,954
NET INCOME		**800,037**	**677,793**	**782,206**	**673,177**
Number of outstanding share at balance sheet date		**362,488,413**	**362,488,413**		
Earnings per share – R$		**2.21**	**1.87**		

The accompanying notes are an integral part of these financial statements.



BRASIL TELECOM PARTICIPAÇÕES S.A.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY (COMPANY)
For the Years Ended December 31, 2008 and 2007
(In thousands of Brazilian *reais* – R$)

	Capital reserves			Profit reserves			
						Investment reserve	
	Capital	Share subscription premium	Other	Legal reserve	Unrealized profits reserve	Investment reserve	Treasur shares
Balance as of December 31, 2006	**2,596,272**	**306,961**	**2,217**	**232,169**	**74,180**	**—**	**—**
Prior year adjustments							
Adjustments due to adoption of Law 11638/07(1)							
Balance as of December 31, 2006 (adjusted)	**2,596,272**	**306,961**	**2,217**	**232,169**	**74,180**	**—**	**—**
Changes in retained earnings							
Reversal of reserves					**(74,180)**		
Net Income							
Originally presented							
Adjustments due to adoption of Law 11638/07(1)							
Net Income, adjusted							
Prosposed dividends							
Allocation proposed to Shareholders' Meeting							
Recognition of legal reserve				33,795			
Proposed dividends/ interest on capital							
Investment reserve							
Balance as of December 31, 2007 (adjusted)	**2,596,272**	**306,961**	**2,217**	**265,964**	**—**	**—**	**—**
Retained Earnings Operations							
Net Income							
Prosposed dividends							
Destination Proposal to A.G.O.							
Recognition of legal reserve				40,002			
Proposed dividends/ interest on capital Investment reserve							
Attributed to prior year						2,077,807	
Allocation in 2008						495,235	
Other changes in shareholders' equity							
Treasury shares							(20,846
Balance as of December 31, 2008	**2,596,272**	**306,961**	**2,217**	**305,966**	**—**	**2,573,042**	**(20,846**

(1) Refer to note 2 to the financial statements.

The accompanying notes are an integral part of these financial statements.



BRASIL TELECOM PARTICIPAÇÕES S.A.

STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2008 and 2007
(In thousands of Brazilian *reais* – R$)



	Company		Consolidated	
	2008	2007 (Restated)	2008	2007 (Restated)
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax and social contribution ***(Consider is reversal of interest on capital)***	**839,524**	**742,105**	**1,710,306**	**1,294,089**
Income items not affecting cash	**(738,983)**	**(601,177)**	**3,801,264**	**3,820,640**
Depreciation and Amortization	205	256	2,072,756	2,441,731
Losses on accounts receivable	—	—	370,242	348,001
Provision/Reversal for Contingencies	(954)	1,215	710,531	650,898
Provisions for Pension Plans	—	—	81,324	89,675
Expenses with Pension Funds Recovery — Surplus	—	—	(61,104)	(81,209)
Taxes Recovery	—	(69,758)	—	(69,758)
Income (loss) on write-off of permanent assets	(46,321)	(454)	(38,895)	19,398
Equity in subsidiaries	(691,122)	(533,406)	—	—
Loss (gain) with investments	(791)	970	43,415	974
Provisioned financial charges	—	—	622,995	420,930
Variations in assets and liabilities	**37,105**	**32,549**	**(1,173,378)**	**(863,560)**
Trade accounts receivable	—	—	(390,631)	(410,050)
Inventories	—	—	(21,338)	31,453
Payroll, social charges and benefits	(5)	2	18,086	24,991
Accounts payable and accrued expenses	(10,920)	(11,612)	(378,700)	(50,806)
Taxes	39,880	(23,979)	(135,737)	61,272
Services exploitation permits	—	—	90,773	(101,905)
Provisions for contingencies	—	(450)	(451,050)	(469,624)
Provisions for pension plan	—	—	(13,278)	(51,143)
Other assets and liabilities	8,150	68,588	108,497	102,252
CASH PROVIDED BY OPERATING ACTIVITIES	**137,646**	**173,477**	**4,338,192**	**4,251,169**
Financial charges paid	—	—	(525,468)	(585,267)
Income tax and social contribution paid	—	—	(619,923)	(359,016)
Dividends/Interest on capital received from subsidiaries	474,246	241,145	—	—
NET CASH PROVIDED BY OPERATING ACTIVITIES	**611,892**	**414,622**	**3,192,801**	**3,306,886**
CASH FLOWS FROM INVESTING ACTIVITIES				
Investments	1,103,256	(14,093)	2,386,698	477,060
Proceeds from sale of permanent assets	54,381	—	78,604	47,708
Escrow deposits	(32,766)	(372)	(1,755,969)	(871,807)
Investments in permanent assets	—	(1,385)	(1,438,442)	(1,317,712)
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	**1,124,871**	**(15,850)**	**(729,109)**	**(1,664,751)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividends/interest on capital paid in the year	(651,528)	(382,306)	(861,891)	(493,180)
Loans and financing	—	—	378,000	(841,687)
Funds raised	—	—	739,338	601,028
Repayment of loans	—	—	(336,428)	(1,417,006)
Payment of leasing obigations	—	—	(24,910)	(25,709)
NET CASH USED IN FINANCING ACTIVITIES	**(651,528)**	**(382,306)**	**(483,891)**	**(1,334,867)**
CASH FLOWS FOR THE YEAR	**1,085,235**	**16,466**	**1,979,801**	**307,268**
CASH AND CASH EQUIVALENTS				
Cash and cash equivalents at end of year	1,231,247	146,012	2,709,805	730,004
Cash and cash equivalents at beginning of	146,012	129,546	730,004	422,736
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**1,085,235**	**16,466**	**1,979,801**	**307,268**
Supplementary information				
Changes between economic and financial investment (property, plant and equipment and intangible assets)	—	—	(1,239,463)	(82,082)

The accompanying notes are an integral part of these financial statements.



BRASIL TELECOM PARTICIPAÇÕES S.A.

STATEMENTS OF VALUE ADDED
For the Years Ended December 31, 2008 and 2007
(In thousands of Brazilian *reais* – R$)



	Company				Consolidated			
	2008		2007 (Restated)		2008		2007 (Restated)	
REVENUES	**53,378**	**5.7%**	**1,900**	**0.2%**	**15,823,894**	**180%**	**15,432,778**	**199.2%**
Sales of goods and services	—	—	—	—	17,007,142	193.4%	15,997,388	206.5%
Voluntary discounts and cancellations	—	—	—	—	(1,320,766)	(15)%	(585,034)	(7.6)%
Losses on receivables	—	—	—	—	(370,242)	(4.2)%	(348,001)	(4.5)%
Other revenues	53,378	5.7%	1,900	0.2%	507,760	5.8%	368,425	4.8%
INPUTS PURCHASED FROM THIRD PARTIES	**(3,976)**	**(0.4)%**	**(6,426)**	**(0.7)%**	**(5,223,683)**	**-59.4%**	**(5,454,016)**	**(70.4)%**
Materials	(3)	—	—	—	(395,235)	(4.5)%	(380,219)	(4.9)%
Costs of goods and services sold	(3,781)	(0.4)%	(6,208)	(0.7)%	(4,734,619)	(53.8)%	(4,951,888)	(63.9)%
Other outside assignments	(192)	—	(218)	—	(93,829)	(1.1)%	(121,909)	(1.6)%
RETENTIONS	**749**	**0.1%**	**(1,471)**	**(0.1)%**	**(2,783,287)**	**(31.7)%**	**(3,092,629)**	**(39.9)%**
Depreciation and amortization	(205)	—	(256)	—	(2,072,756)	(23.6)%	(2,441,731)	(31.5)%
Provisions for contingencies	954	0.1%	(1,215)	(0.1)%	(710,531)	(8.1)%	(650,898)	(8.4)%
WEALTH CREATED	**50,151**	**5.4%**	**(5,997)**	**(0.6)%**	**7,816,924**	**88.9%**	**6,886,133**	**88.9%**
VALUE ADDED RECEIVED IN TRANSFER	**890,730**	**94.6%**	**875,101**	**100.6%**	**977,582**	**11.1%**	**861,947**	**11.1%**
Equity in subsidiaries	691,122	73.4%	533,406	61.3%	—	—	—	—
Dividends (investments at cost)	2	—	329	—	3,017	—	712	—
Financial income	199,606	21.2%	341,366	39.3%	887,590	10.1%	773,796	10.0%
Lease income	—	—	—	—	86,975	1 %	87,439	1.1%
WEALTH FOR DISTRIBUTION	**940,881**	**100%**	**869,104**	**100%**	**8,794,506**	**100%**	**7,748,080**	**100%**
DISTRIBUTION OF WEALTH								
Employees	**13,950**	**1.5%**	**4,422**	**0.5%**	**892,545**	**10.1%**	**670,635**	**8.8%**
Fees, salaries and premiums	13,945	1.5%	4,422	0.5%	423,729	4.8%	310,404	4.1%
Payroll taxes, benefits and profit sharing	5	—	—	—	387,492	4.4%	270,556	3.5%
Pension plan reserves	—	—	—	—	81,324	0.9%	89,675	1.2%
Government — Taxes	**64,949**	**6.9%**	**90,350**	**10.4%**	**5,352,699**	**60.9%**	**5,055,943**	**65.4%**
Donations and sponsoring	**5**	**—**	**—**	**—**	**23,011**	**0.3%**	**11,499**	**0.1%**
Lessors	**61,940**	**6.6%**	**96,539**	**11.1%**	**1,406,900**	**16 %**	**1,075,257**	**14.1%**
Rentals, leases and insurance	8,575	0.9%	7,273	0.8%	409,931	4.7%	348,282	4.6%
Financial expenses	53,365	5.7%	89,266	10.3%	996,969	11.3%	726,975	9.5%
Shareholders	**304,802**	**32.4%**	**675,906**	**77.8%**	**410,953**	**4.7%**	**790,560**	**9.7%**
Interest on capital	264,800	28.1%	336,300	38.7%	370,951	4.2%	450,954	5.8%
Dividends	—	—	305,811	35.2%	—	—	305,811	3.5%
Allocation to legal reserve	40,002	4.3%	33,795	3.9%	40,002	0.5%	33,795	0.4%
Minority interest	**—**	**—**	**—**	**—**	**230,994**	**2.6%**	**146,915**	**1.9%**
Retained earnings (accumlated losses)	**495,235**	**52.6%**	**1,887**	**0.2%**	**477,404**	**5.4%**	**(2,729)**	**— %**
WEALTH DISTRIBUTED	**940,881**	**100%**	**869,104**	**100%**	**8,794,506**	**100%**	**7,748,080**	**100%**
Additional Information:								
Dividends paid with prior years' wealth created	—		74,180		—		74,180	

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS
For the years ended December 31, 2008 and 2007
(In thousands of Brazilian *reais* – R$)

1. OPERATIONS

Brasil Telecom Participações S.A. (the "Company") is a publicly-traded company, established in accordance with article 189, of Law 9472/97 — Telecommunications General Law, as part of the spin-off process of TELEBRÁS, the protocol and justification of which were approved on May 22, 1998 at a Shareholders' Meeting.

The Company's purpose is to exercise the control of companies that exploit fixed telephony public services in Region II of the General Concession Plan ("PGO") approved by Decree 2534, dated April 2, 1998. Such control is exercised by Brasil Telecom S.A., a concessionaire responsible for Switched Fixed Telephony Services ("STFC") in Region II of the PGO. Additionally, the Company may hold investments in other companies.

The Company is registered with the Brazilian Securities and Exchange Commission ("CVM") and the U.S. Securities and Exchange Commission ("SEC"). Its shares are traded on the São Paulo Stock Exchange ("Bovespa"), where it also integrates level 1 of Corporate Governance, and its American Depositary Receipts ("ADRs") are traded on the New York Stock Exchange ("NYSE").

The Company's control is exercised by SOLPART Participações S.A. ("SOLPART"), corresponding, at the balance sheet date, to 51.41% of the voting capital and 18.93% of the total capital.

Direct Subsidiaries

a. Brasil Telecom S.A.

Brasil Telecom S.A. is a concessionaire responsible for STFC in Region II of the PGO, covering the Brazilian states of Acre, Rondônia, Mato Grosso, Mato Grosso do Sul, Tocantins, Goiás, Paraná, Santa Catarina and Rio Grande do Sul, in addition to the Federal District. Brasil Telecom S.A. has been providing STFC in this area since July 1998, in the form of local and intra-regional long-distance calls. As of January 2004, Brasil Telecom S.A. also started to provide national and international long-distance services in all Regions. Local services started to be provided outside Region II as from January 2005.

The concession agreements in effect, regarding local and long-distance services, came into effect on January 1, 2006 and are effective until December 31, 2025. Additional information on these agreements is provided in note 5.m.

Information regarding the quality and universal service targets of the Switched Fixed Telephony Service of its Subsidiary are available to interested parties on ANATEL's homepage, in the website *www.anatel.gov.br.*

b. Nova Tarrafa Participações Ltda. and Nova Tarrafa Inc.

The Company also controls Nova Tarrafa Participações Ltda. ("NTP") and Nova Tarrafa Inc. ("NTI"). The business purpose of these subsidiaries is to invest in the capital of Internet Group (Cayman) Limited ("iG Cayman"), a company engaged in the provision of Internet access services. The control of iG Cayman is held by Brasil Telecom Serviços de Internet S.A., another indirect subsidiary operating in the Internet sector.

At the balance sheet date, NTP's and NTI's interests in iG Cayman represented 9.42% (9.25% at December 31, 2007) and 0.16% (0.16% at December 31, 2007), respectively, and, together with Brasil Telecom

Serviços de Internet S.A., the total interest was 100% (98.2% at December 31, 2007). The change in the ownership interest held in the year is due to the fact that iG Cayman repurchased some of its shares, which were held by shareholders outside the companies under the Company's control.

Indirect Subsidiaries

In the second semester of 2006, the Company's Board of Directors approved the corporate restructuring of its subsidiaries. This restructuring aimed at optimizing the controlling structure through downsizing, concentration of similar activities and simplification of intercompany shareholdings. The corporate changes performed, carried out at book values, did not have material impacts on the cost structure. The changes that took place in 2008 are mentioned in the comments on the companies presented below, when attributed to them.

The subsidiary Brasil Telecom S.A. holds the control of the following companies:

a. 14 Brasil Telecom Celular S.A.

14 Brasil Telecom Celular S.A. ("BrT Celular") is a wholly-owned subsidiary which has been operating since the fourth quarter of 2004 to provide Personal Mobile Services ("SMP"), and has an authorization to serve Region II of the PGO.

b. BrT Serviços de Internet S.A.

BrT Serviços de Internet S.A. ("BrTI") is a wholly-owned subsidiary whose main purpose was to provide broadband Internet services up to July 31, 2008. On August 1, 2008 the Internet operations were transferred to its subsidiary Internet Group do Brasil S.A., and corresponded to spun-off assets of R$26,423, calculated at carrying amount. BrTI reduced the value of its capital stock held by the Company in the same amount, which, in turn, received an increase in capital from Internet Group do Brasil S.A.

BrTI continues to provide added-value services, serving clients whose contracts define specific conditions.

BrTI holds the control of the following companies:

iG Companies

The iG companies comprise the companies of Internet Group (Cayman) Limited ("iG Cayman"), iG Participações S.A. ("iG Part") and Internet Group do Brasil S.A. ("iG Brasil").

iG Brasil operates as a dialup and broadband internet access provider. It also provides added-value services targeted for home and corporate markets, including the Internet connection accelerator. In addition, iG also sells advertising space on its portal.

BrTI's control over the iG Companies up to April 25, 2008 was attributed to its 88.81% interest in the capital stock of iG Cayman, established in the Cayman Islands. On that date, iG Cayman reported dividends to the shareholders holding A Series Convertible Preferred Shares, in the amount of R$76,494, of which R$51,215 to the shareholder BrTI and R$25,279 million to the non-controlling shareholders outside Brasil Telecom companies. Subsequently, iG Cayman repurchased the shares held by non-controlling shareholders outside Brasil Telecom companies, in the amount of R$19,552 (equity value). After the share repurchase, BrTI´s interest in iG Cayman started to be 90.42%. The aforementioned share repurchase was mentioned in the Company's Market Release issued on April 29, 2008.

iG Cayman is a holding company that controls iG Participações S.A. (“iG Part”), which has an investment of 32.53% in the capital stock of iG Brasil. iG Part and iG Brasil are companies organized and constituted in Brazil.

On June 2, 2008, iG Brasil incorporated Freelance S.A. (“Freelance”), a company which held iBest’s operations, targeted for the Internet sector, and, accordingly, compatible to iG’s operations. The merger report prepared based on the closing down financial statements of Freelance, dated May 31, 2008, calculated spun-off net assets in the amount of R$102,917. BrTI, which was the holder of 100% of Freelance’s capital stock, currently holds 53.82% of the total shares of iG Brasil.

As regards the former ownership structure of the companies comprising iBest’s operations, it should be highlighted that iBest Holding Corporation, incorporated in the Cayman Islands, discontinued operations and was dissolved. The company’s dissolution certificate, issued in the Cayman Islands on May 23, 2008 resulted in the write-off of investments in the amount of R$34, recorded in BrTI, its sole shareholder.

On June 2, 2008, iG Brasil also incorporated Central de Serviços Internet Ltda. (“CSI”), a company in which it held a 99.99% interest. CSI provided services for iG Brasil on an exclusive basis and the total net assets merged, included in the report dated May 31, 2008, amounted to R$1,367.

Agência O Jornal da Internet Ltda. (“Jornal Internet”)

BrTI holds a 30% interest in the capital stock of Jornal Internet, which is engaged in the on-line sale of goods and services, issue of daily newspapers or magazines, and gathering, generation and disclosure of news on selected events. Seventy percent of the capital stock of Jornal Internet is held by Caio Túlio Vieira Costa, executive vice president of the Internet companies controlled by the Company.

c. Brasil Telecom Cabos Submarinos Ltda.

Brasil Telecom Cabos Submarinos Ltda (“BrT CS”), together with its subsidiaries, operates through a system of underwater optical fiber cables, with connection points in the United States, Bermuda, Venezuela and Brazil, allowing data traffic through integrated service packages, offered to local and international corporate customers.

BrT CS holds the total capital stock of Brasil Telecom Subsea Cable Systems (Bermuda) Ltd. (“BrT SCS Bermuda”), which, in turn, holds the total shares of Brasil Telecom of America Inc. (“BrT of America”) and Brasil Telecom de Venezuela, S.A. (“BrT Venezuela”). On December 24, 2008, the registration of Brasil Telecom de Colombia, Empresa Unipersonal (“BrT Colombia”) was obtained, a company which is controlled by BrT SCS Bermuda. The new company is awaiting payment of its capital stock and does not have business operations at the balance sheet date.

d. BrT Comunicação Multimídia Ltda. (“BrT Multimídia”)

Up to April 10, 2007, Brasil Telecom S.A. held 100% of the capital stock of MTH Ventures do Brasil Ltda. (“MTH”), a holding company which had the control of BrT Multimídia, whereas Brasil Telecom S.A. and BrTI held the remaining ownership interest. An Extraordinary General Meeting held on this date decided for the merger of MTH into Brasil Telecom S.A. Currently, Brasil Telecom S.A. holds 89.83% of the capital stock of BrT Multimídia, whereas the remaining 10.17% is held by BrTI.

BrT Multimídia is a service provider of a private telecommunications network through local optical fiber digital networks in São Paulo, Rio de Janeiro and Belo Horizonte, and a long distance network connecting these major metropolitan business centers. It operates nationwide through commercial agreements with other telecommunications companies to offer services to other regions in Brazil. It also has Web solution centers in São Paulo, Brasília, Curitiba, Porto Alegre, Rio de Janeiro e Fortaleza, which offer co-location, hosting and other value-added services.

e. Vant Telecomunicações S.A. ("VANT")

A company whose capital stock is almost entirely held by Brasil Telecom S.A. BrTI holds only one share in VANT's capital, which represents an ownership interest of less than 0.01%.

VANT is engaged in the provision of multimedia communication services, purchase and onerous assignment of capabilities and other means, and operates in the capitals of the principal Brazilian states.

f. Brasil Telecom Call Center S.A. ("BrT Call Center")

Previously named Santa Bárbara dos Pinhais S.A, BrT Call Center changed, together with the change of its corporate name, as decided at a Shareholders' Meeting held on August 21, 2007, its business purpose, which started to be the provision of call center services for third parties, including customer service, outbound and inbound telemarketing, training, support, consulting services and related activities, among others. This company became operational at the beginning of November 2007 by providing call center services for Brasil Telecom S.A. and its subsidiries which require this type of service. Previously, the call center services were outsourced.

g. BrT Card Serviços Financeiros Ltda. ("BrT Card")

Company established to provide management, control and support services for the development and sale of financial products and services, whose articles of organization were registered on July 17, 2008. Its capital was paid up on September 17, 2008, and Brasil Telecom S.A. holds 99.99% of the shares, whereas BrTI holds the remaining ownership interest. At the balance sheet date, BrT Card had only highly liquid cash investments resulting from the payment of capital, and had not yet started its operations.

Litigation Release and Settlement Instrument

Transaction Agreement

When the Shareholding Control Purchase Agreement was signed, long-outstanding litigation that resulted in various lawsuits derived from the change in Brasil Telecom's Management, which took place in the third quarter of 2005, were resolved. In a significant event notice dated April 25, 2008, the Company and Brasil Telecom Participações S.A., together with 14 Brasil Telecom Celular S.A., collectively referred to as Brasil Telecom Parties, announced the terms and conditions which resulted in the transaction document mentioned below:

1 — On April 25, 2008, Brasil Telecom Parties (on their behalf and on behalf of their Associates Companies), Opportunity Fund and other Opportunity Parties/Banco Opportunity (on their behalf and on behalf of their Associates Companies) entered into, in conjunction with Telemar Norte Leste S.A. ("Telemar"), a "Waiver, Transaction and Release Public Instrument" ("Transaction Agreement"), by means of which Brasil Telecom Parties and Opportunity Parties/Banco Opportunity established the terms and conditions for resolving the current litigation among the Parties and preventing new ones from being filed.

2 — According to item 1 above, Telemar also published on April 25, 2008, a significant event notice expressing its interest in acquiring the control of Brasil Telecom Parties and their direct and indirect subsidiaries, as Telemar is not a party to and is not involved, whether directly or indirectly, in litigation of any nature between Opportunity Parties/Banco Opportunity and Brasil Telecom Parties (and their respective Associates Companies).

3 — It is publicly known that Brasil Telecom Parties and Opportunity Parties/Banco Opportunity (and their respective Associates Companies) are involved in disputes and litigation in Brazil and abroad. Said Parties, without acknowledging the history or undertaking any responsibility related to the mutual litigation they have, decided to serve their mutual interests, avoiding further expenditures of time, efforts and resources in current and future litigation.

4 — Under the Transaction Agreement and to dismiss the litigation between Brasil Telecom Parties and Opportunity Parties/Banco Opportunity, so as to make the objective in item 2 above feasible, Telemar undertook the obligation to pay Brasil Telecom Parties a total amount of R$175,730.

5 — This amount should be paid in two installments. The first one, in the amount of R$80,814, for prompt payment in favor of Brasil Telecom S.A., therefore dismissing the litigation between Brasil Telecom S.A. and Opportunity Parties/Banco Opportunity pending abroad. The remaining one, in the amount of R$94,916, divided as follows: (i) R$89,071 in favor of Brasil Telecom S.A. and (ii) R$5,845 in favor of Brasil Telecom Participações S.A., to be settled after transactions in pending litigation in Brazil are approved by the Extraordinary Shareholders' Meetings of Brasil Telecom Participações S.A. and Brasil Telecom S.A.

6 — Under the Transaction Agreement, the agreement among Brasil Telecom Parties and Opportunity Parties/Banco Opportunity (and respective Associates Companies) to definitively solve any existing claims and prevent others from being filed, as well as payments under Telemar's responsibility, do not depend on the completion of the transaction for acquisition of the control of Brasil Telecom Parties by Telemar.

7 — The Transaction Agreement was signed independently from any other legal businesses or agreements entered into by and between Opportunity Parties/Banco Opportunity and Telemar and/or their respective associates companies, parent companies and companies under common control and the validity and effectiveness of the Transaction Agreement have not been conditioned or bound by the validity, effectiveness, fulfillment, satisfaction of any conditions or any other events or circumstances related to any other legal businesses or agreements entered into by and between such Parties and/or respective associates companies, parent companies and companies under common control.

Transaction Agreement Approval

The Company and Brasil Telecom S.A. in their respective Extraordinary Shareholders' Meeting held on May 29, 2008, unanimously approved the releases and transactions under the Transaction Document entered into by Telemar Norte Leste S.A., Opportunity Fund and Others, which depended on approval by Shareholders' Meetings. As a result of the approval, the amounts mentioned in the Transaction Agreement have been fully settled by Telemar and received by BrT and BrT Part.

2. PRESENTATION OF THE FINANCIAL STATEMENTS

Preparation Criteria

The financial statements have been prepared in conformity with Brazilian accounting practices, the provisions of Corporate Law and the standards of the Brazilian Securities Commission (CVM). The set of practices and standards that governs accounting records and financial statement preparation changed as from the fiscal year ended December 31, 2007. Such changes are described below.

Law 11638/07 and Provisional Act 449/08

On December 28, 2007, Law 11638/07 was enacted, altering and introducing new provisions to the Brazilian Corporate Law (Law 6404/76). Said law establishes several changes regarding fiscal years and the preparation of financial statements, to conform these financial statements to the international accounting standards ("IFRS"), and, accordingly, has empowered the CVM to issue accounting standards and procedures for publicly-held companies. The main changes introduced by the Law are effective from the fiscal year ended 2008.

On December 3, 2008, Provisional Act 449 ("MP 449/08") was enacted as a law, introducing the Transition Tax Regime ("RTT") for determination of taxable income, which addresses the tax adjustments arising from the new accounting methods and criteria established by Law 11638/07, and introduces some changes to Law 6404/76.

The principal changes introduced by Law 11638/07 and Provisional Act 449/08, effective from 2008, are as follows:

- Replacement of the Statement of Changes in Financial Position (DOAR) by the Statement of Cash Flows (DFC);
- A new requirement for the presentation of a Statement of Value Added (DVA);
- Creation of a new account group, Valuation Adjustments to Shareholders' Equity, in shareholders' equity, and Intangible Assets, in permanent assets;
- Standardization of the evaluation and classification criteria for financial instruments, including derivatives;
- Requirement that certain long-term assets and liabilities be recorded at present value, and, if material, for certain other short-term assets and liabilities.
- Requirement to record under the caption property, plant and equipment those assets in intangible assets arising from financial lease transactions;
- Requirement that an analysis of the recoverability of noncurrent assets be performed.
- Changes in the parameters for accounting for associates companies under the equity method;
- Possibility to create a Tax Incentive Reserve;
- Elimination of the revaluation reserve.

Standards Issued by the CVM

The new accounting practices introduced by Law 11638/07, effective on the date on which these financial statements were approved for completion, and whose regulations were issued by the CVM, are listed below. These regulations mainly arise from approvals of the technical pronouncements issued by the Accounting Pronouncements Committee ("CPC").

- CVM Resolution 527/07 — (CPC 01) — Impairment of Assets.
- CVM Resolution 534/08 — (CPC 02) — Effects of Exchange Rate Variations and Translation of Financial Statements.
- CVM Resolution 539/08 — (CPC — Basic Conceptual Pronouncement) — Framework for Preparation and Presentation of Financial Statements.
- CVM Resolution 547/08 — (CPC 03) — Statement of Cash Flows.
- CVM Resolution 553/08 — (CPC 04) — Intangible Assets.
- CVM Resolution 560/08 — (CPC 05) — Related Party Disclosures.
- CVM Resolution 554/08 — (CPC 06) — Leases.
- CVM Resolution 555/08 — (CPC 07) — Government Grant and Support.
- CVM Resolution 556 — (CPC 08) — Transaction Costs and Premiums on the Issue of Securities.
- CVM Resolution 557/08 — (CPC 09) — Statement of Value Added.
- CVM Resolution 562/08 — (CPC 10) — Share-Based Payments.
- CVM Resolution 563/08 — (CPC 11) — Insurance Agreements.
- CVM Resolution 564/08 — (CPC 12) — Adjustment to Present Value.
- CVM Resolution 565/08 — (CPC 13) — First-time Adoption of Law 11638/07.
- CVM Resolution 566/08 — (CPC 14) — Financial Instruments: Recognition, Measurement and Disclosure.
- CVM Resolution 475/08 — Addresses the presentation of information on financial instruments.

Consolidated Financial Statements

The Company's accounting practices are consistent with those of its subsidiaries.

The consolidated financial statements were prepared in accordance with CVM Resolution 247/96 and includes the Company and the companies mentioned in note 1.

Some of the main consolidation procedures are:

- Elimination of intercompany asset and liability balances, revenues and expenses.
- Elimination of intercompany investments, shareholdings, reserves and retained earnings.
- Segregation of the portions of shareholders' equity and income belonging to minority shareholders, indicated in specific items.

The reconciliation of the net income and shareholders' equity belonging to the Company and the Consolidated is as follows:

	NET INCOME	
	2008	2007
COMPANY	**800,037**	**677,793**
Entries made in the subsidiary's shareholders' equity		
Prescribed dividends	(13,777)	(5,198)
Equity securities — stock options	(3,344)	—
Gain on treasury shares	(710)	—
Capitalized interest in the subsidiary	—	582
CONSOLIDATED	**782,206**	**673,177**

Segment Reporting

The Company presents, as a supplement to note 39, a report by business segment. A segment is an identifiable component of the company, engaged in providing services (business segment) or supplying products and services which are subject to different risks and compensation.

First-Time Adoption of Law 11638/07

As a result of the new standards previously mentioned, the Company declares its first-time adoption in order to fully comply with Law 11638/07, the CVM standards and Provisional Act 449/08, establishing January 1, 2007 as the date of transition ("transition date"), using as a starting point the financial statements for the year ended December 31, 2006. In accordance with paragraph 1 of article 186 of Law 6404/76, the initial adjustments arising from the first-time adoption of Law 11638/07 and Provisional Act 449/08, referring to the transition date, are recorded under the "Retained earnings" caption.

The Company, as permitted by CVM Resolution 565/08, which approved the pronouncement on the first-time adoption of said Law and the Transition Tax Regime, elected to present in its comparative financial statements prior periods' amounts as if the new accounting practice had always been in effect.

Important Choices Made by the Company Regarding the First-time Adoption of Law 11638/07 and Provisional Act 449/08

Financial Instruments

The classification of financial instruments under a certain category should be made at the time of their original recording. In the first-time adoption of the Law, companies are allowed to classify financial instruments on the transition date. The Company applied the classification and measurement standards provided for in CPC 14 ("Financial Instruments — Recognition, Measurement and Disclosure") on the transition date.

Financial leases

On the transition date, leased assets were included in property, plant and equipment at the lower of the fair value of the assets and the present value of minimum lease payments, as of the starting date of the agreement, adjusted by the depreciation accumulated through the transition date. The difference calculated, net of tax effects, was recorded as a against "Retained earnings" on the transition date.

Deferred Charges — Preoperating Expenses and Restructuring Costs

Law 11638/07 limited the recording of expenses in Deferred Charges and Provisional Act 449/08 eliminated this account group. Accordingly, the Company elected to write off the preoperating expenses and other deferred charges which were not reclassified to another group of assets (Intangible assets) on the transition date, by recording their amounts as a against retained earnings (accumulated losses), net of tax effects.

Stock Options

Brasil Telecom S.A. makes share-based payments (stock options) settled through equity securities and others settled in cash. On the transition date, the effects of the first-time adoption on all the stock options granted by the Company were recognized as a against retained earnings, as established by CPC 10 — "Share-based Payments".

Tax Effects of the First-Time Adoption of Law 11638/07 and Provisional Act 449/08

The tax effects arising from the first-time adoption of said law and provisional act were recorded pursuant to the prevailing standards, particularly in Income Tax and Social Contribution accounting. The adjustments related to the first-time adoption of said Law consider the effects of deferred income tax and social contribution, when applicable.

Retained Earnings

The balance of the retained earnings attributed to prior years was transferred to profit reserves. It should be pointed out that such balance had been allocated to the investment reserve, in accordance with decisions by the Shareholders' Meetings held in each prior year.

Effects of the First-Time Adoption of Law 11638/07 and Provisional Act 449/08

Reconciliation of Shareholders' Equity on the transition date — January 1, 2007

	Notes	COMPANY 01/01/2007
Shareholders' equity reported (Law 6404/76)		**5,278,184**
Equity in subsidiaries on adjustments as per Law 11638/07	c	(49,274)
Shareholders' equity adjusted to Law 11638/07		**5,228,910**

	Notes	CONSOLIDATED 01/01/2007
Shareholders' equity reported (Law 6404/76)		**5,278,184**
Financial leases	d	(4,859)
Fair value of financial instruments	g	3,796
Write-off of deferred charges	e	(109,898)
Income tax and social contribution on net adjustments	b	37,728
Effect of the adjustments on minority interest	c	23,959
Shareholders' equity adjusted to Law 11638/07		**5,228,910**

Presented below are the reconciliations of the balance sheets and statements of income presented as of December 31, 2007, adjusted to Law 11638/07, which are necessary for making them comparable to the fiscal year ended December 31, 2008.

Balance Sheet

ASSETS	Notes	COMPANY 2007 Reported as per (Law 6404/76)	Adjustments as per Law 11638/07	Adjusted to Law 11638/07
Current assets		**1,959,747**	**—**	**1,959,747**
Cash and banks	a	702	(702)	—
Cash and cash equivalents	a	—	146,012	146,012
Immediately liquid investments	a	986,812	(986,812)	—
Cash investments	a	—	1,316,891	1,316,891
Temporary cash investments	a	475,389	(475,389)	—
Dividends/ interest on shareholders' equity receivable		474,247	—	474,247
Deferred and recoverable taxes		13,683	—	13,683
Escrow deposits		40	—	40
Other assets		8,874	—	8,874
Noncurrent assets		**4,126,712**	**(47,387)**	**4,079,325**
Deferred and recoverable taxes		341,191	—	341,191
Escrow deposits		5,615	—	5,615
Investments	c	3,779,118	(47,387)	3,731,731
Property, plant and equipment		778	—	778
Intangible assets		10	—	10
Total assets		**6,086,459**	**(47,387)**	**6,039,072**

LIABILITIES	Notes	COMPANY 2007 Reported as Per Law 6404/76	Adjustments as per Law 11638/07	Adjusted to Law 11638/07
Current assets		**824,149**	**—**	**824,149**
Payroll, social charges and benefits		21	—	21
Accounts payable and accrued expenses		22,786	—	22,786
Indirect taxes		18	—	18
Dividends/ interest on shareholders' equity and profit sharing		725,922	—	725,922
Reserves for contingencies		15	—	15
Other liabilities		75,387	—	75,387
Noncurrent (long-term liabilities)		**15,797**	**—**	**15,797**
Indirect taxes		6,560	—	6,560
Taxes on income		4,226	—	4,226
Provisions for contingencies		5,011	—	5,011
Shareholders' equity		**5,246,513**	**(47,387)**	**5,199,126**
Capital		2,596,272	—	2,596,272
Capital reserves		309,178	—	309,178
Profit reserve	c, i	2,361,909	(68,233)	2,293,676
Treasury shares	i	(20,846)	20,846	—
Total		**6,086,459**	**(47,387)**	**6,039,072**

Reconciliation of Shareholders' Equity

	Notes	COMPANY 2007
Shareholders' equity reported (Law 6404/76)		**5,246,513**
Equity in subsidiaries on adjustments as per Law 11638/07	c	(47,387)
Shareholders' equity adjusted to Law 11638/07		**5,199,126**

		CONSOLIDATED 2007		
ASSETS	Notes	Reported as Per Law 6404/76	Adjustments as per Law 11638/07	Adjusted to Law 11638/07
Current assets		**7,435,999**	**26,193**	**7,462,192**
Cash and banks	a	315,032	(315,032)	—
Cash and cash equivalents	a	—	730,004	730,004
Immediately liquid investments	a	3,049,514	(3,049,514)	—
Cash investments	a	—	3,163,487	3,163,487
Government securities	a	53,556	(53,556)	—
Temporary cash investments	a	475,389	(475,389)	—
Trade accounts receivable		2,189,701	—	2,189,701
Inventories		32,711	—	32,711
Loans and financing		1,797	—	1,797
Deferred and recoverable taxes	b	804,500	30,115	834,615
Escrow deposits		329,396	—	329,396
Other assets	g	184,403	(3,922)	180,481
Noncurrent assets		**9,993,315**	**(67,056)**	**9,926,259**
Loans and financing		6,176	—	6,176
Derivatives	g	—	6,218	6,218
Deferred and recoverable taxes	b	1,793,218	1,270	1,794,488
Income securities	g	3,709	(3,709)	—
Escrow deposits		1,069,127	—	1,069,127
Other assets	g	94,856	(17,180)	77,676
Investments	c	201,510	(169,288)	32,222
Property, plant and equipment	d	5,664,196	27,016	5,691,212
Intangible assets	c,e	1,049,570	199,570	1,249,140
Deferred charges	e	110,953	(110,953)	—
Total assets		**17,429,314**	**(40,863)**	**17,388,451**

LIABILITIES	Notes	CONSOLIDATED 2007 Reported as Per Law 6404/76	Adjustments as per Law 11638/07	Adjusted to Law 11638/07
Current liabilities		**4,727,371**	**34,466**	**4,761,837**
Payroll, social charges and benefits	f	90,392	13,179	103,571
Accounts payable and accrued expenses		1,637,188	—	1,637,188
Indirect taxes		746,234	—	746,234
Taxes on income	b	74,628	79	74,707
Dividends/ interest on shareholders' equity and Profit Sharing		1,097,844	—	1,097,844
Loans and financing	d,g	496,775	(97,544)	399,231
Derivatives	g	—	118,752	118,752
Service exploitation permits		78,844	—	78,844
Provisions for contingencies		197,472	—	197,472
Provisions for pension fund		101,467	—	101,467
Advances from customers		62,957	—	62,957
Other liabilities		143,570	—	143,570
Noncurrent (long-term liabilities)		**5,621,689**	**3,075**	**5,624,764**
Accounts payable and accrued expenses		13,456	—	13,456
Indirect taxes		104,243	—	104,243
Taxes on income	b	66,860	17	66,877
Loans and financing	d,g	3,886,628	(283,995)	3,602,633
Derivatives	g	—	287,762	287,762
Service exploitation permits		174,632	—	174,632
Provisions for contingencies		700,239	—	700,239
Provisions for pension fund		586,278	—	586,278
Advances from customers		72,133	—	72,133
Other liabilities	g	17,220	(709)	16,511
Minority Interest	c	**1,825,767**	**(23,043)**	**1,802,724**
Shareholders' Equity		**5,246,513**	**(47,387)**	**5,199,126**
Capital		2,596,272	—	2,596,272
Capital reserves		309,178	—	309,178
Profit reserve	b,d,e,f,g,i	2,361,909	(68,233)	2,293,676
Treasury shares	i	(20,846)	20,846	—
Capitalizable resources	g	**7,974**	**(7,974)**	—
Total		**17,429,314**	**(40,863)**	**17,388,451**

Reconciliation of Shareholders' Equity

	Notes	CONSOLIDATED 2007
Shareholders' equity reported (Law 6404/76)		**5,246,513**
Financial leases	d	(8,149)
Share-based payments	f	(13,179)
Fair value of financial instruments	g	280
Write-off of deferred charges	e	(80,670)
Income tax and social contribution on net adjustments	b	31,288
Effect of the adjustments on minority interest	c	23,043
Shareholders' equity adjusted to Law 11638/07		**5,199,126**

Statement of Income for the Year

	Notes	COMPANY 2007 Reported as Per Law 6404/76	Adjustments as per Law 11638/07	Adjusted to Law 11638/07
Gross operating revenue		**—**	**—**	**—**
Deductions from gross revenue		**—**	**—**	**—**
Net operating income		**—**	**—**	**—**
Cost of sales and services		—	—	—
Gross profit		**—**	**—**	**—**
Operating income (expenses)		**(17,483)**	**(516)**	**(17,999)**
Selling expenses		—	—	—
General and administrative expenses		(18,405)	—	(18,405)
Other operating expenses, net	h	922	(516)	406
Income from operations before financial expenses and equity in subsidiaries		**(17,483)**	**(516)**	**(17,999)**
Financial expenses, net		(109,602)	—	(109,602)
Equity in subsidiaries	c	531,519	1,887	533,406
Income from operations		**404,434**	**1,371**	**405,805**
Other nonoperating expenses, net	h	**(516)**	**516**	**—**
Income before taxes		**403,918**	**1,887**	**405,805**
Income tax and social contribution on net profit		(64,312)	—	(64,312)
Income after taxes and before reversal of interest on capital		**339,606**	**1,887**	**341,493**
Reversal of interest on capital		336,300	—	336,300
Net income for the year		**675,906**	**1,887**	**677,793**
Outstanding shares at balance sheet date		**362,488,413**		**362,488,413**
Net earnings per share (R$)		**1.86**		**1.87**

Reconciliation of Net Income

	Notes	COMPANY 2007
Net income reported (Law 6404/76)		**675,906**
Equity in subsidiaries on adjustments as per Law 11638/07	c	1,887
Shareholders' equity adjusted to Law 11638/07		**677,793**

	Notes	CONSOLIDATED 2007		
		Reported as Per Law 6404/76	Adjustments as per Law 11638/07	Adjusted to Law 11638/07
Gross operating revenue		**15,997,388**	**—**	**15,997,388**
Deductions from gross revenue		**(4,938,842)**	**—**	**(4,938,842)**
Net operating revenue		**11,058,546**	**—**	**11,058,546**
Cost of sales and services		(6,382,201)	—	(6,382,201)
Gross profit		**4,676,345**	**—**	**4,676,345**
Operating income (expenses)		**(3,350,155)**	**17,927**	**(3,332,228)**
Sales of Services		(1,485,352)	—	(1,485,352)
General and administrative expenses	d,e,f	(1,359,424)	22,558	(1,336,866)
Other operating expenses, net	d,h	(505,379)	(4,631)	(510,010)
Income from operations before financial expenses and equity in subsidiaries		**1,326,190**	**17,927**	**1,344,117**
Financial expenses, net	d,g	(489,321)	(11,661)	(500,982)
Income from operations		**836,869**	**6,266**	**843,135**
Other nonoperating expenses, net	h	**(2,974)**	**(2,974)**	**—**
Income before taxes and profit sharing		**833,895**	**9,240**	**843,135**
Income tax and social contribution on income	b	(352,903)	(6,437)	(359,340)
Income after taxes and before minority interest		**480,992**	**2,803**	**483,795**
Minority interest	c	(260,656)	(916)	(261,572)
Income before reversal of interest on capital		**220,336**	**1,887**	**222,223**
Reversal of interest on capital		450,954	—	450,954
Net income for the year		**671,290**	**1,887**	**673,177**
Outstanding shares as of balance sheet date		**547,272,189**		**547,272,189**
Earnings per share (R$)		**1.23**		**1.23**

Reconciliation of Net Income

	Notes	CONSOLIDATED 2007
Net income reported (Law 6404/76)		**671,290**
Financial leases	d	(3,291)
Share-based payments	f	(13,179)
Fair value of financial instruments	g	(3,516)
Write-off of deferred charges	e	29,226
Income tax and social contribution on net adjustments	b	(6,437)
Effect of the adjustments on minority interest	c	(916)
Shareholders' equity adjusted to Law 11638/07		**673,177**

Description of the Adjustments Related to the First-time Adoption of Law 11638/07 and Provisional Act 449/08 – Transition Date: January 1, 2007.

a) Cash equivalents and immediately liquid investments

In accordance with CPC 03 — "Statement of Cash Flows", the Company and its subsidiaries classified as Cash Equivalents the highly liquid, short-term investments which are promptly convertible into a known cash amount and are subject to an insignificant risk of change in value. Cash investments are temporary short-term investments represented by highly liquid securities.

The reconciliation reflects the difference in classification, which recorded under the caption Cash Equivalents all highly liquid cash investments.

b) Deferred Taxes and Taxes on Income

Deferred income tax and social contribution were recorded by taking into consideration the adjustments relating to the first-time adoption of Law 11638/07.

c) Investments

The reconciliation takes into consideration the equity effects and minority interest on the adjustments relating to the first-time adoption of Law 11638/07 in the financial statements.

Goodwill on investments based on future earnings was reclassified to Intangible assets.

d) Financial leases

In conformity with CPC 06 — "Leases", the assets related to lease agreements, whose controls, risk and benefits are achieved by the Company were recorded. Accordingly, the financial lease agreements were recorded as assets and liabilities on the transition date, originating a depreciation expense on depreciable assets and a financial expense on leases payable.

e) Deferred Charges

In accordance with CPC 13 — "First-time Adoption of Law 11638/07 and Provisional Act 449/08", the preoperating expenses recorded as assets in the indirect subsidiaries BrT Celular and BrT Call Center were

written off on the transition date by recording their amounts against retained earnings (accumulated deficit). Additionally, the amortization recorded as an expense in the statement of income was reversed in the year ended December 31, 2007.

The rights related to the maintenance of the indirect subsidiaries' activities were transferred to Intangible assets.

f) Stock Options

Pursuant to CPC 10 — "Share-based Payments", Brasil Telecom S.A. recorded the share-based payment transactions (stock options) granted to management and employees. The options granted which are settled with equity securities are recorded in shareholders' equity and those which are settled in cash are recorded in liabilities. The expense calculated based on the vesting period is recorded as the services are provided.

g) Financial Instruments

In accordance with CPC 14 —"Financial Instruments: Recognition, Measurement and Disclosure", the Company recorded in its financial statements the fair value of swap contracts, determined based on information on future interest derived from future cash flows associated to each instrument contracted, discounted to market rates. Additionally, the derivatives were reclassified to specific groups. Asset derivatives were originally classified as assets (US dollar options) and liability derivatives as Loans and financing (swap) and other liabilities (US dollar options).

The financial charges on Loans and financing are added to the value of each debt instrument. Such charges were recorded in the "Other Assets" and were reclassified to "Loans and financing" in liabilities.

The group also considers the reclassification of income securities to "Other Assets" and the reclassification of capitalizable resources to "Other liabilities".

h) Nonoperating Income (Expenses)

Provisional Act 449/08 eliminated the segregation of "Nonoperating income (expenses)" in the statement of income for the year. As established by Instruction 2 of the Accounting Pronouncements Committee ("OCPC 02"), endorsed by CVM/SNC/SEP Official Letter 01/09, the income and expenses previously recorded as "Nonoperating income (expenses)" started to be recorded in "Operating income (expenses)".

i) Treasury Shares

Additionally, OCPC 02 recommends that the amount of treasury shares be presented by correcting the amount of their related origin reserves.

Other Information on the Financial Statements

Since the Company is registered at the SEC, it is subject to its standards and should prepare financial statements and other information by adopting criteria that meet the requirements of this agency. In order to comply with such requirements and to meet the information needs of the market, the Company adopts the principle of disclosing information in both markets and in their respective languages.

The notes to the financial statements are presented in thousands of Brazilian reais, unless stated otherwise.

The amounts of the escrow deposits linked to the provisions for contingencies are presented as a reduction of the liabilities recorded.

Accounting estimates were based on objective as well as subjective factors, and judgment by Management was required to determine the adequate amount to be included in the financial statements. Significant items subject to these estimates and assumptions include the residual value of property, plant and equipment, the allowance for doubtful accounts, inventories, deferred income tax and social contribution, provisions for contingencies, valuation of financial instruments and assets and liabilities related to employee benefits. Actual results could differ from those estimates. The Company's management reviews these estimates and assumptions at least on a quarterly basis.

3. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

The criteria mentioned below refer to practices adopted by the Company.

a. ***Cash and cash equivalents:*** Cash includes cash and available bank accounts. Cash equivalents are short-term investments, with original maturity of up to ninety days, consisting of highly liquid securities, readily convertible into cash and with immaterial risk of change in amount, stated at cost plus income earned through the balance sheet date, not exceeding fair value.

b. ***Cash Investments:*** The Company classifies its cash investments in securities as follows: (i) held for trading; (ii) held to maturity; and (iii) available for sale, restricted to the purpose of said investments.

The securities held for trading are stated at fair value and their related effects are recorded in the statement of income. The securities held to maturity are measured at cost plus accrued income, net of a provision for write-down to recoverable value, when applicable. The securities available for sale are stated at fair value and their related effects are recorded under the caption "Valuation Adjustments to Shareholders' Equity", when applicable.

c. ***Trade Accounts Receivable:*** Accounts receivable from users of telecommunications services are recorded at the amount of the tariff or service on the date the service is provided and do not differ from their fair values. Accounts receivable from services include credits for services provided and not invoiced up to the balance sheet date. Accounts receivable from sales of cell phones and accessories are recorded at the amount of sales made when the goods are delivered and accepted by customers. A provision for write-down to recoverable value is recorded when there is objective evidence that the Company will not collect all the amounts due within the original terms of its accounts receivable. Financial difficulties faced by the debtor, probability of insolvency and other indicators of credit impairment are taken into consideration in individual analyses and in analyses of groups of assets with similar risk. The criterion adopted for recording the allowance for doubtful accounts takes into consideration the calculation of the actual loss percentages incurred on each maturity of receivables. Future losses on the current receivables balance are estimated based on these loss percentages. The allowances for doubtful accounts, losses on accounts receivable and recovery of losses previously written off are recorded in the statement of income for the period under "Selling expenses".

d. ***Material Inventories:*** These are stated at average acquisition cost, which does not exceed replacement cost. Inventories are divided into plant expansion, plant maintenance, and inventories of goods for resale, consisting mainly of cell phones, accessories and electronic cards. The plant expansion inventories are recorded

in property, plant and equipment (construction in progress), and maintenance inventories in current and long-term assets, in accordance with the period in which they will be used, and the inventories for resale are recorded in Current assets. For inventories regarded as obsolete, provisions for losses are recorded. For cell phones and accessories, adjustments are recorded in the cases in which the acquisitions are carried out at amounts exceeding the sales amounts, adjusting them to net realizable value.

e. ***Investments:*** Investments in subsidiaries are recorded under the equity method. Other investments are stated at acquisition cost, less an allowance for losses, when applicable. Investments resulting from income tax incentives are recognized on the date of investment, and result in shares of companies with tax incentives or investment funds. During the period from the investment date to receipt of shares or fund shares, they are recognized in long-term assets. These investments are periodically evaluated and the result of the comparison between their original and market costs, when lower, is recognized in provisions for probable losses.

f. ***Property, Plant and Equipment:*** Stated at acquisition or construction cost, less accumulated depreciation. Historic costs include expenses which are directly attributable to the acquisition of the assets. Financial charges arising from obligations which finance assets under construction and construction in progress are capitalized.

Subsequent costs are added to the carrying amount of the asset or recognized as separate assets, as appropriate, only when these assets generate future economic benefits and may be measured in a reliable manner. The residual balance of the replaced asset is written off. Maintenance and repair expenses are recorded in the statement of income during the period in which they were incurred.

Depreciation is calculated under the straight-line method, in accordance with the economic useful lives of the assets, which are periodically reviewed by the Company. The costs of land are not depreciated.

The Company monitors and evaluates whether there is any indication that the assets may be impaired. No provisions were recorded for write-down of property, plant and equipment to recoverable value.

g. ***Intangible Assets:*** Mainly refer to regulatory licenses, software licenses and goodwill related to acquisition of investments. Intangible assets are stated at acquisition cost, less accumulated amortization and impairment losses, when applicable. The goodwill recorded was calculated based on expected future earnings and their amortization is related to the realization volume and time projected, not exceeding a ten-year period. Regulatory licenses are amortized according to the terms determined by the regulatory agency. The amortization of software licenses is calculated under the straight-line method, based on projections of future economic benefits, not exceeding a five-year period. When it is identified that a license or right linked to the asset no longer produces benefits, the asset is written off against income (losses).

h. ***Impairment of Long-lived Assets:*** An assessment is performed annually or whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be recoverable. Long-lived assets may be identified as those which have an undefined useful life and those subject to depreciation and amortization (property, plant and equipment and intangible assets). An impairment loss is recognized for the amount at which the asset's carrying amount exceeds the recoverable value. Recoverable value is the higher of fair value less cost to sell and value in use. In order to be tested for impairment, the assets are grouped into the smallest identifiable group for which there are cash generating units, and projections are made based on discounted cash flows, supported by expectations on the Company's operations in its several business segments. Said projections support the recovery of assets.

i. ***Leases:*** Leases are classified as financial lease when they substantially transfer all the risks and benefits inherent to their ownership.

Financial leases are recognized in the financial statements as assets and liabilities of the same amount, based on the fair value of the asset or the present value of minimum payments, established at the beginning of the leases. Initial costs directly attributable to leases are added to the amount recognized as an asset.

j. ***Financial Assets and Liabilities at Fair Value:*** Financial assets recorded at fair value against income or losses are initially recognized at fair value and the costs of the transactions are recorded in the statement of income. The financial assets recorded are reversed when the rights to receive cash flows from investments have expired or all the risks and benefits related to their ownership have been transferred.

The fair values of financial assets are based on current prices offered. If the market for a financial asset is not available, the Company establishes the fair value by using evaluation techniques. This includes the use of arm's length transactions, reference to other instruments which are substantially similar, discounted cash flow analysis and option pricing models, making a maximum use of market inflows and a minimum use of Company-specific inflows.

k. ***Impairment of Financial Assets:*** The Company evaluates, at the balance sheet date, whether there is objective evidence that the financial asset or group of financial assets is impaired. A financial asset or group of financial assets is considered impaired when there is objective evidence, as a result of one or more events that occurred after the initial recognition of the financial asset, that the estimated future cash flows of the investment have been impacted.

l. ***Derivatives at Fair Value Against Income (Loss):*** Derivatives are initially recorded at fair value on the date when a derivative agreement is entered into and are subsequently measured at fair value. Changes in the fair value of any of these derivatives are recorded directly in income (loss).

m. ***Income Tax and Social Contribution on Income and Deferred Charges:*** Income tax and social contribution on income are recorded on the accrual basis. Said taxes resulting from temporary differences and tax loss carryforwards are recorded in assets or liabilities, according to each case, only under the assumption of future realization or payment. The Company evaluates and reduces deferred tax assets as it identifies that it is unlikely that there will be sufficient future taxable income to enable the full or partial utilization of the deferred taxes.

Deferred income tax and social contribution are fully recognized on differences between assets and liabilities recognized for tax purposes and related amounts recognized in the Consolidated Financial Statements. However, deferred income tax and social contribution are not recognized if generated in the initial record of assets and liabilities which do not affect the tax bases, except in business combination operations.

Deferred income tax and social contribution are determined by using the tax rates in effect at the balance sheet date, which are applied when the assets related to deferred income tax and social contribution are realized, or when deferred income tax and social contribution liabilities are settled.

n. ***Loans and financing:*** Adjusted by the inflation or exchange changes and interest incurred through the balance sheet date. The transaction costs incurred recorded are measured at amortized cost and recognized in the statement of income by using the effective interest rate method.

o. ***Provisions for Contingencies:*** The provisions for contingencies are recognized based on an assessment of their risks and quantified based on economic grounds and legal opinions on the lawsuits and other events known at the balance sheet date. Such reserves are recognized when there is a current legal or constructive obligation arising from past events, and it is probable that a disbursement of funds will be required to settle this obligation and the amount of the reserve can be reliably measured. The reserves are calculated at the fair value of the expenses expected on the settlement of the obligation. The basis and nature of these provisions are described in note 8.

p. ***Revenue Recognition:*** Revenues mainly refer to the amount of the payments received or receivable for sales of services in the regular course of the Company's activities. Revenue is stated at the gross amount, summarily deducting aggregate taxes, returns and discounts.

Revenue is recognized when its amount can be reliably measured, it is probable that future economic benefits will be transferred to the Company, the costs incurred on the transaction can be measured, the risks and benefits have been substantially transferred to the buyer and certain specific criteria have been met for each activity of the Company.

Service revenues are recognized when the services are provided. Local and long distance calls are charged based on time measurement according to the legislation in effect. The services charged based on monthly fixed amounts are calculated and recorded on the straight-line basis. Prepaid services are recognized as advances from customers and recorded in revenue as they are used by the customers.

Revenue from sales of payphone cards [Public Use Telephony (TUP)], cell phones and accessories is recognized when these items are delivered and accepted by the customers. Discounts or deductions related to the revenues from services provided and the sale of cell phones and accessories are taken into consideration in the recognition of the revenues to which they are linked. Revenues involving transactions with multiple elements are identified in relation to each of their components and the recognition criteria are applied on an individual basis. Revenues are not recognized when there are significant uncertainties as to their realization.

q. ***Expenses Recognition:*** Expenses are recognized on the accrual basis, considering their relation with revenue realization. Prepaid expenses are deferred.

r. ***Financial Income (Expenses), Net:*** Financial income is recognized on the accrual basis and comprises interest accrued on receivables settled after due date, gains on financial investments and gains on derivatives. Financial expenses consist of interest incurred and other charges on loans, financing, derivative agreements, reversal of adjustments to present value and other financial transactions. They also include the recognition of interest on the assets and liabilities recorded at present value.

Interest on capital, when paid, is included in financial expenses and, for reporting purposes, the amounts recorded are reversed against income (loss) and reclassified as deductions from retained earnings, in shareholders' equity.

s. ***Employee Benefits:*** Benefits offered by subsidiaries, as follows:

(i) ***Supplementary Pension Plan:*** The private pension plans and other postretirement benefits sponsored are managed by three institutions. The contributions are determined based on actuarial calculations, when applicable, and recorded against income (loss) on the accrual basis.

The plans sponsored are of the defined benefit (cannot be joined by new participants) and defined contribution type. A defined contribution plan is a pension plan under which the sponsor makes fixed contributions to a fund managed by a separate institution. The sponsor is not under the legal or constructive obligation of making additional contributions, in the event the fund lacks sufficient assets to pay all employees the benefits related to the services provided in the current period and in prior periods. The contributions are recognized as expenses related to employee benefits as incurred.

The obligation recognized in the balance sheet, as regards the defined benefit pension plans presenting a deficit, corresponds to the present value of the benefits defined at the balance sheet date, less the fair value of the plan assets. The defined benefit is annually calculated by independent actuaries under the projected unit credit method. The present value of the defined benefit is determined by discounting the estimated future cash outflows, using the projected inflation rate plus long-term interest estimated at 6% per year. Supplemental information on the private pension plans is provided in note 7.

(ii) ***Stock Options:*** The subsidiary Brasil Telecom S.A. grants a stock option plan to its management and employees, and the options are settled in shares. The fair value of the services received from employees in exchange for these options is determined based on the fair value of the options, established on the grant date.

This subsidiary also has stock options of the Company, which are granted to management and employees. These options are considered options settled in cash by the Subsidiary. The fair value of the options granted is appraised at the balance sheet date and changes are recorded in the Subsidiary's statement of income.

The fair value of the services received from employees and management in exchange for the options is recognized as an expense during the vesting period. The Subsidiary reviews the estimate of the number of options expected to be exercised and recognizes the impacts of this review on income (loss). The options settled in shares are recorded in expenses as a contra entry to an increase in shareholders' equity. The options settled in cash are recorded against a liability.

(iii) ***Profit Sharing:*** Accrued employee and management profit sharing is recognized on the accrual basis and recorded as an expense. The determination of the amount, which is paid in the year subsequent to that in which the profit sharing was accrued, considers the target program established with the employees' union, though a collective bargaining agreement, pursuant to Law 10101/00 and the By-laws.

t. ***Earnings per Share:*** Earnings per share are calculated based on the number of shares outstanding at the balance sheet date. Outstanding shares are represented by the total shares issued, less the shares held in treasury.

4. RELATED-PARTY TRANSACTIONS

Related-party transactions refer to transactions with the subsidiary Brasil Telecom S.A., which are carried out at prices and terms agreed between the parties. All intercompany transactions, balances, revenues and expenses are fully eliminated upon consolidation. The Company also presents management compensation in this note.

Subsidiary – Brasil Telecom S.A.

Guarantees: (i) The Company pledges guarantees for Loans and financing due by the Subsidiary to financial institutions. In 2008, the Company accrued revenues of R$9,157 (R$3,401 in 2007) on the guarantee provided; and (ii) the Company provided guarantee for the Subsidiary related to an insurance policy collateralizing

contractual obligations (GOC), which totaled R$112,020 (R$97,457 in 2007). In 2008, as a result of the earnings on the aforementioned guarantee, the Company recorded an operating income of R$129 (R$117 in 2007).

Amounts Payable: Result from the aforementioned transactions and the sharing of resources. The balance payable is R$1,636.

Management

Management Compensation

The compensation of the managers responsible for planning, managing and controlling the Company's activities, including that of the members of the Board of Directors and officers, is as follows:

	COMPANY		CONSOLIDATED	
	2008	2007	2008	2007
Salaries and other short-term benefits	977	956	50,556	24,876
Post-employment benefits	—	—	184	172
Employment termination benefits	13	4	6,888	1,953
Share-based compensation	—	—	16,743	13,179
Total	**990**	**960**	**74,371**	**40,180**

Management compensation attributable to the Company was recorded based on cost sharing.

5. RISK ANALYSIS

Financial Risk Management

The activities of the Company and its subsidiaries expose them to several financial risks, such as: market risk (including currency risk, the interest rate risk on fair value and cash flows and price risk), credit risk and liquidity risk. The global risk management program focuses on the unpredictability of financial markets and seeks to mitigate potential adverse impacts on financial performance. The subsidiary Brasil Telecom S.A. uses derivatives for certain risk exposures.

Risk management is carried out by the Company's treasury officer, in accordance with the policies approved by management. The treasury officer identifies, assesses and covers financial risks together with the other units of the Company and its subsidiaries. Management provides written principles for global risk management, as well as policies addressing specific areas, such as exchange rate and interest risk, credit risk, the use of derivatives and non-derivatives, and Immediately liquid investments.

According to their nature, financial instruments may involve known or unknown risks, and the potential of these risks is important, in the best judgment. Thus, there may be risks with or without guarantees depending on circumstantial or legal aspects.

a. Fair Value of Financial Assets and Liabilities

The Company and its subsidiaries have estimated the market value or effective realization value (fair value) of their financial assets and liabilities by using available market information and appropriate estimation methodologies for each situation. The interpretation of market data as regards the choice of methodologies

requires considerable judgment and the establishment of estimates to reach an amount considered appropriate to each situation. Therefore, the estimates presented many not necessarily indicate the amounts that could be obtained in the current market. The use of different hypotheses for fair value calculation may have a material impact on the amounts obtained.

The fair value of swap derivatives was calculated based on the future cash flows associated to each instrument contracted, discounted to the market rates in effect at the balance sheet date. The method used to calculate the fair value of derivatives related to US dollar call options, adopted for recognizing the premium, was Black&Scholes, adapted by Garman-Kohlhagen, to consider specific characteristics of foreign currency options.

For securities traded in an active market, the fair value is equivalent to the amount of the last quotation available at the balance sheet date multiplied by the number of outstanding securities. For contracts whose current terms and conditions are similar to those originally contracted or which do not present quotation benchmarks, the fair values equal the carrying amounts.

The classes of assets and liabilities presented in this note were not selected based on their materiality:

	COMPANY			
	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash and cash equivalents	1,231,247	1,231,247	146,012	146,012
Cash investments	213,635	213,635	1,316,891	1,316,891
Other assets	1	1	450	450
Liabilities				
Accounts payable and accrued expenses	11,864	11,864	22,786	22,786
Dividends/ interest on shareholders' equity	277,874	277,874	725,922	725,922
Treasury shares	(20,846)	(87,219)	(20,846)	(68,857)
Other liabilities	76,482	76,482	75,387	75,387

	CONSOLIDATED			
	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Cash and cash equivalents	2,709,805	2,709,805	730,004	730,004
Cash investments	775,502	775,502	3,163,487	3,163,487
Trade accounts receivable	2,210,090	2,210,090	2,189,701	2,189,701
Loans and financing	6,868	6,868	7,973	7,973
Derivatives	29,179	29,179	6,218	6,218
Other assets	234,440	234,440	210,920	210,920
Liabilities				
Accounts payable and accrued expenses	2,072,279	2,072,279	1,650,644	1,650,644
Loans and financing	3,571,999	3,597,016	2,912,908	2,961,226
Debentures	1,091,906	1,058,712	1,088,956	1,088,956
Derivatives	222,073	222,073	406,514	406,514
Dividends/ interest on sahreholders' equity	516,469	516,469	1,097,844	1,097,844
Treasury shares	(20,846)	(87,219)	(20,846)	(68,857)
Other liabilities	969,438	969,438	413,557	413,557

b. Financial Instruments per Category

The book balances of financial instruments per category are as follows:

	COMPANY		
	2008		
	Receivables, Loans and Liabilities at Amortized Cost	At Fair Value with Gains and Losses Recognized in Income (Expense)	Total
Assets			
Cash and cash equivalents	—	1,231,247	1,231,247
Cash investments	—	213,635	213,635
Other assets	1	—	1
Total	**1**	**1,444,882**	**1,444,883**
Liabilities			
Accounts payable and accrued expenses	11,864	—	11,864
Dividends/ interest on shareholders' equity	277,874	—	277,874
Treasury shares	(20,846)	—	(20,846)
Other liabilities	76,482	—	76,482
Total	**345,374**	**—**	**345,374**

	COMPANY		
	2007		
	Receivables, Loans and Liabilities at Amortized Cost	At Fair Value with Gains and Losses Recognized in Income (Expense)	Total
Assets			
Cash and cash equivalents	—	146,012	146,012
Cash investments	—	1,316,891	1,316,891
Other assets	450	—	450
Total	**450**	**1,462,903**	**1,463,353**
Liabilities			
Accounts payable and accrued expenses	22,786	—	22,786
Dividends/ interest on shareholders' equity	725,922	—	725,922
Treasury shares	(20,846)	—	(20,846)
Other liabilities	75,387	—	75,387
Total	**803,249**	**—**	**803,249**

	CONSOLIDATED		
	2008		
	Receivables, Loans and Liabilities at Amortized Cost	At Fair Value with Gains and Losses Recognized in Income (Expense)	Total
Assets			
Cash and cash equivalents	—	2,709,805	2,709,805
Cash investments	—	775,502	775,502
Trade accounts receivable	2,210,090	—	2,210,090
Loans and financing	6,868	—	6,868
Derivatives	—	29,179	29,179
Other assets	234,440	—	234,440
Total	**2,451,398**	**3,514,486**	**5,965,884**
Liabilities			
Accounts payable and accrued expenses	2,072,279	—	2,072,279
Loans and financing	3,571,999	—	3,571,999
Debentures	1,091,906	—	1,091,906
Derivatives	—	222,073	222,073
Dividends/ interest on shareholders' equity	516,469	—	516,469
Treasury shares	(20,846)	—	(20,846)
Other liabilities	969,438	—	969,438
Total	**8,201,245**	**222,073**	**8,423,318**

	CONSOLIDATED		
	2007		
	Receivables, loans and liabilities at amortized cost	At fair value with gains and losses recognized in income (expense)	Total
Assets			
Cash and cash equivalents	—	730,004	730,004
Cash investments	—	3,163,487	3,163,487
Trade accounts receivable	2,189,701	—	2,189,701
Loans and financing	7,973	—	7,973
Derivatives	—	6,218	6,218
Other assets	210,920	—	210,920
Total	**2,408,594**	**3,899,709**	**6,308,303**
Liabilities			
Accounts payable and accrued expenses	1,650,644	—	1,650,644
Loans and financing	2,912,908	—	2,912,908
Debentures	1,088,956	—	1,088,956
Derivatives	—	406,514	406,514
Dividends/ interest on shareholders' equity	1,097,844	—	1,097,844
Treasury shares	(20,846)	—	(20,846)
Other liabilities	413,557	—	413,557
Total	**7,143,063**	**406,514**	**7,549,577**

The Company and its subsidiaries had no financial instruments classified as held to maturity at the balance sheet date.

c. Capital Risk Management

The Company's objective when managing capital is to safeguard its continuity, ensuring returns to shareholders and conformity to their strategy.

The risk of consolidated capital management arises from the position of the Company and subsidiaries to use the operating cash flow to finance a significant portion of investments. Equity structure management is based on the annual budget approved by the Board of Directors, which establishes a net debt (Loans and financing plus derivatives, less Cash and cash equivalents and cash investments) to EBITDA ratio of less than one (1), which aims at ensuring a financing capacity to meet the high investments which characterize the Brazilian telecommunications industry. Additionally, the projects which require capital investments are approved by an investments committee under the EVA (Economic Value Added) methodology.

The monitoring criteria may be changed, in accordance with economic and financial conditions, in order to optimize their financial leverage and debt management.

d. Credit Risk

Most of the consolidated services provided are linked to the Concession Agreement and a portion of these services is subject to determination of tariffs by the regulatory agency. The credit policy, in turn, as regards public telecommunications services, is subject to the legal standards established by the Concession Grantor. The

risk exists due to the possibility of consolidated losses resulting from the difficulty in collecting the amounts billed to customers. Consolidated default for the year was 2.18% (2.18% in 2007), considering the total losses on trade accounts receivable in relation to gross revenue. By means of internal controls, the Company permanently monitors the level of its accounts receivable, thus limiting the risk of default, and cuts off access to the service (outbound phone traffic) if the bill is overdue for more than thirty days. Exceptions are made for telephone services, which should be maintained for national security or defense reasons.

Brasil Telecom S.A. operates in co-billing related to long distance calls with the use of its CSP (Operator Selection Code) originated by subscribers of other fixed and mobile telephony operators. Co-billing receivables are invoiced and collected by these operators, based on the operational agreements entered into with the latter and according to the rules set forth by the Brazilian Telecommunications Agency (ANATEL). The blocking rules set forth by the regulatory agency are the same for the fixed and mobile telephony companies, which are co-billing suppliers. This subsidiary controls separately this type of receivables and maintains an allowance for losses that may occur, due to risks of not receiving such amounts.

As regards mobile telephony, the credit risk in cell phones sales and services provided under the post-paid category is minimized by a credit pre-analysis. Also regarding post-paid services, whose customer base at the end of the year was 17.5% of the total portfolio (20.1% as of December 31, 2007), accounts receivable are also monitored in order to limit the default rate and service is blocked (outbound phone traffic) when the bill is overdue for more than 15 days.

e. Exchange Rate Risk

Brasil Telecom S.A. has Loans and financing contracted in foreign currency. The risk associated with these liabilities is related to the possibility of fluctuations in exchange rates that may increase the balance of such liabilities. The loans subject to this risk represent approximately 16.7% (16.0% as of December 31, 2007) of the total liabilities of Loans and financing, less the foreign exchange hedging transactions contracted. In order to minimize this type of risk, the Company has been entering into foreign exchange hedging contracts with financial institutions. Of the debt portion in foreign currency, 60.5% (92.6% as of December 31, 2007) is hedged with exchange rate swap and US dollar options, and foreign currency-denominated cash investments. The unrealized positive or adverse effects on hedging transactions, using exchange rate swaps and US dollar options, are recorded in the statement of income as earnings or losses, according to the status of each instrument.

Net exposure to exchange rate risk at the balance sheet date, at carrying and fair values, was as follows:

	CONSOLIDATED			
	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets				
Derivatives	29,179	29,179	6,218	6,218
Total	**29,179**	**29,179**	**6,218**	**6,218**
Current assets	29,179	29,179	—	—
Long-term assets	—	—	6,218	6,218

	CONSOLIDATED			
	2008		2007	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Liabilities				
Loans and financing	779,932	763,571	622,114	655,533
Derivatives	222,073	222,073	406,514	406,514
Total	**1,002,005**	**985,644**	**1,028,628**	**1,062,047**
Current liabilities	230,773	230,150	215,787	213,528
Long-term liabilities	771,232	755,494	812,841	848,519

Derivatives

In accordance with investment policies approved by the Board of Directors in May 2007, Brasil Telecom is allowed to enter into derivative transactions, without leverage, with prime financial institutions, in order to implement investment strategies and hedge debts. The investment limits in derivative transactions cannot exceed 10% of the higher of subsidiary's total investments and total foreign-currency denominated debt exposed to exchange rate changes. This type of transactions can only be entered into after being approved by management, in accordance with formally established procedures.

Internal controls are maintained to ensure timely monitoring of foreign exchange risks. Since the subsidiary has derivative investments for debt hedge, the management and assessment of the results from these transactions only consider the reduction or elimination of the effects of fluctuations in exchange rates on its debt.

The amounts of derivatives are summarized as follows:

		CONSOLIDATED					
						Accumulated effect — current period	
		Notional amount		Fair Value		Amount receivable	Amount payable
	Maturity	2008	2007	2008	2007	2008	2008
Swap contracts							
Asset position							
Foreign currency — yen(i)	Mar/09 to Mar/11	280,703	400,359	277,774	239,106	—	277,774
Liability position							
Interest rate — Interbank Certificate of Deposit (CDI)(i)	Mar/09 to Mar/11	(280,703)	(400,359)	(499,428)	(636,936)	—	(499,428)
Net amount		**—**	**—**	**(221,654)**	**(397,830)**	**—**	**(221,654)**
Options contracts							
Holder position — Call							
Foreign currency — dollar(i)	Feb/09	US$ 80,000	US$ 80,000	29,179	6,218	29,179	—
Writer position — Put							
Foreign currency — dollar(ii)	Feb/09	US$ 64,000	US$ 64,000	(419)	(8,684)	—	(419)

(i) Yen to CDI swap (Plain Vanilla)

In 2004, Brasil Telecom S.A. contracted foreign exchange swap transactions (plain vanilla) in order to hedge cash flows related to its yen-denominated liabilities with final maturity in March 2011. Under these contracts, the subsidiary has an asset position in yens, plus fixed interest rate, and a liability position tied to a percentage of a one-day interest rate (CDI), thus hedging against the foreign exchange fluctuation risk of the yen against the Brazilian real, which in effect represented a swap of yen cost of +1.92% per year with an average weighted rate of 95.91% at the balance sheet date. Such contracts were entered into with the following prime financial institutions: Citibank N.A. — Brazilian branch, Citibank DTVM S.A., Banco Citibank S.A., Banco JP Morgan S.A. and Banco Santander Brasil S.A. These transactions were duly registered with the Clearinghouse for the Custody and Financial Settlement of Securities (CETIP S.A.) and there is no required guarantee margin on these contracts.

As the asset position flows of swap contracts will be fully offset by the liability flows of the yen-denominated debt, the subsidiary considers that the risk of being in default with one-day interest rates (CDI) is the increase of the CDI.

(ii) *US Dollar Options*

Brasil Telecom S.A. contracted US dollar options to partially hedge cash flows tied to foreign currency-denominated debts (Notes issued in February 2004). These transactions involve the purchase of call options fully financed by the sale of put options, and an identical exercise price for both transactions. Such contracts were entered into with the following prime financial institutions: Banco Santander Brasil S.A., Banco JP Morgan S.A., Banco Citibank S.A., HSBC Bank Brasil S.A. — Banco Múltiplo and Banco Alfa de Investimentos S.A. These transactions were duly registered with the Clearinghouse for the Custody and Financial Settlement of Securities (CETIP S.A.) and mature in February 2009. There is no required guarantee margin on these contracts.

As a result of its strategy for options transactions, the subsidiary has a long position in dollars at the average price of R$1.9925/ US$. The notional value is US$80,000 for call options and US$64,000 for put options.

Sensitivity Analysis of Exchange Rate Changes

At the balance sheet date, management estimated the probable scenario of depreciation of the Brazilian real against other currencies based on the closing dollar exchange rate (sell PTAX) and the quotation of the Commodities & Futures Exchange (BM&F) for the US dollar futures contract maturing in January 2010. The probable rate was then depreciated by 25% and 50%, serving as a parameter for the possible and remote scenarios, respectively.

CONSOLIDATED

Exchange Rate Scenarios					
Probable scenario		**Possible scenario**		**Remote scenario**	
Benchmark dollar rate	**Depreciation**	**Benchmark dollar rate**	**Depreciation**	**Benchmark dollar rate**	**Depreciation**
2.50	6.9%	3.12	33.6%	3.75	60.3%

As of December 31, 2008, the hypothetical depreciation of the real against other currencies would have the following impact:

CONSOLIDATED				
Impacts on Exchange Rate Scenarios				
		Scenario		
Transaction	**Risk**	**Probable**	**Possible**	**Remote**
Cash and cash equivalents	Dollar depreciation	8,129	39,671	71,212
Dollar-denominated debts	Dollar appreciation	(35,089)	(171,233)	(307,378)
US dollar options	Dollar depreciation	12,907	62,633	112,307
Net effect of the depreciation of the real		(22,182)	(108,600)	(195,071)
Yen-denominated debts	Yen appreciation	(19,421)	(94,774)	(170,127)
Swaps (asset position — yen)	Yen depreciation	19,130	93,356	167,582
Net effect of the depreciation of the real		(291)	(1,418)	(2,545)
Debts denominated in a basket of currencies	Appreciation of the basket of currencies	(6,263)	(30,566)	(54,868)

f. Interest Rate Risk

Assets

Cash equivalents and financial investments in local currency are kept in financial investment funds (FIFs) exclusively managed for the Company and investments in its own portfolio of private securities (floating rate bank certificates of deposit — CDBs) issued by prime financial institutions.

The consolidated asset arises from a loan granted to a company that manufactures telephone directories, which earns interest based on the IGP-DI (General Price Index — Domestic Supply). The Company also has fixed income securities (CDBs) invested in Banco de Brasília S.A., related to the guarantee for the credit incentive granted by the government of the Federal District, under the "Program for Economic Sustainable Development in the Federal District" (PRO-DF), which earn interest from 94% to 97% of the SELIC interest rate.

The interest rate risk linked to these assets arises from the possibility of fluctuations in those rates.

These assets are presented in the balance sheet as follows:

	COMPANY		**CONSOLIDATED**	
	Carrying amount and fair value		**Carrying amount and fair value**	
	2008	**2007**	**2008**	**2007**
Assets				
Cash equivalents	1,231,158	145,310	2,541,878	414,972
Cash investments	213,635	1,316,891	775,502	3,163,487
Loans and financing	—	—	6,868	7,973
Total	**1,444,793**	**1,462,201**	**3,324,248**	**3,586,432**
Current assets	1,444,793	1,462,201	3,319,138	3,580,256
Long-term assets	—	—	5,110	6,176

Liabilities

Brasil Telecom S.A. has loans and financing in local currency subject to the following indexes: Long-term Interest Rate (TJLP), Monetary Unit of the National Bank for Economic and Social Development (UMBNDES), Interbank Certificates of Deposit (CDIs) and General Price Index — Domestic Supply (IGP-DI) and financing in foreign currency subject to the YEN LIBOR and LIBOR indexes. It is also exposed to the CDI arising from swap transactions contracted, the purpose of which is to hedge its yen-denominated liabilities, as mentioned in note 5.e. There are no other derivative transactions to hedge the liabilities against interest rate risk.

Furthermore, Brasil Telecom S.A. issued public debentures, not convertible into or exchangeable for shares. These liabilities were contracted at an interest rate pegged to the CDI.

The risk inherent to these liabilities arises from the possibility of fluctuations in those rates. However, the Company continuously monitors these market rates to assess the possible contracting of derivatives to hedge against the risk of volatility of these rates.

Sensitivity Analysis of Interest Rate Changes

The Company understands that the most significant risk related to interest rate changes arises from its liabilities subject to the CDI and TJLP. The risk is associated to an increase in those rates.

At the balance sheet date, management estimated a probable scenario of changes in interbank deposit rates (DIs) based on underlying rates from the closing quotations of future DIs traded on the BM&F. As there is no benchmark market for the future TJLP rates, management estimated a probable TJLP scenario of 6.25% per year, i.e., the TJLP in effect at the balance sheet date. Such rates were increased by 25% and 50%, serving as a benchmark for the possible and remote scenarios, respectively. The table below summarizes the scenarios estimated by management:

Interest Rate Scenarios(1)	2009	2010	2011	2012	2013	2014	2015	2016	2017
Probable scenario									
Interbank deposit rates (p.a.)	12.16%	12.23%	12.48%	13.32%	12.61%	—	—	—	—
Long-term Interest Rate (TJLP) (p.a.)	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
Possible scenario									
Interbank deposit rates (p.a.)	15.20%	15.29%	15.60%	16.64%	15.76%	—	—	—	—
Long-term Interest Rate (TJLP) (p.a.)	7.81%	7.81%	7.81%	7.81%	7.81%	7.81%	7.81%	7.81%	7.81%
Remote scenario									
Interbank deposit rates (p.a.)	18.24%	18.34%	18.72%	19.97%	18.92%	—	—	—	—
Long-term Interest Rate (TJLP) (p.a.)	9.38%	9.38%	9.38%	9.38%	9.38%	9.38%	9.38%	9.38%	9.38%

(1) Rates per year in the reference period

Based on the interest curves expected in each scenario, management estimated the future amounts of interest payments on its liabilities subject to the CDI and TJLP. The table below shows the nominal sum of the future interest payment flows in each year, as well as the difference between the interest paid in the possible and remote

scenarios in comparison to the probable scenario, which represents the impact of the theoretical increase in the interest rates estimated in the possible and remote scenarios. It is worth mentioning that the sensitivity analysis considers payment flows on different future dates. Accordingly, the global sum of the amounts in each scenario is not equivalent to the fair value or the present value of the liabilities. The fair value of these liabilities, should the Company's credit risk remain unchanged, would not be impacted in the event of changes in interest rates, bearing in mind that the rates used to estimate future cash flows would be the same which adjust them to present value.

Impacts - Interest Rate Scenarios	2009	2010	2011	2012	2013	2014	2015	2016	2017
Probable scenario									
Debt subject to CDI	133,458	131,613	113,952	72,766	23,460	—	—	—	—
Swap (only long position in CDI)	216,997	234,108	124,232	—	—	—	—	—	—
Debt subject to TJLP	254,882	184,201	129,250	89,684	49,651	15,199	7,993	4,530	1,097
Possible scenario									
Debt subject to CDI	162,744	163,421	141,474	90,321	29,127	—	—	—	—
Impact vs Probable Scenario	*29,286*	*31,809*	*27,522*	*17,556*	*5,667*	—	—	—	—
Swap (only long position in CDI)	219,850	243,487	131,835	—	—	—	—	—	—
Impact vs Probable Cenario	*2,853*	*9,379*	*7,602*	—	—	—	—	—	—
Debt subject to TJLP	256,739	188,279	134,066	94,402	53,021	16,463	8,796	5,058	1,240
Impact vs Probable Cenario	*1,857*	*4,078*	*4,816*	*4,718*	*3,370*	*1,264*	*803*	*527*	*143*
Remote scenario									
Debt subject to CDI	191,626	194,827	168,641	107,644	34,722	—	—	—	—
Impact vs Probable Cenario	*58,167*	*63,214*	*54,689*	*34,878*	*11,262*	—	—	—	—
Swap (only long position in CDI)	222,672	252,994	139,684	—	—	—	—	—	—
Impact vs Probable Cenario	*5,675*	*18,886*	*15,452*	—	—	—	—	—	—
Debt subject to TJLP	258,586	192,391	138,991	99,297	56,567	17,812	9,666	5,637	1,399
Impact vs Probable Cenario	*3,704*	*8,190*	*9,741*	*9,613*	*6,916*	*2,613*	*1,673*	*1,107*	*302*

g. Risk of failure to back inflation adjustment indexes of loans and financing to accounts receivable

Loan and financing indexes contracted by Brasil Telecom S.A. are not backed to the amounts of accounts receivable. Accordingly, there is a risk because the adjustments of telephone tariffs do not necessarily follow the increases in the interest rates which affect the subsidiary's debts.

h. Risks Related to Investments

The Company has investments measured under the equity method of accounting and the acquisition cost. Brasil Telecom S.A., Nova Tarrafa Participações Ltda. and Nova Tarrafa Inc. are subsidiaries whose investments are recorded under the equity method.

Investments stated at cost are immaterial in relation to total assets. The risks associated to them would not have a material impact on the Company's income (expense) in the event of significant losses.

The amounts related to investments are as follows:

	2008		2007	
	Carrying Amount	Fair value	Carrying Amount	Fair value
Investments	**4,197,772**	**15,375,661**	**3,731,731**	**9,925,609**
Investments in subsidiaries	**4,197,772**	**15,375,661**	**3,723,727**	**9,917,605**
Listed in the stock market	4,197,440	15,375,329	3,704,312	9,898,190
Unlisted in the stock market	332	332	19,415	19,415
Other investments	**—**	**—**	**8,004**	**8,004**

The listed company is Brasil Telecom S.A. and the fair value of the Company's shareholding was measured based on the market quotation used in negotiations among non-controlling shareholders.

i. Risks Related to Cash Equivalents and Cash Investments

Local currency cash equivalents and cash investments are kept in financial investment funds (FIFs) and investments in its own portfolio of private securities (floating-rate CDBs) issued by prime financial institutions. The FIF portfolios consist mainly of federal government securities (at floating rates) and CDBs issued by prime financial institutions (at floating rates). Funds may carry out non-leveraged derivative transactions to hedge their portfolios and comply with the goals established in their related investment policies. The exposure to market risks is monitored on a daily basis based on the VaR (Value at Risk) methodology, which qualifies the loss risk on these investments. As for the amounts expressed in foreign currency, they are represented by overnight transactions, backed by securities issued by foreign financial institutions, with low credit risk.

Investments in CDBs and overnight transactions are subject to the credit risk of financial institutions and foreign currency-denominated investments are subject to exchange rate risk.

The balances of cash equivalents and cash investments are presented in notes 17 and 18, respectively.

j. Liquidity Risk

The cash flows from operations and third-party financing are used to defray capital expenses on the expansion and modernization of the network, payment of dividends, prepayment of debts and investments in new businesses.

k. Risk of Accelerated Maturity of Loans and Financing

The obligations derived from consolidated financing, mentioned in note 34, related to BNDES agreements, public debentures and mainly to debts with financial institutions, have covenants that prescribe the accelerated maturity of obligations in the cases where certain levels are not met for certain indicators, such as interest coverage indexes and leverage level (financial covenants), as well as in the event of a change in the Company's shareholding control.

For the financing agreements with the BNDES, Brasil Telecom S.A. must comply with a set of financial ratios and in the event of noncompliance with some of these ratios, the Bank is allowed to request the temporary blocking of values deposited in the collection accounts backed to the agreements.

All indicators set forth in agreements are being complied with and thus no sanctions or penalties set forth in the agreement clauses entered into are being enforced upon Brasil Telecom S.A.

l. Risks Related to Contingencies

Contingencies are assessed according to probable, possible or remote loss. Contingencies considered as of probable risk are recorded in liabilities. Details on these risks are presented in note 8.

m. Regulatory Risk

Regulatory risks are related to the STFC activity, which is the most important sector in which the subsidiary Brasil Telecom S.A. operates.

Concession Agreements

Brasil Telecom S.A. has entered into local and domestic long distance concession agreements with ANATEL, effective from January 1, 2006 to December 31, 2025. These agreements, which provide for reviews on a five-year basis, in general have a higher intervention level in the management of the business and several provisions defending the consumer's interests, as noticed by the regulatory agency. The main highlights are:

(i) The public concession fee is defined as 2% of income net of taxes, calculated every two years, starting 2006, and the first payment was made on April 30, 2007. This will occur successively until termination of the concession. This calculation method, as regards its accrual, corresponds to 1% for each fiscal year;

(ii) The definition of new universal service goals, particularly AICE (Special Class Individual Access) with mandatory installation of network infrastructure for interconnection to high-capacity access networks;

(iii) Possibility of the Regulatory Agency imposing alternative mandatory offer plans;

(iv) Introduction of Regulatory Agency's right to be involved in and change the concessionaire's agreements with third parties;

(v) Inclusion of the parent company's, subsidiary's, affiliated companies' and third parties' assets, indispensable to the concession, as returnable assets; and

(vi) Creation of a users' council in each concession.

Interconnection tariffs are defined as a percentage public local and domestic long distance tariff until the effective implementation of cost model by service/modality, scheduled for 2009, as defined in the Regulation for Separation and Accounting Allocation Regulations (Resolution 396/05).

Approval of the New General Granting Plan

ANATEL published, on June 17, 2008, Public Consultation 23, addressing the Proposal for Revision of the General Granting Plan ("PGO") of Services Provided under Public Concession. Society in general could express its views on the proposal up to August 1, 2008, the date on which the deadline for submitting said public consultation expired.

On October 16, 2008, ANATEL's Executive Board approved the final wording of the new General Granting Plan ("PGO") which adopted the following principal action lines:

(i) Maintenance of the current PGO's regions;

(ii) Elimination of the operating restrictions on groups with concessionaries in more than one region of the PGO;

(iii) Restriction to holding more than one concession of the same STFC type in the same Region of the PGO or in a portion of it by the same Group;

(iv) Obligation that groups controlling concessions in more than one region operate in the other regions of the PGO, in the manner prescribed by the General Plan for Competition Targets (PGMC), and comply with other rules established by ANATEL, in order to ensure competition, prevent economic concentration and ensure the performance of the concession agreements; and

(v) Maintenance of the regional contiguity concept.

The General Plan for Telecommunications Regulation Updates (PGR) was also approved, establishing regulatory targets for increasing competition.

The Proposal for the Revision of the PGO was approved by ANATEL's Executive Board and submitted to the Ministry of Communications ("MC"). The Ministry of Communications, in turn, after analyzing the content of the proposal, submitted it to the Civil Office in the form of a decree, which was approved by the president and subsequently enacted as Decree 6654, of November 20, 2008, published in the Federal Official Gazette on November 21, 2008.

Upon enactment of Decree 6654, which approved the new General Granting Plan ("PGO"), the acquisition of the control of a concessionaire engaged in the provision of switched telephony services by another concessionaire engaged in the same type of service operating in a different region, is now permitted, but subject to prior approval by ANATEL.

On December 19, 2008, Law 7828 was issued by ANATEL, whereby the Executive Board granted prior approval for the subsequent corporate acts regarding the merger of the companies or the merger of the shares of the companies Invitel S.A., Solpart Participações S.A. and Brasil Telecom Participações S.A. into Telemar Norte Leste S.A. As disclosed by Telemar Norte Leste S.A. in a material event notice dated April 25, 2008, this corporate restructuring will comprise, among other acts, the downstream merger of the Company into the subsidiary Brasil Telecom S.A., pursuant to article 230 of Brazilian Corporate Law, followed by the merger of shares of Brasil Telecom S.A., pursuant to article 252 of said law, into a subsidiary of Telemar, and its subsequent merger, pursuant to article 230, into Telemar.

As part of said Law, Telemar and the providers of public utility telecommunications services included in its corporate group, as approved by this Law, should fully comply with the regulations established by ANATEL, under the terms and conditions provided for by the appendix to the Law. Among these regulations, the following are to be highlighted:

- To increase, by 2010, the number of municipalities connected to the telecommunications infrastructure by optical fiber cables in Regions I and II of the General Granting Plan ("PGO"), by 100 municipalities, in addition to the municipalities connected on October 31, 2008, as well as to connect, by December 31, 2015, another 200 municipalities, fulfilling an average inclusion target of 40 municipalities per year.
- To commercially offer broadband Internet access in all the municipalities of Regions I and II of the PGO which start to rely on the backhaul facility, in compliance with Decree 6424, of April 7, 2008, providing a minimum transmission speed of 150 kbps.
- To implement and make available switched Internet access, under the local STFC modality, in 56% of the 2995 municipalities of Region I of the PGO, in compliance with terms and conditions by December 31, 2011.

- To offer in Region II of the PGA-SMP the same conditions which are currently offered in Region I of PGA-SMP, by December 31, 2009.
- To make, within the next ten years, investments in Research and Development (R&D) — at annual amounts corresponding to up to 100% of the total transferred to the Fund for Technical Development of Brazilian Telecommunications (FUNTTEL), unconditionally complying with a minimum of 50%, and the remaining 50% conditioned upon proportional release by the government.
- To maintain or reduce the service percentage through Special Industrial Exploitation of Dedicated Lines (EILD) in relation to the total EILD requests in Region II, presented by Brasil Telecom S.A., prior to the performance of said transaction.
- To maintain the consolidated number of jobs in the Company and its subsidiaries, including Brasil Telecom S.A. and its subsidiaries, until at least April 25, 2011, using as reference the number of jobs existing in said companies on February 1, 2008.
- To conclude, within a maximum term of 12 months, in association with ANATEL, actions aimed at resolving the administrative procedures of noncompliance with obligations relating to the standardization and quality of the services in progress at the Agency, in order to better serve the consumer.

The step subsequent to the Prior Approval is the filing of the proceeding by ANATEL with the Economic Defense Council (CADE) for analysis.

6. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of financial statements requires the use of certain estimates and assumptions. Accounting estimates were based on objective as well as subjective factors, and judgment by Management was required to determine the adequate amount to be included in the financial statements. The estimates and judgments are continuously evaluated and are based on past experience, as well as on other factors, including expected future events regarded as reasonable according to the circumstances.

These estimates are used for the following purposes, but are not limited to them: to record allowances for doubtful accounts, useful lives of property, plant and equipment and intangible assets, impairment of goodwill and long-lived assets, projections of tax profits, provisions for contingencies, to determine the value of assets and liabilities related to employee benefits and the fair value of derivatives and other financial instruments. Actual results could differ from those estimates.

Accounting estimates, by definition, will rarely be equal to the actual results. The estimates and assumptions which represent a significant risk of causing material adjustments to the book balances of assets and liabilities in the coming years are listed below:

a. Allowance for Doubtful Accounts

Allowances are recorded for accounts receivable whose collection is regarded as doubtful. The estimates are based on the Company's past collection experience and a review of the current status of all accounts receivable. This estimate takes into consideration the loss percentages on each maturity of accounts receivable, applicable to the different risk categories. Additional allowances may be necessary should the amount of the allowance estimated for the receivables differ from the amounts which were not collected as a result of a worse financial condition of customers or other factors.

b. Depreciation of Property, Plant and Equipment

Depreciation of property, plant and equipment is calculated under the straight-line method based on the estimated useful lives of assets. The principal depreciation rates are shown in note 27. Due to the complex nature of consolidated property, plant and equipment, the estimates of useful lives require substantial judgment and are uncertain by nature, since the technologies and market practices constantly change, which may accelerate the obsolescence of the assets. If the estimates of the useful lives of the assets are significantly altered and if he market conditions indicate possible obsolescence of property, plant and equipment, the depreciation expenses and obsolescence write-offs, and, as a result, the net book balance of property, plant and equipment could differ significantly.

c. Estimated Goodwill Impairment

Annual tests are performed to check whether goodwill has been impaired. The recoverable values of the cash generating units are determined based on the calculations of value in use. These calculations require the use of estimates.

The determination of the fair value and future discounted operating cash flows requires that certain assumptions and estimates be made referring to the projected cash inflows and outflows related to revenues, costs and future expenses. These estimates and assumptions may be influenced by different internal and external factors, such as economic trends and interest rates, changes in the business strategies and in the types of services and products offered to the market. The use of different assumptions and estimates could significantly alter the Financial Statements. Considering all the assets and liabilities of the transaction as a single cash generating unit, an evaluation of this disclosure unit was performed, including assumptions and estimates regarded as appropriate, and did not result in the obligation to record any impairment losses on the goodwill.

d. Tax Evaluation

The Company recognizes and pays taxes on income based on the results of operations calculated pursuant to Brazilian Corporate Law, in compliance with the tax bases determined for calculating the taxes. The Company recognizes deferred tax assets and liabilities on differences between the book balances presented in the financial statements and the tax bases calculated pursuant to prevailing tax legislation.

Deferred tax assets are periodically reviewed as regards their recoverability and a provision for impairment is recorded when it is probable that these assets will not be realized, based on historic taxable income, projected future taxable income and the time estimated for reversal of the existing temporary differences. In order to determine future taxable income, the future taxable revenues and deductible expenses are estimated, which are subject to different external and internal factors, such as economic trends, industry trends, interest rates, changes in tax legislation, changes in the business strategies and in the type of service offered to the market.

e. Contingencies

Contingencies are recognized for the amounts of probable losses based on the assessment of management and internal and external legal counsel regarding the lawsuits and other events known at the balance sheet date. The Company continuously evaluates the reserves for contingencies. Significant changes in the related facts, circumstances and events, such as court decisions, may affect the estimates and have a material impact on the financial statements.

7. EMPLOYEE BENEFITS

The benefits described in this note are offered to subsidiaries' employees, as regards the supplementary pension plan. For purposes of the supplementary pension plan ("Pension Funds") mentioned in this note, the subsidiaries may be referred to as "Sponsor" or "Sponsors".

a. Pension Funds

Supplementary pension plans related to retirement are sponsored for employees and assisted participants, and, in the case of the latter, health care in certain cases. These plans are managed by the following institutions: (i) Fundação 14 de Previdência Privada ("Fundação 14"); (ii) Fundação BrTPREV ("FBrTPREV"), former CRT, a company merged into Brasil Telecom S.A. on 12/28/00; and (iii) Fundação SISTEL de Seguridade Social ("SISTEL"), originated from certain companies of the former Telebrás System.

The Bylaws provide for the approval of the supplementary pension plan policy, and the joint liability attributed to the defined benefit plans is ruled by the agreements entered into with the institutions, with the agreement of the SPC (Secretariat for Pension Plans), as regards the specific plans.

The sponsored plans are valued by independent actuaries at the balance sheet date. For the years ended 2008 and 2007, the actuarial valuations were performed by Mercer Human Resource Consulting Ltda.

As regards the defined benefit plans described in this note, immediate recognition of the actuarial gains and losses is adopted, and therefore the full liabilities are recognized for the plans presenting a deficit, pursuant to CVM Resolution 371/00. For the plans that show a positive actuarial situation, assets are recorded when there is an express authorization for offsetting them against future employer contributions.

Provisions for Pension Fund

Refer to the recognition of the actuarial deficit of the defined benefit plans, as shown below:

	CONSOLIDATED	
	2008	2007
FBrTPREV — BrTPREV, Alternativo and Fundador	753,287	685,668
PAMEC Plan	2,504	2,077
Total	**755,791**	**687,745**
Current	148,391	101,467
Long-term	607,400	586,278

Assets Recorded to be Offset Against Future Employer Contributions

Brasil Telecom S.A. recognized assets referring to contribution surpluses of the sponsor and the portion of the surplus attributed to it referring to the TCSPREV plan, managed by Fundação 14. The assets recognized are used to offset future employer contributions.

The balance of these assets, recorded under the caption "Other assets", is as follows:

	CONSOLIDATED	
	2008	2007
TCSPREV Plan	123,938	74,476
Total	**123,938**	**74,476**
Current	15,874	18,743
Noncurrent	108,064	55,733

Characteristics of the supplementary pension plans sponsored:

FUNDAÇÃO 14

Fundação 14 de Previdência Privada was created in 2004 and since 03/10/05 has been in charge of managing and operating the TCSPREV pension plan. On that date, it entered into a management agreement with SISTEL in order for the latter to provide management and operating services to the TCSPREV and PAMEC-BrT plans until 09/30/06. As from that date, Fundação 14 became responsible for managing and operating these plans. As of October 31, 2007, Fundação 14 stopped managing the assistance plan PAMEC-BrT because it is an entity engaged in the management of private pension plans. In November, 2007, the assets and liabilities of PAMEC-BrT were transferred to the Company which, in addition to sponsoring the plan, also started to manage it.

Plans

TCSPREV (Defined Contribution, Settled Benefit and Defined Benefit)

This defined contribution and settled benefit plan was introduced on 02/28/00. On 12/31/01, all pension plans sponsored by the Company at the time were merged into SISTEL, and the SPC exceptionally and provisionally approved the document submitted to that Agency, in view of the need for adjustments to the regulations. Thus, TCSPREV consists of defined contribution groups with settled and defined benefits. The plans added to the TCSPREV were the PBS-TCS, PBT-BrT, BrT Management Agreement, and the Unusual Contractual Relationship Instrument, and the terms and conditions set forth in the original plans were maintained.

On September 18, 2008, SPC/MPS Ordinance 2521, of September 17, 2008, which approved the new regulation of the plan, was published in the Federal Official Gazette (D.O.U.), fully recognizing what had been exceptionally and provisionally approved on December 31, 2001. The new regulation also includes the adjustments necessary to meet the current requirements of the supplementary pension plan legislation.

In March 2003, the TCSPREV Plan was no longer offered to the sponsors' new hires. However, this plan started to be offered again starting March 2005 to the defined contribution group. TCSPREV currently serves nearly 66.7% of the staff.

Contributions to this plan, by group of participants, are established based on actuarial studies prepared by independent actuaries according to the regulations in force in Brazil, using the capitalization system to determine the costs. Currently, contributions are made by the participants and the sponsor only for the internal groups PBS-TCS (defined benefit) and TCSPREV (defined contribution). In the TCSPREV group, the contributions are credited in individual accounts of each participant, equally by employee and sponsor, and the basic contribution

percentages vary from 3% to 8% of the participant's salary, according to participant's age and limited to R$21,104.40 for 2008. Participants have the option to make additional contributions to the plan but without parity of the sponsor. In the PBS-TCS group, the sponsor's contribution corresponds to 12% of the participants' payroll, whereas the employee's contribution varies according to his/her age, time of service and salary, and an entry fee may also be paid depending on the age at which he/she joined the plan. The sponsors are responsible for defraying all the administrative costs and risk benefits.

FUNDAÇÃO SISTEL DE SEGURIDADE SOCIAL

The supplementary pension plan — PBS-A, which remains under SISTEL's management, comes from the period before the Telebrás' spin-off and serves participants who held the status of beneficiaries in January 2000. SISTEL also manages the PAMA/PAMA-PCE pension plan, formed by participants assisted by the PBS-A Plan, the PBS's plans segregated by sponsor in January 2000 and PBS-TCS' Internal Group, merged into the TCSPREV plan in December 2001.

Plans

PBS-A (Defined Benefit)

Jointly maintained with other sponsors associated to the provision of telecommunications services and intended for participants who held the status of beneficiaries on 01/31/00.

Contributions to the PBS-A are contingent on the determination of an accumulated deficit. As of December 31, 2008, date of the last actuarial valuation, the plan presented a surplus.

PAMA — Retirees' Health Care Plan/PCE — Special Coverage Plan (Defined Contribution)

Jointly maintained with other sponsors related to the provision of telecommunications services and intended for participants who held the status of beneficiaries on 01/31/00, for the beneficiaries of the PBS-TCS Group, merged on 12/31/01 into TCSPREV (plan currently managed by Fundação 14) and for the participants of PBS's defined benefit plans sponsored by other companies, together with SISTEL and other institutions. According to a legal and actuarial valuation, the Sponsor's responsibility is exclusively limited to future contributions. From March to July 2004 and from December 2005 to April 2006, an incentive optional migration of retirees and PAMA pensioners took place for new coverage conditions (PCE). The option of participants for the migration results in contribution to PAMA/PCE.

The contributions to this plan correspond to 1.5% of the payroll of active participants subject to PBS plans, segregated and sponsored by the several sponsoring companies. In the case of Brasil Telecom, the PBS-TCS was merged into the TCSPREV plan on 12/31/01, and began to constitute an internal group of the plan. Due to the utilization of PAMA, the participants share a portion of its individual costs used in the plan. Contributions are also made by the retirees and pensioners who migrated to PAMA/PCE. For sponsors, the option of participants to migrate to PAMA/PCE does not change the employer dues of 1.5% previously mentioned.

FUNDAÇÃO BrTPREV

It is the manager originated from the plans sponsored by former CRT, a company which was merged into the Company at the end of 2000. By sponsoring FBrTPREV, the Company's main purpose is to maintain plans supplementary to those offered by the official social security system.

Plans

BrTPREV

Defined contribution and settled benefit plan, launched in October 2002, intended to grant pension plan benefits supplementary to those provided by the official social security system and which initially served only employees of the Rio Grande do Sul Branch. This pension plan started to be offered to new employees of Brasil Telecom S.A. and its subsidiaries from March 2003 to February 2005, when its offering was suspended. This plan cannot be joined by new participants. BrTPREV currently serves nearly 20.5% of the staff.

Contributions to this plan, by group of participants, are established based on actuarial studies prepared by independent actuaries according to the regulations in force in Brazil, using the capitalization system to determine the costs. The contributions are credited to individual accounts of each participant, equally by employee and sponsor, and the basic contribution percentages vary from 3% to 8% of the participant's salary, according to the participant's age, limited to R$21,831.00 for 2008. Participants have the option to make additional contributions to the plan but without parity of the sponsor. The sponsor is responsible for defraying all the administrative costs and risk benefits.

Fundador — Brasil Telecom and Alternativo — Brasil Telecom

Defined benefit plans intended to provide pension benefits supplementary to the benefits of the official social security system, which cannot be joined by new participants. These plans currently serve nearly 0.15% of the staff.

The regular contribution made by the sponsor is equal to the regular contribution of the participant, the rates of which vary according to age, time of service and salary. Under the Alternativo Plan – Brasil Telecom, the contributions are limited to three times the ceiling benefit of the National Social Security Institute (INSS) and the participant also pays an entry fee depending on the age at which he/she joins the plan.

Actuarial Insufficiency of the Plans

The unamortized mathematical reserve, corresponding to the current value of the supplemental contribution, as a result of the actuarial deficit of the plans managed by FBrTPREV, have a maximum payment term of twenty years, starting January 2002, according to Circular 66/SPC/GAB/COA of the Secretariat for Pension Plans dated 01/25/02. Of this maximum term, remains thirteen years for total payment.

ASSISTANCE PLAN MANAGED BY THE COMPANY

PAMEC-BrT — Health Care Plan for Supplementary pension Beneficiaries (Defined Benefit)

Intended to provide health care for retirees and pensioners linked to the PBT-BrT Group, a pension plan managed by Fundação 14.

The contributions for PAMEC-BrT were fully paid in July 1998, through a single payment. However, as this plan is now managed by the Company, after the transfer of management by Fundação 14 in November 2007, there are no assets recognized to cover current expenses, and the actuarial obligation is fully recognized in the Company's liabilities.

Status of the Sponsored Plans, Revalued at the Balance Sheet Date

The information on the defined contribution private pension plans is as follows:

	FBrTPREV — BrTPREV Alternativo and Fundador		Fundação 14 — TCSPREV	
	2008	2007	2008	2007
RECONCILIATION OF ASSETS AND LIABILITIES				
Actuarial liabilities on vested benefits	1,529,300	1,377,917	271,700	248,428
Actuarial liabilities on unvested benefits	79,779	121,125	140,493	216,011
(=) Total present value of actuarial liabilities	**1,609,079**	**1,499,042**	**412,193**	**464,439**
Fair value of plan assets	**(855,792)**	**(813,374)**	**(822,778)**	**(791,362)**
(=) Net actuarial liabilities (assets)	**753,287**	**685,668**	**(410,585)**	**(326,923)**
Unrecorded amount due to the limit on defined benefit	—	—	286,647	252,447
(=) Net actuarial liabilities (assets) recognized(1)	**753,287**	**685,668**	**(123,938)**	**(74,476)**

(1) The Company determines the amount available for offsetting future contributions in accordance with legal provisions and the regulations of the benefit plan. The amount of the assets linked to the TCSPREV plan, recognized in the Company's financial statements, in the amount of R$123,938 (R$74,476 as of 31/12/07) does not exceed the present value of future contributions.

CHANGES IN NET ACTUARIAL LIABILITIES (ASSETS)				
Present value of actuarial liabilities at beginning of year	**1,499,042**	**1,405,601**	**464,439**	**420,206**
Cost of interest	154,905	152,349	48,577	46,226
Cost of current service	6,110	5,017	3,894	3,424
Benefits paid, net	(119,343)	(113,102)	(22,787)	(19,887)
Losses (gains) on actuarial liabilities	68,365	49,177	(81,930)	14,470
Present value of actuarial liabilities at end of year	**1,609,079**	**1,499,042**	**412,193**	**464,439**
Fair value of plan assets at beginning of year	**813,374**	**757,034**	**791,362**	**717,764**
Return on plan assets	61,415	53,544	53,716	92,228
Regular contributions received by the plan	2,838	3,081	487	1,257
Sponsor	2,655	3,081	16	772
Participants	183	—	471	485
Amortizing contributions from the sponsor	97,508	112,817	—	—
Benefits paid	(119,343)	(113,102)	(22,787)	(19,887)
Fair value of plan assets at end of year	**855,792**	**813,374**	**822,778**	**791,362**
(=) Net actuarial liabilities (assets)	**753,287**	**685,668**	**(410,585)**	**(326,923)**
Unrecorded amount due to the limit on defined benefit	—	—	286,647	252,447
(=) Net actuarial liabilities (assets) recognized	**753,287**	**685,668**	**(123,938)**	**(74,476)**

	FBrTPREV — BrTPREV Alternativo and Fundador		Fundação 14 — TCSPREV	
	2008	2007	2008	2007
EXPENSE RECOGNIZED IN THE STATEMENT OF INCOME OF BRASIL TELECOM(1)				
Cost of current service	6,110	5,017	3,894	3,424
Participants' contributions	(183)	—	(471)	(485)
Cost of interest	154,905	152,349	—	—
Return on plan assets	(61,415)	(53,544)	—	—
Recognized actuarial losses (gains)	68,365	49,177	—	—
Total expense recognized	**167,782**	**152,999**	**3,423**	**2,939**

(1) As regards the surplus of the TCSPREV plan, recorded in assets, the Company recognized revenues of R$67,096, R$61,104 of which under "Other operating income" and R$5,992 under "Financial income". In 2007, revenues in the amount of R$83,392 were recognized, R$81,209 of which under "Other operating income" and R$2,183 under "Financial income".

	FBrTPREV — BrTPREV Plans, Alternativo and Fundador		Fundação 14 — TCSPREV	
	2008	2007	2008	2007
MAIN ACTUARIAL ASSUMPTIONS USED				
Discount rate on actuarial liabilities(6% + inflation)	10.77%	10.77%	10.77%	10.77%
Estimated inflation rate	4.50%	4.50%	4.50%	4.50%
Estimated rate of increase in salaries	2.00%	2.00%	2.00%	2.00%
Estimated rate of increase in benefits	4.50%	4.50%	4.50%	4.50%
Total expected rate of return on plan assets	12.58%	10.70%	12.83%	10.53%
General mortality biometric table	AT83	UP94	AT83	UP94
Disability biometric table	Mercer Disability		Mercer Disability	
Disability mortality table	IAPB-57		IAPB-57	
Turnover rate	Null		Null	

SUPPLEMENTAL INFORMATION — 2008

a) The plans' assets and liabilities are stated as of December 31, 2008.

b) The registry data used refer to 09/30/08, projected for December 31, 2008.

c) The total expected rate of return on the plans' assets was determined based on the result of profit projections for the asset segments which comprise the plan's portfolio, taking into consideration the geometric mean for the next five years.

	SISTEL — PBS-A		PAMEC	
	2008	2007	2008	2007
RECONCILIATION OF ASSETS AND LIABILITIES				
Actuarial liabilities on vested benefits	667,702	604,572	2,504	2,077
(=) Total present value of actuarial liabilities	**667,702**	**604,572**	**2,504**	**2,077**
Fair value of plan assets	**(1,005,682)**	**(1,006,475)**	**—**	**—**
(=) Net actuarial liabilities (assets)(1)	**(337,980)**	**(401,903)**	**2,504**	**2,077**
Unrecorded amount due to the limit on defined benefit	337,980	401,903	—	—
(=) Actuarial liabilities recognized	**—**	**—**	**2,504**	**2,077**

(1) As regards the net actuarial liabilities of the PBS-A plan, no accounting records are made by the Sponsor. Such plan is entirely comprised of assisted participants, and, therefore, there are no future contributions that could be offset against the existing surplus.

CHANGES IN NET ACTUARIAL LIABILITIES (ASSETS)				
Present value of actuarial liabilities at beginning of year	**604,572**	**580,506**	**2,077**	**1,529**
Cost of interest	62,400	62,984	219	170
Cost of current service	—	—	—	7
Benefits paid, net	(57,620)	(50,072)	(110)	(52)
Loss (gain) on actuarial liabilities	58,350	11,154	318	423
Present value of actuarial liabilities at end of year	**667,702**	**604,572**	**2,504**	**2,077**
Fair value of plan assets at beginning of year	**1,006,475**	**895,205**	**—**	**883**
Return (loss) on plan assets	56,827	161,342	—	36
Sponsor's contributions	—	—	110	—
Benefits paid	(57,620)	(50,072)	(110)	(52)
Plan assets transferred to the Sponsor	—	—	—	(867)
Fair value of plan assets at end of year	**1,005,682**	**1,006,475**	**—**	**—**
(=) Net actuarial liabilities (assets)	**(337,980)**	**(401,903)**	**2,504**	**2,077**
Unrecorded amount due to the limit on defined benefit	337,980	401,903	—	—
(=) Actuarial liabilities recognized	**—**	**—**	**2,504**	**2,077**

	SISTEL — PBS-A		PAMEC	
	2008	2007	2008	2007
EXPENSE RECOGNIZED IN THE STATEMENT OF INCOME OF BRASIL TELECOM				
Cost of current service	—	—	—	7
Cost of interest	—	—	219	170
Return (loss) on plan assets	—	—	—	(36)
Recognized actuarial losses (gains)	—	—	318	423
Total expense recognized	**—**	**—**	**537**	**564**

MAIN ACTUARIAL ASSUMPTIONS USED

Discount rate on actuarial liabilities (6% + Inflation)	10.77%	10.77%	10.77%	10.77%
Estimated inflation rate	4.50%	4.50%	4.50%	4.50%
Estimated rate of increase in benefits	4.50%	4.50%	N/A	
Rate of increase in health care costs	N/A		7.64%	7.64%
Total expected rate of return on plan assets	11.30%	10.82%	N/A	
General mortality biometric table	AT83	UP94	AT83	UP94
Disability biometric table	N/A		N/A	
Initial age of benefits	N/A		N/A	

N/A = Not Applicable.

SUPPLEMENTAL INFORMATION – 2008

a) The plans' assets and liabilities are stated as of 12/31/08.

b) The registry data used refer to 09/30/08, projected for December 31, 2008.

c) The total expected rate of return on the plans' assets was determined based on the result of profit projections for the asset segments which comprise the plan's portfolio, taking into consideration the geometric mean for the next five years.

The investment strategy of the pension plans is described in their investment policy, which is annually approved by the Executive Boards of the sponsored funds. It establishes that investment decisions should take into consideration: (i) the preservation of capital (ii) the diversification of investments; (iii) the risk appetite based on conservative assumptions; (iv) the expected rate of return as a result of the actuarial liabilities; (v) compatibility between the investment's liquidity and the plans' cash flows; and (v) reasonable management costs. It also defines the volumes of the different types of investments allowed for the pension funds, as follows: national fixed income, national variable income, loans to participants and real estate investments. In the fixed income portfolio, only securities subject to low credit risk are allowed. Derivatives are only allowed for hedging purposes. Loans are limited to certain credit levels. Tactical allocation is the responsibility of the investment committee, which is made up of pension plan officers, investment manager and a member appointed by the Executive Board. The finance department is in charge of performance.

The limits established for the different types of investments allowed for pension funds are as follows:

ASSET GROUP	FBrTPREV — BrTPREV Alternativo and Fundador	Fundação 14 — TCSPREV	SISTEL — PBS-A
Fixed income	90%	100%	95%
Variable income	20%	20%	40%
Properties	8%	N/A	9%
Loans to participants	3%	3%	3%

The plans' assets as of December 31, 2008 were allocated as follows:

ASSET GROUP	FBrTPREV — BrTPREV, Alternativo and Fundador	Fundação 14 — TCSPREV	SISTEL — PBS-A
Fixed income	84.2%	85.3%	75.4%
Variable income	11.7%	13.2%	18.7%
Real estate properties	2.8%	1.5%	5.5%
Loans to participants	1.3%	—	0.4%
Total	**100%**	**100%**	**100%**

b. Employee and Management Stock Option Plan

An Extraordinary Shareholders' Meeting of Brasil Telecom S.A. held on November 6, 2007, approved a new general plan for granting stock options for management and employees of the Company and its subsidiaries, and, at the balance sheet date, the following plans were in effect, in accordance with their related approval dates.

Plan Approved on April 28, 2000

The rights vested through stock options agreements while this previously approved plan was effective remain valid and effective according to the respective terms agreed, and no new grants through this plan are allowed.

At the balance sheet date, there were outstanding exercisable options, as described in the program below:

Program B

The options guaranteed by this plan are options settled in shares.

The exercise price was established by the managing committee based on the market price as of the grant date and will be adjusted by the IGP-M between the agreement execution date and payment date.

Changes in the balance of the stock options are summarized as follows:

	2008		2007	
	Preferred share options	Average exercise price — R$	Preferred share options	Average exercise price — R$
Balance of outstanding options at beginning of year	256,855	16.88	270,802	13.00
Exercised options	(162,084)	17.01	—	—
Cancelled options	(15,259)	17.60	(13,947)	17.30
Balance of outstanding options at end of year	79,512	19.04	256,855	16.88
Balance of exercisable options at end of year	79,512	19.04	256,855	16.88

The 162,084 options exercised were settled through the delivery of preferred shares held in treasury by Brasil Telecom S.A., at the total exercise price of R$1,012 and the fair value totaled R$1,156.

The right to exercise the option is vested in accordance with the terms and conditions below:

Grant		Lot	Exercisable from	Exercise deadline	Adjusted exercise price (in Reais)	Options (in shares)
		33%	12/22/05	12/31/11	19.04	26,504
3rd	12/22/04	33%	12/22/06	12/31/11	19.04	26,504
		34%	12/22/07	12/31/11	19.04	26,504

The stock options represent 0.01% (0.05% as of December 31, 2007) of the total outstanding shares of Brasil Telecom S.A.

Assuming that the options will be fully exercised, the premiums on the related options, calculated based on the Black&Scholes method on the grant date, payable to the Subsidiary, would total R$219 (R$1,761 as of December 31, 2007).

The fair value of the options granted was estimated on the grant date based on the Black&Scholes options pricing model, using the following assumptions:

	12/21/04	12/19/03	12/17/02
Backing asset	13.64	13.64	13.64
Exercise price	17.30	15.89	15.69
Expected volatility	38.2%	44.8%	3.0%
Risk-free interest rate	8.4%	8.6%	23.0%
Expected life (in years)	2	3	3
Dividend yield	3.10%	3.20%	5.10%
Fair value on the grant date	2.76	5.56	4.09

Plan Approved on November 6, 2007

The new plan authorizes the grant of stock options, allowing participants, under certain conditions, to purchase or subscribe, in the future, at a pre-defined amount, shares that are part of a stock option scheme called UP (Performance Unit), comprising preferred shares of Brasil Telecom S.A. and common and preferred shares of the Company. The amount of the UPs granted cannot exceed a maximum limit of 10% of the book value of each type of share of the subsidiary.

The shares derived from the exercise of options entitle their holders to the same rights granted to the other shareholders of the Company and subsidiary.

The Board of Directors is responsible for managing this plan and is vested with full powers for establishing the stock option programs, which can be delegated to a compensation committee made up of up to three Board members.

At a Meeting held on December 14, 2007, the Board of Directors of Brasil Telecom S.A. ratified the approval of two programs related to the new stock option plan, with retroactive effects to July 1, 2007, which consist of the following:

Program 1

Options are granted on a one-time basis and no new grants are allowed for a period of up to four years. The exercise price of the UP has been set by the Board of Directors, pursuant to the terms of the plan, is adjusted by the IGP-M, plus 6% p.a., and discounted from the amounts paid as dividends and/or interest on capital in the period.

Program 2

This program provides for the grant of options on an annual basis, on July 1 of each year, and there were grants on July 1, 2007 and 2008. The exercise price of the UP has been set by the Board of Directors, pursuant to the terms of the plan, and will be discounted from the amounts paid as dividends and/or interest on capital in the period.

The right to exercise the options under Programs 1 and 2 is vested in accordance with the terms and conditions below:

Program	Grant	Lot	Exercisable from	Exercise deadline	Adjusted exercise price (in Reais)	Options (in UPs)
1	01/07/07	25%	07/01/08	06/30/11	32.22	704,331
		25%	07/01/09	06/30/12	32.22	704,331
		25%	07/01/10	06/30/13	32.22	704,331
		25%	07/01/11	06/30/14	32.22	704,331
2	01/07/07	25%	07/01/08	06/30/11	24.93	47,153
		25%	07/01/09	06/30/12	24.93	199,811
		25%	07/01/10	06/30/13	24.93	199,811
		25%	07/01/11	06/30/14	24.93	199,810
	01/07/08	25%	07/01/09	06/30/12	32.39	175,338
		25%	07/01/10	06/30/13	32.39	175,421
		25%	07/01/11	06/30/14	32.39	175,421
		25%	07/01/12	06/30/15	32.39	175,421

The vesting periods established in Programs 1 and 2 can be accelerated as a result of special events or conditions provided for in the option grant agreement, particularly as a result of changes in the direct and indirect control of the Company and Brasil Telecom S.A. A minimum bonus is assured in the event of a reduction in the fair value of the shares on the exercise date, under the terms defined in the agreement.

On July 15, 2008, the terms of the plan were changed, and the requirement for the Company to repurchase the shares that comprise the stock option scheme was eliminated. Accordingly, the stock options which include shares of Brasil Telecom S.A. started to be recorded as options settled in shares and the stock options which include shares of the Company continued to be recorded as shares settled in cash.

Changes in the balance of stock options are summarized as follows:

	2008		2007	
	Options (in UPs)	Average exercise price of UPs – R$	Options (in UPs)	Average exercise price of UPs – R$
Balance of outstanding options at beginning of year	4,036,440	28.37	—	—
Granted options	724,955	32.39	4,036,440	26.70
Exercised options	(171,971)	24.93	—	—
Cancelled options	(423,914)	27.81	—	—
Balance of outstanding options at end of year	4,165,510	31.12	4,036,440	28.37
Balance of exercisable options at end of year	751,484	31.12	—	—

During the year, 171,971 options were exercised under Program 2, settled as follows: (i) delivery of preferred shares held in treasury by the subsidiary, at a total exercise price of R$4,287 and acquisition cost of R$661; and (ii) delivery of common and preferred shares of the Company, at a total exercise price of R$3,653 and fair value of R$4,321.

The shares under the stock option scheme (UPs) represent 1.30% (0.79% as of December 31, 2007) of the book value of the preferred shares issued by the subsidiary, and 5.65% and 3.26% (6.44% and 3.71% as of December 31, 2007) of the Company's common and preferred shares, respectively.

The fair value of the options granted was estimated on the grant date under the binomial option pricing model, using the assumptions below, which were calculated based on market quotations:

Grant date: July 1, 2007

Program: 1

	Lot 1	Lot 2	Lot 3	Lot 4
Backing asset	31.06	31.06	31.06	31.06
Exercise price	32.22	32.22	32.22	32.22
Expected volatility	42.02%	42.02%	42.02%	42.02%
Risk-free interest rate(1)	1.79%	2.05%	2.06%	2.15%
Expected life	2.49	3.51	4.54	5.57
Dividend yield	—	—	—	—
Fair value on the grant date	8.16	9.89	11.32	12.61

(1) Considers the risk-free interest rate less the variation of the General Market Price Index (IGP-M) + 6% p.a.

Grant date: July 1, 2007

Program: 2

	Lot 1	Lot 2	Lot 3	Lot 4
Backing asset	31.06	31.06	31.06	31.06
Exercise price	24.93	24.93	24.93	24.93
Expected volatility	42.02%	42.02%	42.02%	42.02%
Risk-free interest rate	12.29%	12.55%	12.56%	12.65%
Expected life	2.49	3.51	4.54	5.57
Dividend yield	—	—	—	—
Fair value on the grant date	14.57	16.89	18.80	20.44

Grant date: July 1, 2008

Program: 2

	Lot 1	Lot 2	Lot 3	Lot 4
Backing asset	31.06	31.06	31.06	31.06
Exercise price	32.39	32.39	32.39	32.39
Expected volatility	42.02%	42.02%	42.02%	42.02%
Risk-free interest rate	12.29%	12.55%	12.56%	12.65%
Expected life	2.49	3.51	4.54	5.57
Dividend yield	—	—	—	—
Fair value on the grant date	11.27	13.98	16.22	18.17

The expense recorded by the subsidiary in the statement of income for the year, covering all the stock option plans offered, was R$16,743 (R$13,179 in 2007). The subsidiary's balances recorded under liabilities and shareholders' equity at the balance sheet date are represented by R$23,893 and R$5,803, respectively (R$13,179 and R$872 as of December 31, 2007).

c. Other Employee Benefits

Other benefits are granted to employees, such as: health/dental care, meal tickets, group life insurance, occupational accident allowance, sick pay, transportation allowance etc.

8. PROVISIONS FOR CONTINGENCIES

a. Contingent Liabilities

The Company and its subsidiaries periodically assess their contingency risks, and also review their lawsuits taking into consideration legal, economic, tax and accounting aspects. The assessment of these risks aims at classifying them according to the chances of an unfavorable outcome as probable, possible or remote, taking into account the opinion of legal counsel.

Contingencies whose risks are regarded as probable are accrued. The contingencies for which an unfavorable outcome is regarded as possible are presented in this note. These lawsuits are under discussion at administrative and/or judicial level, at all court levels.

In certain situations, due to a legal requirement or as a caution measure, escrow deposits are made to ensure the continuity of the lawsuits under discussion. The escrow deposits related to contingencies with possible and remote likelihood of loss are shown in note 23.

Note that in some cases similar matters may be ranked in different risk degree ratings, which is justified by the facts and particular status of each lawsuit.

Labor contingencies

The provisions for labor lawsuits include an estimate made by the Company's management, supported by the opinion of its legal counsel, of the losses related to lawsuits filed by its own employees and former employees, as well as by employees of service providers, related to labor matters.

Tax contingencies

The provisions for tax contingencies mainly refer to tax collection issues arising from disagreements between management's understanding, supported by the opinion of the Company's legal advisors, and the Tax Authorities concerning the interpretation, enforcement, legality and constitutionality of tax legislation.

Civil contingencies

The provisions for civil contingencies refer to an estimate of the lawsuits related to contractual adjustments arising from economic plans enacted by the Federal Government, and other cases related to community telephony plans, suits for damages and consumer lawsuits.

Classification by Risk Level

Probable Loss Risk Contingencies

The contingencies classified as probable loss risk, for which reserves have been recorded in liabilities, have the following balances:

	COMPANY		CONSOLIDATED	
Nature	2008	2007	2008	2007
Provisions	**4,071**	**5,026**	**1,453,036**	**1,193,554**
Labor	204	—	426,904	421,759
Tax	3,740	4,974	273,606	372,896
Civil	127	52	752,526	398,899
Restricted escrow deposits	**(125)**	**—**	**(520,412)**	**(295,843)**
Labor	—	—	(213,028)	(220,679)
Tax	—	—	(21,753)	(22,046)
Civil	(125)	—	(285,631)	(53,118)
Total provisions, net of escrow deposits	**3,946**	**5,026**	**932,624**	**897,711**
Current	213	15	218,510	197,472
Long-term	3,733	5,011	714,114	700,239

Labor contingencies

Changes in 2008:

	COMPANY	CONSOLIDATED
Provisions as of 12/31/07	**—**	**421,759**
Changes allocated to income (loss)	**204**	**148,441**
Inflation adjustment	2	48,730
Reassessment of contingent risks	202	65,773
Provision for new lawsuits	—	33,938
Payments	**—**	**(143,296)**
Subtotal I (Provisions)	**204**	**426,904**
Restricted escrow deposits as of 12/31/07	**—**	**(220,679)**
Changes in escrow deposits	—	7,651
Subtotal II (Escrow deposits)	**—**	**(213,028)**
Balance as of 12/31/08, net of escrow deposits	**204**	**213,876**

The provision for labor contingencies mainly refers to:

(i) Sundry premiums — refer to claims for hazardous duty premium, based on Law 7369/85, regulated by Decree 93412/86, due to the alleged risk related to employees' contact with the electric power system, health hazard premium and transfer premium;

(ii) Salary differences and related effects — refer mainly to claims for salary increases due to alleged noncompliance with trade union agreements. The effects relate to the impact of the salary increase allegedly due on the other amounts calculated based on the employee's salary;

(iii) Job plan and profit sharing — refers to the claim for enforcement of a job and salaries plan, with promotions for seniority and merit, allegedly not granted, and claims for enforcement of the regulations that provided for the payment of profit sharing on the net income of Brasil Telecom S.A.;

(iv) Joint liability — refers to the claim to assign liability to Brasil Telecom S.A., filed by outsourced personnel, due to alleged noncompliance with the latter's labor rights by their direct employers;

(v) Overtime — refers to the claim for payment of salary and allowances increased by alleged overtime hours.

(vi) Job reinstatement — claim due to alleged noncompliance with an employee's special condition which prohibited termination of the employment agreement without cause;

(vii) Supplement to FGTS (severance pay fund) fine arising from understated inflation—refers to claims to increase the FGTS indemnity fine as a result of the adjustment of accounts of this fund due to inflation effects.

Brasil Telecom S.A. filed a lawsuit against Caixa Econômica Federal to assure the reimbursement of all amounts paid for this purpose;

(viii) Termination pay — claims for amounts which were allegedly unpaid or underpaid upon termination.

(ix) Salary equalization — refers to amounts allegedly arising from salary equilizaton, job classification, incorrect duties and accumulation of duties;

(x) Indemnities — refer to amounts allegedly due for occupational accidents, leased vehicles, occupational diseases, pain and suffering and tenure; and

(xi) Supplementary pension plan — alleged differences in the benefit salary referring to payroll amounts.

Tax contingencies

Changes in 2008:

	COMPANY	CONSOLIDATED
Provisions at 12/31/07	**4,974**	**372,896**
Changes allocated to income (loss)	**(1,233)**	**70,697**
Inflation adjustment	206	24,916
Reassessment of contingent risks	(1,769)	(38,556)
Provision for new lawsuits	330	84,337
Payments	**(1)**	**(169,987)**
Subtotal I (Provisions)	**3,740**	**273,606**
Restricted escrow deposits as of 12/31/07	**—**	**(22,046)**
Changes in escrow deposits	—	293
Subtotal II (Escrow deposits)	**—**	**(21,753)**
Balance as of 12/31/08, net of escrow deposits	**3,740**	**251,853**

The provision for tax contingencies mainly relates to the following matters:

(i) Federal Taxes — several tax notices that require the payment of federal taxes on events which were allegedly inadequately classified by the Company, or on differences in the calculation of these taxes; and

(ii) State Taxes — claim for payment of ICMS (State VAT) on transactions which, in the Company's view, are not subject to this tax, and discussions regarding ICMS credits taken, the validity or legality of which is being questioned by the State Tax Authorities.

Civil contingencies

Changes in 2008:

	COMPANY	CONSOLIDATED
Provisions at 12/31/07	**52**	**398,899**
Changes allocated to income (loss)	**75**	**491,393**
Inflation adjustment	6	64,774
Reassessment of contingent risks	69	363,792
Provision for new lawsuits	—	62,827
Payments	**—**	**(137,766)**
Subtotal I (Provisions)	**127**	**752,526**
Restricted escrow deposits as of 12/31/07	**—**	**(53,118)**
Changes in escrow deposits	(125)	(232,513)
Subtotal II (Escrow deposits)	**(125)**	**(285,631)**
Balance as of 12/31/08, net of escrow deposits	**2**	**466,895**

The provision for civil contingencies mainly refer to:

(i) Revision of contractual terms and conditions – lawsuit filed by an equipment supplier against the subsidiary Brasil Telecom S.A. claiming revision of contractual terms and conditions due to changes introduced by a plan to stabilize the economy;

(ii) Financial Interest Agreements — the Court of Appeals of Rio Grande do Sul State (TJ/RS) has issued decisions against the procedure previously adopted by former CRT, a company merged into Brasil Telecom S.A., in the proceedings related to the application of a rule issued by the Ministry of Communications. Such lawsuits are at various levels: lower courts, Court of Appeals and Superior Court of Justice;

(iii) Administrative proceedings — ANATEL — proceedings arising from inspections referring to PGMQ, PGMU and noncompliance with regulations. Includes claims against the Company filed with ANATEL by other telecommunications companies;

(iv) Customer service centers — public civil lawsuits referring to the shutdown of customer service centers;

(v) Free Mandatory Telephone Directories — lawsuits arising from non-delivery of printed residential telephone directories;

(vi) Consumer claims — refer to civil lawsuits arising from activation of telephone terminals, registering customers with registry credit reporting agencies, collection, co-billing, blockings, ADSL, cancellations, supplemental services, defects, alternative plans, unblockings;

(vii) Indemnities — lawsuits seeking indemnity for termination of or noncompliance with agreements; and

(viii) Damages — refer to lawsuits arising from property damage, pain and suffering, occupational accidents and traffic accidents.

Reassessments of contingent risks are linked to changes in circumstances or the occurrence of new facts and decisions which called for a new assessment of the ongoing lawsuits, which are dispersed among several lawsuits.

Possible Loss Risk Contingencies

Contingencies classified as possible loss risks and, therefore, not recorded in books, are as follows:

	COMPANY		CONSOLIDATED	
Nature	**2008**	**2007**	**2008**	**2007**
Labor	1,989	1,737	634,826	542,427
Tax	124,661	51,558	1,796,921	2,113,653
Civil	592	416	1,220,963	1,129,591
Total	**127,242**	**53,711**	**3,652,710**	**3,785,671**

Labor contingencies

Changes in 2008:

	COMPANY	CONSOLIDATED
Amount calculated at 12/31/07	**1,737**	**542,427**
Inflation adjustment	252	78,583
Reassessment of contingent risks	—	(178,048)
New lawsuits	—	191,864
Amount calculated at 12/31/08	**1,989**	**634,826**

The labor contingencies classified as possible loss risks are as follows:

(i) Sundry premiums — refer to claims for hazardous duty premium, based on Law 7369/85, regulated by Decree 93412/86, due to the alleged risk related to employees' contact with the electric power system, health hazard premium and transfer premium;

(ii) Salary differences and related effects — refer mainly to claims for salary increases due to alleged noncompliance with trade union agreements. The effects relate to the impact of the salary increase allegedly due on the other amounts calculated based on the employee's salary;

(iii) Joint liability — refers to the claim to assign liability to Brasil Telecom S.A., filed by outsourced personnel, due to alleged noncompliance with these personnel's labor rights by their direct employers;

(iv) Overtime — refers to the claim for payment of salary and allowances increased by alleged overtime hours.

(v) Job reinstatement — claim due to alleged noncompliance with an employee's special condition which prohibited termination of the employment agreement without cause;

(vi) Supplement to FGTS (severance pay fund) fine arising from understated inflation—refers to claims to increase the FGTS indemnity fine as a result of the adjustment of accounts of this fund due to inflation effects.

(vii) Termination pay — claims regarding termination amounts which were allegedly not paid or underpaid.

(viii) Indemnities — refer to amounts allegedly due for occupational accidents, leased vehicles, occupational diseases, pain and suffering and tenure; and

Tax contingencies

Changes in 2008:

	COMPANY	CONSOLIDATED
Amount calculated at 12/31/07	**51,558**	**2,113,653**
Inflation adjustment	9,720	174,892
Reassessment of contingent risks	(20,343)	(918,224)
New lawsuits	83,726	426,600
Amount calculated at 12/31/08	**124,661**	**1,796,921**

The main tax contingencies refer to the following matters:

(i) Social Security (INSS) tax notices addressing the addition of captions to the contribution salary allegedly due by the company;

(ii) Tax notices issued by the Federal Revenue Service due to differences between the amounts reported in the DCTF (Declaration of Federal Tax Debits and Credits) and the DIPJ (Corporate Income Tax Return);

(iii) Public civil lawsuits questioning the alleged pass-through of PIS and COFINS (taxes on revenue) to end consumers;

(iv) ICMS (State VAT) levied on international calls, whose tax liability for the collection of said tax is assigned to another operator;

(v) ICMS — credit and related tax rate difference on interstate purchases made by the Company;

(vi) ICMS — tax credit on cancelled invoices;

(vii) Withholding Income Tax on transactions to hedge debts;

(viii) FUST (Telecommunications Universal Service Fund) – effects generated by the change in the interpretation of its calculation basis by ANATEL; and

(ix) ISS (Service Tax) — alleged levy of this tax on subsidiary telecommunications services and discussion regarding the classification of the services taxed by the cities listed in Supplementary Law 116/2003.

Civil contingencies

Changes in 2008:

	COMPANY	CONSOLIDATED
Amount calculated at 12/31/07	**416**	**1,129,591**
Inflation adjustment	66	169,427
Reassessment of contingent risks	—	(304,947)
New lawsuits	110	226,892
Amount calculated at 12/31/08	**592**	**1,220,963**

The main civil contingencies refer to the following matters:

(i) Payments made in lawsuits arising from the PCT (Community Telephony Program) – the plaintiffs claim from Brasil Telecom S.A. payment in lawsuits related to the agreements resulting from the Community Telephony Program. Such lawsuits are at various levels: lower courts, Court of Appeals and Superior Court of Justice;

(ii) Administrative proceedings — ANATEL — proceedings arising from inspections referring to PGMQ, PGMU, users' rights, payphone cards, LTOG etc.;

(iii) Consumer claims — refer to civil lawsuits arising from activation of telephone terminal, registering customers with registry credit reporting agencies, collection, co-billing, blockings, ADSL, cancellations, supplemental services, defects, alternative plans, unblockings;

(iv) Damages — refer to lawsuits arising from property damage, pain and suffering, occupational accidents and traffic accidents.

(v) Indemnities — lawsuits seeking indemnity for termination of or noncompliance with agreements; and

(iv) Public civil lawsuits related to customer service centers; and

(vii) Contractual — lawsuits related to the claim for a percentage resulting from the Real Plan, to be applied on a service agreement, review of conversion of installments into URV (units of account) and subsequently into reais, related to equipment supply and the provision of services.

Letters of Guarantee

As regards contingent liabilities, the Company has letters of guarantee granted by financial institutions, as supplemental collateral for lawsuits in provisional execution to ensure the performance of concession commitments related to permits granted by ANATEL. The total amount of the letters of guarantee in effect at the balance sheet date is R$749 (R$21,483 as of December 31, 2007) and R$2,570,220 (R$1,381,488 as of December 31, 2007) for consolidated purposes. The commission charges on these contracts are based on market rates.

b. Contingent Assets

Below are the tax lawsuits filed to claim refund of taxes paid.

PIS/COFINS (Taxes on Revenue): tax lawsuit challenging the enforcement of Law 9718/98, which increased the PIS and COFINS tax basis. The Law covered the period from February 1999 to November 2002 for PIS and from February 1999 to January 2004 for COFINS. In November 2005, the STF (Federal Supreme Court) concluded the judgment of certain lawsuits on the same matter and considered the increase in the tax basis introduced by said Law unconstitutional. Part of the lawsuits filed by the Company and the STFC concessionaires from Region II of the Concession Plan, merged into Brasil Telecom S.A. in February 2000, became final and unappealable in 2006 as regards the increase in PIS and COFINS tax basis. The Company is awaiting the judgments of the lawsuits filed by the other merged companies, whose likelihood of a favorable outcome in future filing of appeals is regarded as probable by the Company's legal counsel. The amount attributed to these lawsuits, representing unrecognized consolidated contingent assets, was R$18,843 (R$17,445 as of December 31, 2007).

9. SHAREHOLDERS' EQUITY

a. Capital

The Shareholders' Meeting held on April 27, 2007 approved a reverse stock split. The reverse stock split ratio was 1000 to 1 and, and capital started to be represented by 134,031,688 common shares and 229,937,525 preferred shares, totaling 363,969,213 shares issued. Of the total amount of shares, 1,480,800 common shares are held in treasury.

The Company is authorized to increase its capital, according to a resolution of the Board of Directors, up to the total limit of 700,000,000 common or preferred shares, in compliance with the legal limit of two thirds (2/3) for the issue of new preferred shares without voting rights.

By resolution of the Shareholders' Meeting or Board of Directors' Meeting, the Company's capital can be increased through capitalization of retained earnings or reserves previously allocated for this purpose by the Shareholders' Meeting. Under these conditions, the capitalization may be performed without changing the amount of shares.

Capital is represented by common and preferred shares, with no par value, and the Company is not required to maintain the current proportion of these types of share on capital increases.

By resolution of the Shareholders' Meeting or Board of Directors' Meeting, the preemptive right on issuance of shares, warrants or debentures convertible into shares can be cancelled in the cases provided for in article 172 of the Brazilian Corporate Law.

Preferred shares do not have voting rights, except in the cases specified in sole paragraphs of articles 11 and 14 of the By-laws, but are assured priority in the receipt of the minimum noncumulative dividend of 6% per year, which is calculated on the amount obtained after dividing the capital by the total number of the Company's shares, or of 3% per year, calculated on the amount obtained after dividing the shareholders' equity by the total number of the Company's shares, whichever is greater.

Subscribed and paid-up capital at the balance sheet date is R$ 2,596,272 (R$ 2,596,272 as of December 31, 2007), represented by the following shares with no par value:

	Total shares		Treasury shares		Outstanding shares	
Type of share	**2008**	**2007**	**2008**	**2007**	**2008**	**2007**
Common shares	134,031,688	134,031,688	1,480,800	1,480,800	132,550,888	132,550,888
Preferred shares	229,937,525	229,937,525	—	—	229,937,525	229,937,525
Total	**363,969,213**	**363,969,213**	**1,480,800**	**1,480,800**	**362,488,413**	**362,488,413**

	2008	2007
Book value per outstanding share (R$)	**15.90**	**14.34**

The common shares held in treasury are excluded in the determination of the book value.

b. Treasury shares

The treasury shares derive from Stock Repurchase Programs carried out from 2002 to 2004. On September 13, 2004, a material event notice was disclosed on the last proposal approved by the Company's Board of Directors for repurchase of preferred and common shares issued by the Company to be held in treasury, cancelled, or subsequently sold.

The position of treasury shares is as follows:

	2008		2007	
	Common shares	Amount	Common shares	Amount
Balance at beginning of year	1,480,800	20,846	1,480,800	20,846
Balance at end of year	1,480,800	20,846	1,480,800	20,846

Historic cost on purchase of treasury shares (R$ per share)	2008	2007
Weighted average	14.08	14.08
Minimum	12.40	12.40
Maximum	17.00	17.00

Unit cost considers all stock repurchase programs.

Up to the balance sheet date, none of the common shares purchased had been sold.

Market Value of the Treasury Shares

The market value of the treasury shares at the balance sheet date was as follows:

	2008	2007
Amount of common shares held in treasury	1,480,800	1,480,800
Quotation per share on BOVESPA (R$)	58.90	46.50
Market value	**87,219**	**68,857**

c. Capital Reserves

Capital reserves are recognized pursuant to the following practices:

Reserve for Share Subscription Premium: results from the difference between the amount paid on subscription and the amount allocated to capital.

Other Capital Reserves: formed by the contra entry of funds invested in income tax incentives before the beginning of fiscal year 2008.

d. Profit Reserves

Profit reserves are recognized pursuant to the following practices:

Legal Reserve: allocation of five percent of the annual net income up to twenty percent of paid-up capital or thirty percent of capital plus the capital reserves. This reserve will only be used for increasing capital or offsetting losses.

Investment Reserve: comprises the remaining balances of net income for the year, adjusted pursuant to article 202 of Law 6404/76 and allocated after the payment of dividends. The net income allocated to this reserve was fully allocated as retained earnings by the related Shareholders' Meetings, in view of the Company's investment budget and pursuant to article 196 of the Brazilian Corporate Law. Up to the end of fiscal year 2007, the profits retained for investments remained in the retained earnings line account, pursuant to article 8 of CVM Resolution 59/86. After Law 11638/37 came into effect, determining that no balances should remain under the

retained earnings line account at the balance sheet date, said retained profits were transferred to this investment reserve.

e. Dividends and Interest on Shareholders' Equity

Dividends are calculated pursuant to the Company's By-laws and the Brazilian Corporate Law. Mandatory minimum dividends are calculated in accordance with article 202 of Law 6404/76, and preferred or priority dividends are calculated pursuant to the Company's By-laws.

By deliberation of the Board of Directors, the Company can pay or credit, as dividends, interest on shareholders' equity pursuant to article 9, paragraph 7, Law 9249, of December 26, 1995. The interest paid or credited will be offset against the annual mandatory minimum dividend amount, pursuant to article 44 of the By-laws.

Mandatory minimum dividends calculated pursuant to article 202 of Law 6404/76

	2008	2007(1)
Net income for the year	**800,037**	**675,906**
Realization of unrealized profit reserve	—	74,180
Allocation to legal reserve	(40,002)	(33,795)
Adjusted net income	**760,035**	**716,291**
Mandatory dividends (25% of adjusted net income)	**190,009**	**179,073**

(1) The data referring to 2007 fiscal year are reported at the original amounts calculated in that year, without considering the adjustments arising from Law 11638/07.

Dividends and Interest on Shareholders' Equity Credited

The Company credited interest on shareholders' equity to its shareholders during the year, in accordance with the shareholding position on the date of each credit. At the balance sheet year, the interest on shareholders' equity credited, net of withholding income tax, was attributed to dividends and included in the proposal for allocation of net income to be submitted for approval at the Annual Shareholders' Meeting.

	2008	2007
Interest on shareholders' equity credited	**264,800**	**336,300**
IRRF (withholding income tax)	(39,720)	(50,445)
Net interest on shareholders' equity	**225,080**	**285,855**
Accrued dividends to supplement interest on capital	**—**	**379,991**
Total payments to shareholders	**225,080**	**665,846**
Common shares	82,305	243,479
Preferred shares	142,775	422,367

Total earnings per share (in Reais)(1)	2008	2007
Common shares	0.620930	1.836875
Preferred shares	0.620930	1.836875
Total shares	0.620930	1.836875

(1) The calculation of the dividends/ interest on capital per share considers the total outstanding shares at the balance sheet date.

The total payments to shareholders exceed the amount of mandatory dividends, as well as that of priority dividends and dividends paid to common shares, calculated under equal conditions.

f. Remaining Net Income

The remaining 2008 net income balance, adjusted pursuant to article 202 of Law 6404/76, in the amount of R$495,235, is recorded under "Investment reserve" and included in the proposal for allocation of net income to be submitted for approval at the Annual Shareholders' Meeting, in order to increase the funds for the consolidated capital budget, which includes the subsidiaries, pursuant to article 196 of said Law, and converted in a capital increase to shareholders, equating the established profit reserves to the Company's capital ratio.

10. NET OPERATING INCOME

	CONSOLIDATED	
	2008	2007
Fixed telephony service		
Local service	**6,549,741**	**6,566,256**
Activation	10,919	16,352
Subscription	3,675,529	3,535,708
Fixed	919,765	1,101,419
Fixed x Mobile — VC1	1,926,096	1,881,853
Rental	1,129	1,157
Other	16,303	29,767
Long-distance service	**2,852,611**	**2,947,454**
Intersectorial fixed	834,586	863,484
Interregional (cross-sectional) fixed	247,235	264,243
Interregional fixed	232,176	241,077
VC2	778,771	788,455
Fixed originated	300,386	292,343
Mobile originated	478,385	496,112
VC3	717,098	746,316
Fixed originated	353,770	365,588
Mobile originated	363,328	380,728
International	42,745	43,879
Interconnection	**373,810**	**357,674**
Fixed x Fixed	209,957	243,236
Mobile x fixed	163,853	114,438
Assignment of means	**449,409**	**357,893**
Public telephony	**474,656**	**546,007**
Supplemental services, intelligent network and advanced telephony	**417,234**	**393,980**
Other	**30,713**	**35,168**
Total fixed telephony service	**11,148,174**	**11,204,432**

	CONSOLIDATED	
	2008	2007
Mobile telephony service		
Telephony	**1,894,397**	**1,753,231**
Subscription	401,746	433,555
Use	642,109	547,050
Additional call fee	5,499	6,810
Roaming	16,437	16,070
Interconnection	662,238	624,691
Added value services	154,434	104,415
Other services	11,934	20,640
Sales of goods	**225,670**	**270,515**
Cell phones	221,522	263,982
Electronic cards — *Brasil Chip*, accessories and other goods	4,148	6,533
Total mobile telephony service	**2,120,067**	**2,023,746**

	2008	2007
Data communication services and other		
Data communication	**3,249,938**	**2,310,959**
Other services related to main activities	**488,963**	**458,251**
Total data communication services and other	**3,738,901**	**2,769,210**
Gross operating revenue	**17,007,142**	**15,997,388**
Deductions from gross revenue	**(5,710,307)**	**(4,938,842)**
Taxes on gross revenue	(4,389,541)	(4,353,809)
Other deductions from gross revenue	(1,320,766)	(585,033)
Net operating revenue	**11,296,835**	**11,058,546**

11. COST OF GOODS AND SERVICES SOLD

The costs incurred on goods and services are as follows:

	CONSOLIDATED	
	2008	2007
Interconnection	(2,202,660)	(2,318,884)
Depreciation and amortization	(1,683,112)	(2,032,963)
Third parties services	(970,645)	(934,023)
Personnel	(338,489)	(162,494)
Rental, leases and insurance	(395,008)	(313,925)
Connection means	(143,434)	(135,532)
FISTEL (Telecommunications Inspection Fund) fee	(76,548)	(64,820)
Material	(64,073)	(69,951)
Public concession fee	(65,578)	(69,406)
Employee and management profit sharing	(29,125)	(20,959)
Goods sold	(236,603)	(255,429)
Other	(4,143)	(3,815)
Total	**(6,209,418)**	**(6,382,201)**

12. SALES OF SERVICES

(*Selling Expenses*)

Breakdown of selling expenses is as follows:

	CONSOLIDATED	
	2008	2007
Third parties services	(546,989)	(735,592)
Losses on trade accounts receivable	(370,242)	(348,001)
Personnel	(237,650)	(229,004)
Material	(90,844)	(50,753)
Rental, leases and insurance	(49,838)	(56,801)
Employee and management profit sharing	(25,863)	(21,149)
Depreciation and amortization	(9,164)	(19,080)
Other	(33,633)	(24,972)
Total	**(1,364,223)**	**(1,485,352)**

13. GENERAL AND ADMINISTRATIVE EXPENSES

Administrative expenses, which include information technology expenses, are as follows:

	COMPANY		CONSOLIDATED	
	2008	2007	2008	2007
Third parties services	(3,781)	(6,208)	(807,527)	(763,084)
Depreciation and amortization	(205)	(256)	(291,684)	(298,154)
Personnel	(14,183)	(4,660)	(234,232)	(176,968)
Employee and management profit sharing	—	—	(44,371)	(38,340)
Rental, leases and insurance	(8,575)	(7,275)	(28,450)	(41,818)
Stock option plans		—	(17,411)	(13,219)
Material	(3)	—	(3,696)	(4,058)
Other	(4)	(6)	(730)	(1,225)
Total	**(26,751)**	**(18,405)**	**(1,428,101)**	**(1,336,866)**

14. OTHER OPERATING INCOME (EXPENSES)

Breakdown of operating income (expenses) is as follows:

	COMPANY		CONSOLIDATED	
	2008	2007	2008	2007
Receivables from settlement of litigation(1)	5,845	—	175,730	—
Recoverable taxes and expenses	120	102	145,204	95,857
Fines	(120)	(3)	103,275	77,984
Rental of operational infrastructure and other	—	—	86,975	87,439
Pension fund expenses recoverable — surplus	—	—	61,104	81,209
Technical and administrative services	316	2,315	60,956	59,600
Allowance (reversal) for losses on investments	1,684	454	58,025	(25,714)
Litigation settlement with telecommunications companies	—	—	21,403	16,610
Allowance (reversal) for realization amount and losses on property, plant and equipment	—	—	18,837	20,384
Donations and incentive grants	—	—	15,284	16,889
Reversal of other provisions	—	—	10,920	32,390
Dividends from investments stated at cost	2	329	3,017	712
Gain (loss) on write-off of investments	44,653	—	(12,185)	26,216
Provisions for contingencies(2)	954	(1,215)	(710,531)	(650,898)
Taxes (except on gross revenue, income tax and social contribuition tax)	(665)	(389)	(146,297)	(87,243)
Amortization of goodwill on acquisition of investments	—	—	(88,796)	(91,408)
Provisions for pension fund	—	—	(81,324)	(89,675)
Court fees	—	—	(59,430)	(51,060)
Gain (loss) on investments	791	(970)	(43,415)	(974)
Gain (loss) on write-off of property, plant and equipment and deferred charges	(16)	—	(40,120)	(23,904)
Donations and sponsoring	(5)	—	(23,011)	(11,499)
Indemnities — labor, telephony and other	—	—	(3,136)	(157)
Gain (loss) on write-off/ resale of maintenance inventories	—	—	(2,202)	(1,923)
Amortization of goodwill on merger	—	—	—	(126)
Other income (expenses)	(192)	(217)	18,530	9,281
Total	**53,367**	**406**	**(431,187)**	**(510,010)**
Other operating income	53,411	3,200	826,254	607,747
Other operating expenses	(44)	(2,794)	(1,257,441)	(1,117,757)

Revenue and expenses of the same nature are presented at net value.

(1) Refer to the amount received as a result of the Litigation Release and Settlement Instrument entered into by the Company, its subsidiary 14 Brasil Telecom Celular S.A. and its Parent, Opportunity Fund/Banco Opportunity and associates, Telemar Norte Leste S.A., which are detailed in note 1, under a specific item.

(2) The contingencies for which provisions have been recorded are described in note 8.

15. FINANCIAL EXPENSES, NET

	COMPANY		CONSOLIDATED	
	2008	2007	2008	2007
Financial income	**200,093**	**341,366**	**887,590**	**773,796**
Local currency	200,093	341,362	812,220	769,481
On foreign-currency denominated rights	—	4	75,370	4,315
Financial expenses	**(343,107)**	**(450,968)**	**(1,412,141)**	**(1,274,778)**
Local currency	(77,820)	(114,537)	(760,666)	(735,448)
On foreign-currency denominated liabilities	(487)	(131)	(280,524)	(88,376)
Interest on shareholders' equity	(264,800)	(336,300)	(370,951)	(450,954)
Total	**(143,014)**	**(109,602)**	**(524,551)**	**(500,982)**

16. INCOME TAX AND SOCIAL CONTRIBUTION ON INCOME

Taxes on income refer to income tax (IRPJ) and social contribution on net profit (CSLL). Income tax is calculated at the rate of 25% and social contribution at the rate of 9%, generating a combined tax rate of 34%.

The income tax and social contribution provisions recognized in the statement of income are as follows:

	COMPANY		CONSOLIDATED	
	2008	2007	2008	2007
Current taxes				
Income tax and social contribution on net profit	(41,443)	(65,972)	(679,351)	(559,246)
Deferred taxes	1,956	1,660	88,396	199,906
Total	**(39,487)**	**(64,312)**	**(590,955)**	**(359,340)**

	COMPANY		CONSOLIDATED	
	2008	2007	2008	2007
Income before taxes and profit sharing	**574,724**	**405,805**	**1,339,355**	**843,135**
Income (loss) of companies not subject to IRPJ/CSLL(1)	**—**	**—**	**(8,354)**	**12,221**
Total taxable income	**574,724**	**405,805**	**1,331,001**	**855,356**
IRPJ				
Income tax on taxable income (10%+15%=25%)	(143,681)	(101,451)	(332,750)	(213,839)
Permanent additions	(14,922)	(21,883)	(147,500)	(80,303)
Amortization of goodwill	—	—	(22,112)	(22,754)
Exchange rate changes on investments	—	(59)	(1,751)	(3,510)
Change in ownership interest in subsidiaries	—	(243)	(10,854)	(50)
Non-deductible fines	—	—	(43,395)	(2,140)
Losses on investments	—	—	(14,211)	—
Other additions	(14,922)	(21,581)	(55,177)	(51,849)
Permanent deductions	129,572	76,027	33,539	17,043
Equity in subsidiaries	118,422	74,474	—	—
Dividends from investments stated at cost	20	82	754	178
Federal taxes recoverable	—	—	650	—
Other deductions	11,130	1,471	32,135	16,865
Offset of tax loss carryforwards	—	—	9,591	3,411
Deferred income tax on tax loss carryforwards	—	—	—	5,817
Other	(95)	24	(5,434)	2,244
Effect of IRPJ on the statement of income	**(29,126)**	**(47,283)**	**(442,554)**	**(265,627)**

	COMPANY		CONSOLIDATED	
	2008	2007	2008	2007
CSLL				
CSLL on taxable income (9%)	(51,725)	(36,522)	(119,790)	(76,982)
Permanent additions	(5,216)	(7,877)	(41,924)	(26,231)
Amortization of goodwill	—	—	(7,960)	(8,191)
Exchange rate changes on investments	—	(21)	(630)	(1,264)
Change in ownership interest in subsidiaries	—	(87)	(4,091)	(266)
Non-deductible fines	—	—	(15,622)	(770)
Other additions	(5,216)	(7,769)	(13,621)	(15,740)
Permanent deductions	46,645	27,370	12,240	6,293
Equity in subsidiaries	42,567	26,810	—	—
Dividends from investments stated at cost	—	30	273	64
Other deductions	4,078	530	11,967	6,229
Offset of tax loss carryforwards	—	—	3,507	1,220
CSLL on tax loss carryforwards	—	—	—	2,094
Other	(65)	—	(2,434)	(107)
Effect of CSLL on the statement of income	**(10,361)**	**(17,029)**	**(148,401)**	**(93,713)**
Effect of IRPJ and CSLL on the statement of income	**(39,487)**	**(64,312)**	**(590,955)**	**(359,340)**

(1) Income (loss) of companies which do not record IRPJ and CSLL on tax loss carryforwards, as they do not expect their realization.

17. CASH AND CASH EQUIVALENTS

	COMPANY		CONSOLIDATED	
	2008	2007	2008	2007
Cash and Banks	89	702	167,927	315,032
Cash equivalents	1,231,158	145,310	2,541,878	414,972
Total	**1,231,247**	**146,012**	**2,709,805**	**730,004**

Below is a breakdown of the cash equivalents portfolio:

	COMPANY		CONSOLIDATED	
	2008	2007	2008	2007
Exclusive investment funds				
Government securities	—	108,744	—	224,877
Private securities	81	533	19,667	96,381
Cash and repos — *Overnight*	241,172	39,954	791,691	76,989
Derivatives	—	38	—	440
Provision for income tax — Offsetting	(4,724)	(3,926)	(12,042)	(11,366)
Total exclusive investment funds	**236,529**	**145,343**	**799,316**	**387,321**
Private securities	**994,105**	**—**	**1,633,266**	**—**
Open-end investment funds	**—**	**—**	**—**	27,579
Investments abroad — certificates of deposit	**524**	**—**	**109,546**	377
Subtotal of cash equivalents	**1,231,158**	**145,343**	**2,542,128**	**415,277**
Partial blocking due to a court order	—	(33)	(250)	(305)
Total cash equivalents	**1,231,158**	**145,310**	**2,541,878**	**414,972**

Exclusive investment funds are subject to obligations related to the payment of services provided by management of the assets, such as custody and audit fees, as well as other related expenses. No significant financial liabilities arise from these funds and neither are there Company's assets to back them up.

18. FINANCIAL INVESTMENTS

Below is a breakdown of the investment portfolio:

	COMPANY		CONSOLIDATED	
	2008	2007	2008	2007
Exclusive investment funds				
Government securities	166,636	573,593	537,672	2,010,479
Private securities	46,999	251,547	237,830	510,423
Cash and repos — *Overnight*	—	16,362	—	110,057
Republic of Austria bonds	—	—	—	274,069
ICO Bonds — Instituto de Crédito Oficial of Spain	—	—	—	201,320
Government securities	—	274,069	—	53,556
Private securities	—	201,320	—	3,583
Total cash investments	**213,635**	**1,316,891**	**775,502**	**3,163,487**

The securities held for trading at fair value represent investments in exclusive funds managed by prime financial institutions, and own-portfolio investments, mainly represented by federal government securities and private securities issued by prime financial institutions. Changes in the fair value of these financial assets are recorded under "Financial income (expenses)" in the statement of income.

19. TRADE ACCOUNTS RECEIVABLE

Trade accounts receivable are composed as follows:

	CONSOLIDATED	
	2008	2007
Billed services	1,589,911	1,597,040
Unbilled services	954,353	892,448
Sales of goods	60,249	75,603
Subtotal	**2,604,513**	**2,565,091**
Allowance for doubtful accounts	**(394,423)**	**(375,390)**
Services provided	(389,377)	(370,799)
Sales of goods	(5,046)	(4,591)
Total	**2,210,090**	**2,189,701**
Current	1,776,216	1,681,551
Past due:		
From 01 to 30 days	428,620	390,471
From 31 to 60 days	125,636	125,924
From 61 to 90 days	79,852	87,161
From 91 to 120 days	54,354	61,219
Over 120 days	139,835	218,765
Total	**2,604,513**	**2,565,091**

20. INVENTORIES

Maintenance and resale inventories, for which allowances for losses or adjustment to estimated realizable value are recognized, are as follows:

	CONSOLIDATED	
	2008	2007
Resale inventory (cell phones and accessories)	65,420	53,532
Maintenance inventory	5,514	7,158
Allowance for adjustment to realizable value	(16,745)	(27,554)
Allowance for probable losses	(141)	(425)
Total	**54,048**	**32,711**

21. LOANS AND FINANCING — ASSETS

	CONSOLIDATED	
	2008	2007
Loans and financing	6,868	7,973
Total	**6,868**	**7,973**
Current	1,758	1,797
Noncurrent	5,110	6,176

The loans and financing receivable refer to transfers of funds to the company responsible for the manufacturing of telephone directories, which earn interest based on the IGP-DI (General Price Index — Domestic Supply).

22. DEFERRED AND RECOVERABLE TAXES

	COMPANY		CONSOLIDATED	
	2008	2007	2008	2007
Deferred taxes	27,045	22,324	1,775,696	1,639,468
Other recoverable taxes	282,108	332,550	1,123,197	989,635
Total	**309,153**	**354,874**	**2,898,893**	**2,629,103**
Current	6,543	13,683	973,963	834,615
Long-term	302,610	341,191	1,924,930	1,794,488

Deferred income tax and social contribution on net profit

	COMPANY		CONSOLIDATED	
	2008	2007	2008	2007
Income tax				
Deferred income tax on:				
Tax loss carryforwards	—	—	540,801	498,803
Provisions for contingencies	1,018	1,256	321,563	298,809
Provision for covering actuarial deficiency of pension funds	—	—	188,948	171,936
Allowance for doubtful accounts	—	—	97,390	93,548
ICMS (State VAT) — Agreements 69/98 and 78/01	—	—	25,481	39,820
Provision for suspended payment — COFINS/CPMF	25,660	20,615	77,990	40,770
Provisions profit sharing	—	—	17,984	16,092
Allowance for loss with material inventory	—	—	6,854	10,606
Provision for suspended payment — FUST	—	—	29,993	19,027
Allowance for losses — BIA	—	—	63	71
Write-off of deferred charges — adjustment to Law 11638/07	—	—	9,992	20,167
Leases — adjustment to Law 11638/07	—	—	1,148	2,038
Other provisions	—	—	18,356	16,358
Subtotal	**26,678**	**21,871**	**1,336,563**	**1,228,045**
Social contribution on net profit				
Deferred social contribution on:				
Tax loss carryforwards	—	—	198,495	181,382
Provisions for Contingencies	367	453	115,763	109,082
Provision for covering actuarial deficiency of pension funds	—	—	68,021	61,897
Allowance for doubtful accounts	—	—	35,060	33,677
Provisions profit sharing	—	—	6,474	6,476
Allowance for loss with material inventory	—	—	2,468	3,818
Allowance for losses — BIA	—	—	23	25
Write-off of deferred charges — adjustment to Law 11638/07	—	—	3,597	7,261
Leases — adjustment to Law 11638/07	—	—	413	733
Other provisions	—	—	8,819	7,072
Subtotal	**367**	**453**	**439,133**	**411,423**
Total	**27,045**	**22,324**	**1,775,696**	**1,639,468**
Current	74	6	421,224	366,628
Long-term	26,971	22,318	1,354,472	1,272,840

The following table shows the periods in which the deferred income tax and social contribution assets are expected to be realized, which arise from temporary differences between book income on the accrual basis and taxable income, as well as from tax loss carryforwards, if any. The realization periods are based on a technical study supported by expected future taxable income, generated as from the fiscal years when the temporary differences become deductible expenses for tax purposes, taking into consideration the actions established by the Company to increase the customer base for the expanding activities. The amounts recognized in the financial statements are based on technical studies submitted for approval by the Executive Board and Board of Directors and reviewed by the Supervisory Board.

	COMPANY	CONSOLIDATED
2009	74	421,224
2010	1,312	128,482
2011	25,659	176,994
2012	—	139,165
2013	—	148,637
From 2014 to 2016	—	465,218
From 2017 to 2018	—	205,625
2019 and subsequent years	—	90,351
Total	**27,045**	**1,775,696**
Current	74	421,224
Long-term	26,971	1,354,472

The amount expected to be recovered after 2018 arises from a provision to cover the actuarial deficit of pension funds, whose obligation is being financially settled in accordance with a maximum remaining period of 13 years, in compliance with the term established by the Secretariat for Pension Plans (“SPC”). Despite the time limit established by the SPC and in accordance with the estimated future taxable income, the subsidiary is in a position to fully offset the deferred taxes within a period lower than ten years, should it elect to fully accelerate the repayment of the debt.

Other recoverable taxes

Other taxes recoverable consist of federal withholding and payments made, calculated based on legal estimates, which will be offset against future tax liabilities. ICMS recoverable mostly arises from credits on purchases of property, plant and equipment, which can be offset against ICMS payable within 48 months, pursuant to Supplementary Law 102/00.

	COMPANY		CONSOLIDATED	
	2008	2007	2008	2007
ICMS (state VAT)	—	—	644,121	500,994
Income tax	244,083	253,040	330,417	309,533
PIS and COFINS (taxes on revenue)	156,243	147,358	254,231	237,768
Social contribution on net profit	1,773	9,752	8,923	14,164
FUST (Telecommunication Universal Service Fund)	—	—	724	724
Other	—	—	4,772	4,052
Subtotal	**402,099**	**410,150**	**1,243,188**	**1,067,235**
Allowance to recoverable value	(119,991)	(77,600)	(119,991)	(77,600)
Total	**282,108**	**332,550**	**1,123,197**	**989,635**
Current	6,469	13,677	552,739	467,987
Long-term	275,639	318,873	570,458	521,648

The allowance for adjustment to recoverable value corresponds to the portion of credit taxes which can be offset in a period exceeding the next ten years.

23. ESCROW DEPOSITS

Escrow deposits referring to contingencies with possible and remote loss risks are as follows:

	COMPANY		CONSOLIDATED	
Nature of contingencies	2008	2007	2008	2007
Labor	—	—	299,155	250,564
Tax	5,524	5,552	93,294	103,705
Civil	248	103	2,517,287	1,044,254
Total	**5,772**	**5,655**	**2,909,736**	**1,398,523**
Current	40	40	679,012	329,396
Long-term	5,732	5,615	2,230,724	1,069,127

Escrow deposits linked to provisions are shown as a reduction of such provisions. See notes 8 and 31.

The increase in the amount of escrow deposits is related to corporate civil lawsuits, for which management, supported by the opinion of its legal counsel, considers an unfavorable outcome as possible or remote.

24. DIVIDENDS/INTEREST ON SHAREHOLDERS' EQUITY RECEIVABLE

Refers to interest on shareholders' equity, net of withholding income tax, credited by the subsidiary Brasil Telecom S.A. in 2008, whose amount receivable is R$185,427 (R$474,247 as of December 31, 2007).

25. OTHER ASSETS

	COMPANY		CONSOLIDATED	
	2008	2007	2008	2007
Pension funds — future contributions to be offset(1)	—	—	123,938	74,476
Advances to employees	—	—	41,376	36,541
Advances to and amounts recoverable from suppliers	—	450	26,101	19,038
Amounts to be offset against state tax liabilities	—	—	9,217	—
Guarantees and contract withholdings	—	—	3,777	—
Tax credits earned(2)		—	312	46,543
Prepaid expenses	2,464	8,424	64,205	47,237
Compulsory deposits	—	—	1,562	1,562
Assets for sale	—	—	606	1,280
Amounts to be collected from telecommunications companies	—	—	—	8,807
Other	1	—	27,551	22,673
Total	**2,465**	**8,874**	**298,645**	**258,157**
Current	2,465	8,874	158,129	180,481
Long-term	—	—	140,516	77,676

(1) Assets recorded to be used to offset future employer contributions to the TCSPREV supplementary pension plan, as mentioned in note 7.

(2) State letters of credit acquired to pay ICMS tax notices issued against the Company.

26. INVESTMENTS

	COMPANY		CONSOLIDATED	
	2008	2007	2008	2007
Investments accounted under the equity method	**4,197,751**	**3,723,706**	**—**	**—**
Brasil Telecom S.A.	4,197,440	3,704,312	—	—
Nova Tarrafa Participações Ltda.	—	18,620	—	—
Nova Tarrafa Inc.	311	774	—	—
Advances for future capital increase	**21**	**21**	**—**	**—**
Nova Tarrafa Participações Ltda.	21	21	—	—
Investments accounted at cost	**—**	**6,911**	**3,703**	**11,924**
Tax incentives, net of allowances for losses	**—**	**1,093**	**—**	**20,259**
Other investments	**—**	**—**	**41**	**39**
Total	**4,197,772**	**3,731,731**	**3,744**	**32,222**

The advances for future capital increase in favor of the subsidiary were taken into consideration in the assessment of investments, since the allocated contributions are only awaiting the formalization of the corporate document in order for the related capital increase to be effected.

Investments accounted under the equity method: comprise the Company's ownership interests in the subsidiaries Brasil Telecom S.A., Nova Tarrafa Participações Ltda. and Nova Tarrafa Inc. The main information on these companies is as follows:

	BT S.A.	NTP (Ltda.)	NTI
Shareholders' equity	6,240,952	(280)(1)	311
Capital	3,470,758	32,625	1,776
Book value per share (R$)	11.40	(0.01)	310.04
Net income (loss) for the period	1,029,816	(18,900)	(541)
Amount of shares held by the Company			
Common shares	247,317,180	—	1,003
Preferred shares	120,911,021	—	—
Shares	—	32,624,928	—
Ownership interest—%(2)			
In total capital	67.26%	99.99%	100%
In voting capital	99.09%	99.99%	100%

(1) As regards the shareholders' deficit of NTP Ltda., the Company records an allowance for losses on subsidiaries in long-term liabilities.
(2) Considers outstanding capital.

Equity in subsidiaries is composed as follows:

	Operating		Other income (expenses)	
	2008	2007	2008	2007
Brasil Telecom S.A.	710,485	543,516	791	(970)
Nova Tarrafa Participações Ltda.	(18,900)	(9,503)	—	—
Nova Tarrafa Inc.(1)	(463)	(607)	—	—
Total	**691,122**	**533,406**	**791**	**(970)**

(1) Includes exchange rate changes on the foreign investment.

27. PROPERTY, PLANT AND EQUIPMENT

Changes in property, plant and equipment are as follows:

	CONSOLIDATED						
	Construction in progress	Automatic switching equipment	Transmission equipment and other(1)	Infra-structure	Buildings	Other assets	Total
Cost of property, plant and equipment (gross amount)							
Balance as of 01/01/07	**322,712**	**5,149,971**	**14,132,526**	**3,777,602**	**943,061**	**1,792,621**	**26,118,493**
Additions	1,079,500	947	212,272	17,953	1,251	71,555	1,383,478
Write-offs	(10,575)	(2,302)	(122,651)	(22,974)	(500)	(34,941)	(193,943)
Transfers	(931,284)	7,835	468,718	121,356	13,522	56,692	(263,161)
Balance as of 12/31/07	**460,353**	**5,156,451**	**14,690,865**	**3,893,937**	**957,334**	**1,885,927**	**27,044,867**
Additions	1,586,465	2,412	286,234	9,028	10,444	65,631	1,960,214
Write-offs	(41,951)	(4,614)	(110,684)	(21,176)	(1,758)	(29,813)	(209,996)
Transfers	(994,910)	148,855	593,369	113,961	4,420	57,087	(77,218)
Balance as of 12/31/08	**1,009,957**	**5,303,104**	**15,459,784**	**3,995,750**	**970,440**	**1,978,832**	**28,717,867**
Accumulated depreciation							
Balance as of 01/01/07	**—**	**(4,778,262)**	**(10,651,929)**	**(2,327,267)**	**(530,425)**	**(1,250,676)**	**(19,538,559)**
Depreciation expenses	—	(153,823)	(1,371,833)	(263,319)	(33,549)	(156,082)	(1,978,606)
Write-offs	—	2,102	120,719	17,909	73	26,531	167,334
Transfers	—	715	22,929	(10,300)	(1,393)	(15,775)	(3,824)
Balance as of 12/31/07	**—**	**(4,929,268)**	**(11,880,114)**	**(2,582,977)**	**(565,294)**	**(1,396,002)**	**(21,353,655)**
Depreciation expenses	—	(103,591)	(1,081,424)	(251,796)	(34,178)	(147,728)	(1,618,717)
Write-offs	—	4,951	109,022	19,406	703	23,102	157,184
Transfers	—	—	369	—	(25)	(383)	(39)
Balance as of 12/31/08	**—**	**(5,027,908)**	**(12,852,147)**	**(2,815,367)**	**(598,794)**	**(1,521,011)**	**(22,815,227)**
Property, plant and equipment, net							
Balance as of 01/01/07	322,712	371,709	3,480,597	1,450,335	412,636	541,945	6,579,934
Balance as of 12/31/07	460,353	227,183	2,810,751	1,310,960	392,040	489,925	5,691,212
Balance as of 12/31/08	1,009,957	275,196	2,607,637	1,180,383	371,646	457,821	5,902,640
Annual average depreciation rate — %	—	20.0%	17.0%	8.5%	4.2%	—	—

(1) Transmission equipment and other include: transmission and data communication equipment.

Pursuant to the STFC concession agreements, the assets of the subsidiary Brasil Telecom S.A. which are indispensable to the provision of the service and classified as "returnable assets" will be automatically transferred to ANATEL at the end of the concession, and the Company will be entitled to the indemnities provided for in the legislation and related agreements. The amount of the returnable assets at the balance sheet date was R$22,173,331 for cost, with a residual value of R$3,001,610.

Insurance

The Company maintains insurance policy programs to cover returnable assets, loss of profits and contractual collateral, as established in the Granting Agreement entered into with the government, and civil liability for telephony service operations.

Insured assets, liabilities and interests are as follows (unaudited):

		Insured amount	
Type	**Coverage**	**2008**	**2007**
Operational risks	Buildings, machinery and equipment, facilities, service centers, towers, infrastructure and information technology equipment	15,090,068	12,705,368
Loss of profits	Fixed expenses and net income	8,955,588	8,669,400
Contractual collateral	Fulfillment of contractual obligations	94,601	89,405
Civil liability	Telephony service operations	12,000	12,000

The Company also has civil liability insurance for management, which also provides coverage for the subsidiary Brasil Telecom S.A., at a total approximate amount of US$ 90,000,000.00 (ninety million US dollars).

There is no insurance for optional civil liability, related to casualties with Company vehicles involving third parties.

28. INTANGIBLE ASSETS

Changes in intangible assets are as follows:

	CONSOLIDATED						
	Goodwill	Intangible assets in progress	Data processing systems	Trade-marks and patents	Regula-tory permits	Other	Totals
Cost of intangible assets (gross amount)							
Balance as of January 1, 2007	**531,653**	**11,891**	**1,870,862**	**1,886**	**352,900**	**2,831,690**	**5,600,882**
Additions	—	17,877	2,058	—	4,847	—	24,782
Write-offs	(353)	—	(40,301)	—		(2,625,411)	(2,666,065)
Transfers	—	(20,203)	341,762	(1,199)	30,124	(96,832)	253,652
Balance as of December 31, 2007	**531,300**	**9,565**	**2,174,381**	**687**	**387,871**	**109,447**	**3,213,251**
Additions	16,801	264,861	6,654	—	489,985	—	778,301
Write-offs	(19,078)	—	(6,182)	—		(76,288)	(101,548)
Transfers	—	(260,656)	349,893	—	6,148	(11,007)	84,378
Balance as of December 31, 2008	**529,023**	**13,770**	**2,524,746**	**687**	**884,004**	**22,152**	**3,974,382**
Cumulative amortization							
Balance as of January 1, 2007	**(258,406)**	**—**	**(1,017,209)**	**(775)**	**(55,061)**	**(2,816,577)**	**(4,148,028)**
Amortization expenses	(96,686)	—	(338,417)	(14)	(33,346)	(8,745)	(477,208)
Write-offs	—	—	26,355	—	—	2,631,459	2,657,814
Transfers	—	—	(98,927)	713	—	101,525	3,311
Balance as of December 31, 2007	**(355,092)**	**—**	**(1,428,198)**	**(76)**	**(88,407)**	**(92,338)**	**(1,964,111)**
Amortization expenses	(107,959)	—	(308,985)	(4)	(50,506)	(5,876)	(473,330)
Write-offs	18,941	—	6,080	—	—	76,287	101,308
Transfers	—	—	(12,050)	—	—	12,086	36
Balance as of December 31, 2008	**(444,110)**	**—**	**(1,743,153)**	**(80)**	**(138,913)**	**(9,841)**	**(2,336,097)**
Intangible assets, net							
Balance as of January 1, 2007	273,247	11,891	853,653	1,111	297,839	15,113	1,452,854
Balance as of December 31, 2007	176,208	9,565	746,183	611	299,464	17,109	1,249,140
Balance as of December 31, 2008	84,913	13,770	781,593	607	745,091	12,311	1,638,285
Annual average amortization rate	—	—	20.0%	—	—	—	—

29. PAYROLL, SOCIAL CHARGES AND BENEFITS

	COMPANY		CONSOLIDATED	
	2008	2007	2008	2007
Salaries and fees	—	—	167	6,010
Social Charges	15	21	85,259	72,854
Social benefits	—	—	4,354	3,837
Stock option plans	—	—	23,893	13,179
Other	—	—	7,984	7,691
Total	**15**	**21**	**121,656**	**103,571**
Current	15	21	110,173	103,571
Long-term	—	—	11,483	—

30. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	COMPANY		CONSOLIDATED	
	2008	2007	2008	2007
Trade accounts payable	145	437	1,889,688	1,496,446
Consignments in favor of third parties	11,719	22,349	182,591	154,198
Total	**11,864**	**22,786**	**2,072,279**	**1,650,644**
Current	11,864	22,786	2,072,279	1,637,188
Long-term	—	—	—	13,456

31. INDIRECT TAXES

	COMPANY		CONSOLIDATED	
	2008	2007	2008	2007
ICMS, net of escrow deposits of Agreement 69/98	—	—	555,350	621,601
ICMS (state VAT)	—	—	702,645	811,743
Escrow deposits related to ICMS Agreement 69/98	—	—	(147,295)	(190,142)
PIS and COFINS (taxes on revenue)	4,934	6,569	310,970	168,156
Other	—	9	65,177	60,720
Total	**4,934**	**6,578**	**931,497**	**850,477**
Current	1	18	669,437	746,234
Long-term	4,933	6,560	262,060	104,243

The ICMS balance comprises amounts arising from Agreement 69/98, which have been challenged in court and are deposited in escrow on a monthly basis. It also includes the ICMS deferral incentive granted by the State Government of Paraná.

32. TAXES ON INCOME

	COMPANY		CONSOLIDATED	
	2008	2007	2008	2007
Income tax				
Amounts payable	6,898	4,161	131,851	104,010
Law 8200/91 — Special inflation adjustment	—	—	5,052	5,491
Subtotal	**6,898**	**4,161**	**136,903**	**109,501**
Social contribution on net profit				
Amounts payable	93	65	37,082	30,106
Law 8200/91 — Special inflation adjustment	—	—	1,819	1,977
Subtotal	**93**	**65**	**38,901**	**32,083**
Total	**6,991**	**4,226**	**175,804**	**141,584**
Current	—	—	66,720	74,707
Long-term	6,991	4,226	109,084	66,877

33. DIVIDENDS/ INTEREST ON SHAREHOLDERS' EQUITY AND PROFIT SHARING

	COMPANY		CONSOLIDATED	
	2008	2007	2008	2007
Controlling shareholders	**42,545**	**125,562**	**42,545**	**125,562**
Dividends/ interest on shareholders' equity	50,053	135,075	50,053	135,075
Withholding income tax on interest on shareholders' equity	(7,508)	(9,513)	(7,508)	(9,513)
Minority interest	**235,329**	**600,360**	**390,687**	**890,954**
Dividends/ interest on shareholders' equity	214,747	581,216	320,898	829,031
Withholding income tax on interest on shareholders' equity	(32,212)	(40,932)	(48,135)	(58,130)
Unclaimed prior years' dividends	52,794	60,076	117,924	120,053
Total shareholders	**277,874**	**725,922**	**433,232**	**1,016,516**
Employee and management profit sharing	**—**	**—**	**83,237**	**81,328**
Total	**277,874**	**725,922**	**516,469**	**1,097,844**

34. LOANS AND FINANCING

(Includes Debentures)

	CONSOLIDATED	
	2008	2007
Financing	4,559,037	3,886,431
Accrued interest and other charges on financing	105,591	98,860
Leases	12,698	27,017
Accrued interest and other charges on leases	1,731	8,149
Subtotal	**4,679,057**	**4,020,457**
Cost incurred	(15,152)	(18,593)
Total	**4,663,905**	**4,001,864**
Current	670,707	399,231
Noncurrent	3,993,198	3,602,633

Financing

	CONSOLIDATED	
	2008	**2007**
National Bank for Economic and Social Development (BNDES)	2,655,191	2,206,917
Local currency	2,564,245	2,112,204
Basket of currencies, including US dollar	90,946	94,713
Financial institutions	916,293	688,041
Local currency	126,049	52,506
Foreign currency	790,244	635,535
Public debentures	1,091,906	1,088,956
Suppliers — foreign currency	1,238	1,377
Financial leases	14,429	35,166
Cost incurred	(15,152)	(18,593)
Total	**4,663,905**	**4,001,864**
Current	670,707	399,231
Noncurrent	3,993,198	3,602,633

Financing in local currency: bears (i) fixed interest from 2.4% p.a. to 10.0% p.a., resulting in a weighted average rate of 8.10% p.a.; and (ii) variable interest based on the Long-term Interest Rate (TJLP) plus 2.3% to 5.5% p.a., UMBNDES (BNDES Monetary Unit) plus 5.5% p.a., 100% and 104% of the CDI, resulting in a weighted average rate of 11.73% p.a. At the balance sheet date, the CDI rate was 13.61% p.a.

Financing Agreements

On July 18, 2008, Brasil Telecom S.A. and BrT Celular entered into financing agreements with Banco do Brasil, in the amounts of R$42,000 and R$33,000, respectively. Such funds arise from the Mid-West Financing Constitutional Fund (FCO) and are invested in the expansion of the infrastructure network (voice, data and image) in the States of Goiás, Mato Grosso, Mato Grosso do Sul and the Distrito Federal. The funds were released on August 8, 2008 and repayment terms include a one-year grace period, after which the financing will be repaid in sixty monthly installments, the last of which in August 2014. Financing bears interest of 10.0% p.a., payable by each company, and there are bonuses for timely payment of 15% discount on such charge. At the balance sheet date, accumulated liabilities totaled R$43,010 for Brasil Telecom S.A. and R$33,794 for BrT Celular.

Financing in foreign currency: bears (i) fixed interest from 1.75% p.a. to 9.38% p.a., resulting in a weighted average rate of 9.36% p.a.; and (ii) variable interest of 0.5% p.a. above the LIBOR rate and 1.92% p.a. above the YEN LIBOR rate, resulting in a weighted average rate of 2.96 p.a. At the balance sheet date, the LIBOR and YEN LIBOR rates, for half-yearly payments, were 3.13% p.a. and 0.99% p.a., respectively.

Public debentures issued by the subsidiary Brasil Telecom S.A.:

Fourth public issue: 108,000 non-convertible debentures with no renegotiation clause and a face value of R$ 10 each, totaling R$ 1,080,000, issued on June 1, 2006. Repayment term is seven years, maturing on June 1, 2013. Yield corresponds to an interest rate of 104.0% of the CDI, payable on a half-yearly basis. Repayment, which shall indistinctly consider all debentures, will occur annually as from June 1, 2011, in three installments of 33.3%, 33.3% and 33.4% of the unit face value, respectively. At the balance sheet date, no debentures from this issue were held in treasury.

On December 17, 2008, a General Debentureholders' Meeting was held, at which the holders of 97.58% of the outstanding debentures approved an amendment to the indenture. Such amendment changes the Issuer's mandatory purchase terms and conditions and the debentures' yield, and the Company has to elect and disclose in a Notice to Debentureholders, within 20 days from completion of the sale of the Company's shareholding control to Telemar Norte Leste S.A. or any of its subsidiaries, whether or not it accepts the yield established at the General Debentureholders' Meeting, as well as purchase the debentures held by debentureholders, at their request.

Payment schedule

Long-term debt is scheduled to mature as follows:

	CONSOLIDATED	
	2008	2007
2009	—	499,633
2010	770,400	605,185
2011	880,670	722,052
2012	771,715	638,798
2013	772,650	639,837
2014	664,969	471,146
2015 and subsequent years	132,794	25,982
Total	**3,993,198**	**3,602,633**

Breakdown of the debt by currency/ index:

	CONSOLIDATED	
Adjusted by	2008	2007
Long-term Interest Rate (TJLP)	2,564,245	2,112,204
Interbank Certificate of Deposit (CDI)	1,106,336	1,124,122
US dollars	509,490	394,979
Yens	281,992	241,933
Hedge of yen-denominated debt	90,946	94,713
UMBNDES — Basket of currencies of the BNDES	31,607	26,599
National Consumer Price Index (INPC)	94,441	25,907
Total	**4,679,057**	**4,020,457**

Guarantees

Certain loans and financing obtained are collateralized by receivables from the provision of fixed telephony services and Company's sureties.

For consolidated loans and financing, there are hedge contracts for 60.5% of these US dollar and yen-denominated loans and financing entered into with third parties to hedge against significant fluctuations in the quotations of these debt adjustment indexes. At the balance sheet date, taking into consideration the hedging transactions and foreign currency investments, the actual exposure was 8.6% (3.6% as of December 31, 2007). Gains and losses on these contracts are recognized under the accrual basis.

The debentures issued by Brasil Telecom S.A. have unsecured guarantees, through a surety granted by the Company. Under the indenture, as guarantor and jointly liable party, the Company commits to guarantee and pay all the obligations assumed by the subsidiary with the debentureholders.

BrT Celular's Financing Agreement with the BNDES

BrT Celular entered into a financing agreement with the National Bank for Economic and Social Development (BNDES) on February 19, 2008, in the amount of R$ 259,100 to be invested in the expansion and modernization of the mobile phone network (personal mobile service) by 2009. The financing has a total term of 9 years and 6 months, with a thirty-month grace period, after which repayment will be made in 84 monthly installments. Charges on this financing are associated to the TJLP (Long-Term Interest Rate) variation plus 3.52% per year. The total funds were released in 2008, R$ 100,000 of which on March 17, 2008 and R$159,376 on October 22, 2008. This obligation is collateralized by assignment and restriction of receivables linked to the revenues of Brasil Telecom S.A., and surety provided by the latter.

35. DERIVATIVES

	CONSOLIDATED	
	2008	2007
Assets		
US dollar options	29,179	6,218
Total	**29,179**	**6,218**
Current	29,179	—
Long-term	—	6,218
Liabilities		
US dollar options	419	8,684
Cross-currency swaps — Yen x CDI	221,654	397,830
Total	**222,073**	**406,514**
Current	89,920	118,752
Long-term	132,153	287,762

The Company has yen-denominated debts and entered into swap contracts to hedge against fluctuations in the yen. The exposure arising from swap contracts is pegged to the CDI rates disclosed by the Clearinghouse for the Custody and Financial Settlement of Securities (CETIP). Additionally, the Company has US dollar options to hedge its US dollar-denominated debt. These derivatives are described in note 5.e.

Payment schedule

Long-term derivatives are scheduled to mature as follows:

	COMPANY AND CONSOLIDATED	
	2008	2007
2009	—	123,262
2010	88,380	110,606
2011	43,773	53,894
Total	**132,153**	**287,762**

36. SERVICE EXPLOITATION PERMITS AND CONCESSIONS

	CONSOLIDATED	
	2008	2007
Personal mobile service	707,999	242,162
STFC concession	65,578	—
Other permits	10,082	11,314
Total	**783,659**	**253,476**
Current	160,074	78,844
Noncurrent	623,585	174,632

The permits of the Personal Mobile Service are represented by agreements entered into by BrT Celular with ANATEL in 2002 and 2004, totaling R$220,119, to exploit SMP services during a fifteen-year period in the same area where the Company has a concession for fixed telephony. Of the amount contracted, 10% was paid on the execution date and the remaining balance was fully recognized in the subsidiary's liabilities, to be paid in equal, consecutive annual installments, with maturities scheduled from 2009 to 2010 (two installments) and from 2009 to 2012 (four installments), depending on the fiscal years the agreements were executed. The debit balance is adjusted by the variation of IGP-DI, plus 1% per month.

On April 29, 2008, BrT Celular obtained new permits for exploitation of the 3G network, in the amount of R$488,235, paying on the execution date 10% of the total amount, and the remaining debit balance payable from 2010 to 2015 (in six installments). The debit balance is adjusted by the Telecommunications Services Index (IST), plus 1% per month.

The STFC concession refers to the provision recognized by Brasil Telecom S.A. on the accrual basis, by applying a 1% rate on net income pursuant to the concession agreement in effect, the payment in favor of ANATEL matures every two years, in April of odd years, and is equivalent to 2% of the net income accrued in the prior year. The next payment is scheduled for 2009.

The amount of other permits belongs to BrT Multimídia and relates to the permit granted for use of radiofrequency blocks associated to the exploitation of multimedia communication services. The contracted amount was R$9,110, adjusted by the IGP-DI plus 1% per month. This balance will be paid in tree equal, consecutive annual installments, all of which mature in May.

37. ADVANCES FROM CUSTOMERS

	CONSOLIDATED	
	2008	2007
Assignment of telecommunications means	153,206	91,272
Prepaid services	57,589	42,878
Other advances from customers	57,604	940
Total	**268,399**	**135,090**
Current	79,227	62,957
Noncurrent	189,172	72,133

The long-term balance, paid in advance by customers to obtain benefits over a longer period, is expected to be realized in the following years:

	2008	2007
2009	—	7,920
2010	19,453	7,770
2011	17,943	7,718
2012	17,720	7,496
2013	17,399	7,238
2014	16,701	6,589
2015	16,671	6,521
2016 and subsequent years	83,285	20,881
Total	**189,172**	**72,133**

38. OTHER LIABILITIES

	COMPANY		CONSOLIDATED	
	2008	2007	2008	2007
Payables due to reverse stock split(1)	74,844	75,387	80,686	81,230
Self-financing resources	—	—	32,117	32,117
Bank credits and repeated receipts being processed	—	—	16,117	12,293
Other taxes	—	—	18,866	11,332
Liabilities from purchase of tax credits	—	—	25,156	7,053
Bonuses and rewards — subsequent years	—	—	5,228	3,249
CPMF (tax on banking transactions) — suspended payment	—	—	2,557	2,421
Payables to other telecommunications companies	—	—	1,616	1,616
Return of self-financing installments — PCT	—	—	600	607
Allowance for losses on subsidiaries	280	—	—	—
Other	1,638	—	2,836	8,163
Total	**76,762**	**75,387**	**185,779**	**160,081**
Current	76,482	75,387	169,126	143,570
Longo Prazo	280	—	16,653	16,511

(1) Refer to amounts made available to the related shareholders, relating to the share fractions which were converted into whole shares and sold at an auction held at BOVESPA, arising from the reverse stock split mentioned in note 9.a.

Self-financing — subsidiary Brasil Telecom S.A.

Rio Grande do Sul Branch

Correspond to financial interest credits paid by committed subscribers to acquire the right to use the switched fixed telephony service, still under the discontinued self-financing system. However, since the subsidiary's shareholders fully subscribed the capital increase made in order to provide shares in exchange for the financial interest credits, there were no remaining shares to be delivered to the committed subscribers. Part of these committed subscribers, who did not accept the Company's Public Offer for returning said credits in cash, as established by article 171 of Law 6404/76, are awaiting the final ruling of the lawsuit currently in progress, filed by the Public Prosecution Office and other parties, requesting payment of the credits in shares.

Mato Grosso do Sul Branch

The self-financing plans were the means through which telecommunications companies financed a portion of their investments in the network. Upon enactment of Administrative Rule 261/97, of the Ministry of Communications, the self-financing system was discontinued. The amount attributed to the Mato Grosso do Sul Branch arises from plans negotiated prior to enactment of said Administrative Rule, whose related assets have already been merged into the subsidiary's property, plant and equipment through Shared Telephony Plants (PCTs). For reimbursement in shares, it is necessary to await a superior court decision arising from the lawsuits filed by the interested parties.

39. INFORMATION BY BUSINESS SEGMENT — CONSOLIDATED

Results by segment, as well as certain balance sheet items, are as follows:

	2008						
	Fixed telephony and data communication	Mobile telephony	Internet	Call center	Management	Eliminations between segments	Consolidated
Gross operating revenue	**14,844,896**	**2,560,789**	**453,807**	**246,383**	**—**	**(1,098,733)**	**17,007,142**
Deductions from gross revenue	**(4,958,335)**	**(679,038)**	**(61,632)**	**(15,785)**	**—**	**4,483**	**(5,710,307)**
Net operating revenue	**9,886,561**	**1,881,751**	**392,175**	**230,598**	**—**	**(1,094,250)**	**11,296,835**
Cost of goods and services sold	**(5,186,658)**	**(1,512,338)**	**(54,572)**	**(211,563)**	**—**	**755,713**	**(6,209,418)**
Gross profit	**4,699,903**	**369,413**	**337,603**	**19,035**	**—**	**(338,537)**	**5,087,417**
Operating expenses, net	**(2,545,651)**	**(617,927)**	**(382,074)**	**(27,590)**	**10,915**	**338,816**	**(3,223,511)**
Selling expenses	(951,810)	(525,005)	(264,848)	(7,705)	—	385,145	(1,364,223)
General and administrative expenses	(1,210,315)	(135,721)	(75,936)	(18,226)	(26,751)	38,848	(1,428,101)
Other operating income (expenses)	(383,526)	42,799	(41,290)	(1,659)	37,666	(85,177)	(431,187)
Operating income (loss) before financial income (expenses)	**2,154,252**	**(248,514)**	**(44,471)**	**(8,555)**	**10,915**	**279**	**1,863,906**
Trade accounts receivable	**2,053,175**	**200,174**	**93,414**	**55,160**	**—**	**(191,833)**	**2,210,090**
Inventories	**4,764**	**49,284**	**—**	**—**	**—**	**—**	**54,048**
Property, plant and equipment and intangible assets, net	**5,268,918**	**2,122,081**	**143,343**	**—**	**6,583**	**—**	**7,540,925**

e	2007						
	Fixed telephony and data communication	Mobile telephony	Internet	Call Center	Management	Eliminations between segments	Consolidated
Gross operating revenue	**13,911,298**	**2,445,806**	**445,820**	**22,151**	**—**	**(827,687)**	**15,997,388**
Deductions from gross revenue	**(4,178,153)**	**(699,872)**	**(66,305)**	**(1,252)**	**—**	**6,740**	**(4,938,842)**
Net operating revenue	**9,733,145**	**1,745,934**	**379,515**	**20,899**	**—**	**(820,947)**	**11,058,546**
Cost of goods and services sold	**(5,487,894)**	**(1,531,692)**	**(55,203)**	**(20,517)**	**—**	**713,105**	**(6,382,201)**
Gross profit	**4,245,251**	**214,242**	**324,312**	**382**	**—**	**(107,842)**	**4,676,345**
Operating expenses, net	**(2,497,866)**	**(510,012)**	**(398,503)**	**(10,207)**	**(24,501)**	**108,861**	**(3,332,228)**
Selling expenses	(898,192)	(453,909)	(274,212)	—	—	140,961	(1,485,352)
General and administrative expenses	(1,173,466)	(89,987)	(69,056)	(10,207)	(18,405)	24,255	(1,336,866)
Other operating income (expenses)	(426,208)	33,884	(55,235)	—	(6,096)	(56,355)	(510,010)
Operating income (loss) before financial income (expenses)	**1,747,385**	**(295,770)**	**(74,191)**	**(9,825)**	**(24,501)**	**1,019**	**1,344,117**
Trade accounts receivable	**2,033,133**	**194,556**	**110,223**	**22,151**	**—**	**(170,362)**	**2,189,701**
Inventories	**6,165**	**26,546**	**—**	**—**	**—**	**—**	**32,711**
Property, plant and equipment and intangible assets, net	**5,337,567**	**1,400,786**	**188,758**	**—**	**13,241**	**—**	**6,940,352**

40. SUBSEQUENT EVENTS

Change in the Company's Shareholding Control

On January 8, 2009, Telemar Norte Leste S.A. ("TMAR") acquired, through its indirect subsidiary Copart 1 Participações S.A. ("Copart 1"), the shareholding control of the Company and of Brasil Telecom S.A. Such acquisition granted TMAR an interest corresponding to 61.2% of the Company's voting capital. The acquisition was disclosed through a Material Event Notice issued by the companies on the same date of the transaction, whose content is fully transcribed in this note.

The Agreement for Purchase of the Company's Shares (the "Agreement"), entered into on April 25, 2008, was disclosed through a Material Event Notice of the companies issued on the same date, and supplemental material event notices were issued on events or facts inherent to the Agreement. All material event notices are available for consultation at the Website www.brasiltelecom.com.br/ri.

The change in the shareholding control of Brasil Telecom consisted of the acquisition of 100% of the shares of Invitel S.A., which, in turn, holds 99.99% of the shares of SOLPART.

The acquisition of the shareholding control of Brasil Telecom by TMAR was carried out with the Prior Approval of ANATEL, granted through Law 7828, issued on December 19, 2008, through which ANATEL's

Executive Board also approved the subsequent corporate acts referring to the merger of the companies or of the shares of the companies Invitel S.A., Solpart Participações S.A. and Brasil Telecom Participações S.A. into Telemar Norte Leste S.A.

The change in the Company's shareholding control, and, consequently, of Brasil Telecom S.A., has the following implications for the subsidiary:

a) Stock Option Plan

The stock option grant programs linked to the plan approved on November 6, 2007 (note 7.b) had provisions that established the accelerated maturity of the options in the event of a change in the direct or indirect shareholding control of the subsidiary. Upon the change in shareholding control, on January 8, 2009, the stock options of said programs were fully exercised. Program 1, totaling 2,817,324 UPs was settled for a total amount of R$17,855. Program 2, referring to the grant on 07/01/08, comprising 701,601 UPs, was settled for a total amount of R$4,446.

Under Program 2, 646,585 UPs were exercised, referring to the grant on 07/01/07, settled as follows: (i) delivery of preferred shares held in treasury by the subsidiary, at a total exercise price of R$2,386 and acquisition cost of R$2,979; and (ii) delivery of common and preferred shares of the Company, yet included in the subsidiary's liabilities, at a total exercise price of R$13,733 and fair value of R$ 17,108, plus R$130.

b) Loans and Financing

The contractual obligations with financing creditos, relating to the agreements entered into by Brasil Telecom S.A. and the BNDES and the swaps entered into with Citibank have provisions that establish the accelerated maturity of these obligations in the event of a change in the subsidiary's shareholding control. After obtaining waivers from the creditors, these agreements were amended and the maturities originally established were maintained.

c) Debentures

As a result of the transfer of the shareholding control of the Company and Brasil Telecom S.A. to TMAR (through its indirect subsidiary Copart 1), pursuant to the decisions of the General Debentureholders' Meeting of the 5th Issue of Brasil Telecom S.A. ("AGD", "Issue" and "Issuer") held on December 17, 2008 and the Board of Directors' Meeting of Brasil Telecom S.A. held on January 26, 2009, the Issuer informed the debentureholders, through a notice issued on January 28, 2009 ("Notice to Debentureholders") that it had decided to change the debentures' yield from 104% of the Interbank Deposit Rate (DI Rate) to the DI Rate plus a spread of 3.5% per year, and to purchase the debentures held by the debentureholders who disagreed with such decision.

The debentureholders had a five-business day term, ending February 4, 2009, to express their wish to redeem the debentures, but no such requests were made.

Material Event

Below is the material event notice disclosed after the balance sheet date regarding the change in the Company's shareholding control:

Material Event on January 8, 2009

"MATERIAL EVENT

In compliance with the provisions of CVM Resolution 358/02 and following Material Event Notices and Market Releases disclosed by Tele Norte Leste Participações S.A. ("**TNL**") and Telemar Norte Leste S.A. ("**TMAR**") on April 25, 2008, November 21, 2008, December 19, 2008 and December 22, 2008, we hereby inform our shareholders, the Brazilian Securities Commission (CVM) and the market that, as of the date hereof, pursuant to the Share Purchase Agreement entered into on April 25, 2008 (the "**Agreement**"), TMAR, through its indirect subsidiary Copart 1 Participações S.A. ("**Copart 1**"), acquired as of the date hereof, the shareholding control of Brasil Telecom Participações S.A. ("**BrT Part**") and Brasil Telecom S.A. ("**BrT**").

1 — THE ACQUISITION:

As a result of said acquisition, TMAR became the indirect holder, as of the date hereof, of 81,092,986 common shares issued by BrT Part, representing 61.2% of the voting capital stock of BrT Part, by means of the payment of an aggregate amount of R$5,371,098,527.04 (five billion, three hundred seventy-one million, ninety-eight thousand, five hundred twenty-seven reais and four centavos), which is equivalent to a price of R$77.04 (seventy-seven reais and four centavos) per common share of BrT Part.

The amount paid is equal to (i) the price agreed pursuant to the Agreement of R$5,863,495,791.40 (five billion, eight hundred sixty-three million, four hundred ninety-five thousand, seven hundred ninety-one reais and forty centavos); (ii) adjusted by the fluctuation in the average daily rate of the Interbank Certificate of Deposit (CDI); (iii) less Invitel S.A.'s net debt of R$998,053,465.69 (nine hundred ninety-eight million, fifty-three thousand, four hundred sixty-five reais and sixty-nine centavos); and (iv) further adjusted by deducting the dividends and/or interest on shareholders' equity declared between January 1, 2008 and the Closing Date.

II — MANDATORY TENDER OFFERS — ARTICLE 254-A

Pursuant to CVM Resolution 361/02, within 30 days from the date hereof, TMAR will file with the CVM, directly or through its subsidiary, the requests for Registration of a Public Offer for purchasing the Voting Shares held by the minority shareholders of BrT Part and BrT, in order to ensure a minimum price equivalent to 80% of the price paid for each control share, as prescribed by article 254-A of Law 6404/76 ("Mandatory Tender Offers"), reduced by the amount of any future dividends, interest on capital, or capital reduction that may be approved prior to the settlement of the Mandatory Tender Offer.

Mandatory Tender Offers must be previously registered with the CVM and disclosed through a tender notice with at least 30 days' prior notice.

III. CORPORATE RESTRUCTURING:

After the Mandatory Tender Offers have been concluded, we intend to conduct a corporate restructuring of the companies involved in the transaction (the "Corporate Restructuring"), under the terms and conditions

previously disclosed in the Material Event Notice dated April 25, 2008, for the purpose of simplifying our corporate structure, so that, after the Mandatory Tender Offers, the shareholders of BrT Part and BrT will receive shares of TMAR to replace the shares held by them, which we believe will significantly increase the liquidity of their shares on the Stock Exchanges, thereby benefiting the shareholders of the companies involved.

IV — SUPPLEMENTAL INFORMATION:

(i) The abovementioned transactions are subject to approval by, presentation to, or registration with certain regulatory agencies and will be submitted or communicated, as required, to the Brazilian National Telecommunications Agency (ANATEL); the Brazilian Securities Commission (CVM); the Economic Defense Council (CADE), the Brazilian Stock, São Paulo Stock Exchange (BOVESPA); the U.S. Securities and Exchange Commission and the New York Stock Exchange (NYSE).

(ii) Additionally, as previously disclosed in the Material Event Notice dated April 25, 2008: (a) TMAR intends to create one, or more than one, American Depositary Receipt ("ADR") program(s) for its shares, in order to make it possible for the current holders of ADRs of BrT and BrT Part to trade their ADRs on the NYSE; (b) TMAR intends to file for their listing on the NYSE; and (c) the Corporate Restructuring will be submitted to the analysis of certain creditors, despite not being contingent on their approval. The acquisition of BrT and its subsequent merger into TMAR's operations will give rise to a telecommunications company fully held by Brazilian shareholders which operates nationwide and has the managerial, operating and financial capacity to expand its operations in Brazil and abroad.

Rio de Janeiro, January 08, 2009

TELE NORTE CELULAR PARTICIPAÇÕES S.A.
TELEMAR NORTE LESTE S.A.
COARI PARTICIPAÇÕES S.A.
BRASIL TELECOM PARTICIPAÇÕES S.A.
BRASIL TELECOM S.A.
INVITEL S.A.
Alex Waldemar Zornig
Investor Relations Officer"

41. APPROVAL OF THE FINANCIAL STATEMENTS FOR COMPLETION

At a Board of Directors' Meeting held by the Company on February 10, 2009, approval was granted for completion of these financial statements, which cover the events that took place after the balance sheet date, and are approved for disclosure.

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(Convenience Translation into English from the Original Previously Issued in Portuguese)

Brasil Telecom Participações S.A.

Financial Statements for the Years Ended December 31, 2007 and 2006 and Independent Auditors' Report

Deloitte Touche Tohmatsu Auditores Independentes

(Convenience Translation into English from the Original Previously Issued in Portuguese)

INDEPENDENT AUDITORS' REPORT
To the Management and Shareholders of
Brasil Telecom Participações S.A.
Brasília - DF

1. We have audited the accompanying individual (Company) and consolidated balance sheets of Brasil Telecom Participações S.A. and subsidiaries as of December 31, 2007 and 2006, and the related statements of income, changes in shareholders' equity (Company), and changes in financial position for the years then ended, all expressed in Brazilian reais and prepared under the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.

2. Our audits were conducted in accordance with auditing standards in Brazil and comprised: (a) planning of the work, taking into consideration the significance of the balances, volume of transactions, and the accounting and internal control systems of the Company, (b) checking, on a test basis, the evidence and records that support the amounts and accounting information disclosed, and (c) evaluating the significant accounting practices and estimates adopted by Management, as well as the presentation of the financial statements taken as a whole.

3. In our opinion, the financial statements referred to in paragraph 1 present fairly, in all material respects, the individual and consolidated financial positions of Brasil Telecom Participações S.A. and subsidiaries as of December 31, 2007 and 2006, and the results of their operations, the changes in shareholders' equity (Company), and the changes in their financial positions for the years then ended in conformity with Brazilian accounting practices.

4. Our audits were conducted for the purpose of forming an opinion on the basic financial statements referred to in paragraph 1 taken as a whole. The accompanying individual and consolidated statements of cash flows and value added for the years ended December 31, 2007 and 2006 are presented for purposes of additional analysis and are not a required part of the basic financial statements in conformity with Brazilian accounting practices. Such information has been subjected to the auditing procedures described in paragraph 2 and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the years ended December 31, 2007 and 2006 taken as a whole. The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

Brasília, January 29, 2008

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

Marco Antonio Brandão Simurro
Engagement Partner



BRASIL TELECOM PARTICIPAÇÕES S.A.

BALANCE SHEETS
AS OF DECEMBER 31, 2007 AND 2006
(In thousands of Brazilian *reais* – R$)

	Notes	Company		Consolidated	
		12/31/2007	12/31/2006	12/31/2007	12/31/2006
ASSETS					
CURRENT ASSETS		**1,959,747**	**1,724,840**	**7,435,999**	**7,498,113**
Cash and banks	**17**	702	740	315,032	127,900
Temporary cash investments	**17**	986,812	1,431,604	3,049,514	3,846,052
Short term investments	**18**	475,389	—	475,389	89,424
Government securities	**19**	—	—	53,556	—
Trade accounts receivable	**20**	—	—	2,189,701	2,127,654
Inventories	**21**	—	—	32,711	64,164
Loans and financing	**22**	—	—	1,797	5,557
Deferred and recoverable taxes	**23**	13,683	42,915	804,500	944,115
Escrow deposits	**25**	40	—	329,396	119,058
Dividends/interest on capital receivable	**26**	474,247	241,145	—	—
Other Assets	**27**	8,874	8,436	184,403	174,189
NON-CURRENT ASSETS		**4,126,712**	**4,042,916**	**9,993,315**	**10,295,677**
LONG-TERM ASSETS		**346,806**	**285,534**	**2,967,086**	**2,128,357**
Loans and financing	**22**	—	—	6,176	2,852
Deferred and recoverable taxes	**23**	341,191	279,655	1,793,218	1,649,463
Fixed-income securities	**24**	—	—	3,709	3,280
Escrow deposits	**25**	5,615	5,284	1,069,127	429,925
Other Assets	**27**	—	595	94,856	42,837
PERMANENT ASSETS		**3,779,906**	**3,757,382**	**7,026,229**	**8,167,320**
Investments	**28**	3,779,118	3,756,338	201,510	330,074
Property, plant and equipment	**29**	778	1,004	5,664,196	6,535,347
Intangible assets	**30**	10	40	1,049,570	1,163,432
Deferred charges	**31**	—	—	110,953	138,467
TOTAL ASSETS		**6,086,459**	**5,767,756**	**17,429,314**	**17,793,790**



BRASIL TELECOM PARTICIPAÇÕES S.A.

BALANCE SHEETS — (Continued)
AS OF DECEMBER 31, 2007 AND 2006
(In thousands of Brazilian *reais* – R$)

	Notes	Company		Consolidated	
		12/31/2007	12/31/2006	12/31/2007	12/31/2006
LIABILITIES AND SHAREHOLDERS' EQUITY					
CURRENT LIABILITIES		**824,149**	**477,562**	**4,727,371**	**4,852,403**
Payroll and related accruals	**32**	21	19	90,392	78,580
Accounts payable and accrued expenses	**33**	22,786	34,398	1,637,188	1,613,090
Indirect taxes	**34**	18	165	746,234	851,399
Taxes on income	**35**	—	—	74,628	37,050
Dividends and employees' profit sharing	**36**	725,922	442,681	1,097,844	690,745
Loans and financing	**37**	—	—	496,775	1,109,564
Service exploitation licenses	**38**	—	—	78,844	135,848
Provisions for contingencies	**7**	15	13	197,472	175,603
Provisions for pension plans	**39**	—	—	101,467	43,238
Advances from customers	**40**	—	—	62,957	52,643
Other liabilities	**41**	75,387	286	143,570	64,643
NON-CURRENT LIABILITIES		**15,797**	**12,010**	**5,621,689**	**5,844,726**
LONG-TERM LIABILITIES		**15,797**	**12,010**	**5,621,689**	**5,844,726**
Accounts payable and accrued expenses	**33**	—	—	13,456	6,709
Indirect taxes	**34**	6,560	6,465	104,243	62,266
Taxes on income	**35**	4,226	1,298	66,860	51,484
Loans and financing	**37**	—	—	3,886,628	4,265,626
Service exploitation licenses	**38**	—	—	174,632	219,533
Provisions for contingencies	**7**	5,011	4,247	700,239	557,186
Provisions for pension plans	**39**	—	—	586,278	605,975
Advances from customers	**40**	—	—	72,133	70,665
Other liabilities	**41**	—	—	17,220	5,282
MINORITY INTEREST		**—**	**—**	**1,825,767**	**1,811,085**
SHAREHOLDERS' EQUITY AND CAPITALIZABLE FUNDS		**5,246,513**	**5,278,184**	**5,254,487**	**5,285,576**
SHAREHOLDERS' EQUITY	**8**	**5,246,513**	**5,278,184**	**5,246,513**	**5,277,602**
Capital		2,596,272	2,596,272	2,596,272	2,596,272
Capital reserves		309,178	309,178	309,178	309,178
Profit reserves		2,341,063	2,372,734	2,341,063	2,372,152
Legal reserve		265,964	232,169	265,964	232,169
Unrealized profit reserve		—	74,180	—	74,180
Retained earnings		2,095,945	2,087,231	2,095,945	2,086,649
Treasury Shares		(20,846)	(20,846)	(20,846)	(20,846)
CAPITALIZABLE FUNDS	**42**	**—**	**—**	**7,974**	**7,974**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**6,086,459**	**5,767,756**	**17,429,314**	**17,793,790**

The accompanying notes are an integral part of these financial statements.



BRASIL TELECOM PARTICIPAÇÕES S.A.

STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(In thousands of Brazilian *reais* — R$)

	Notes	Company		Consolidated	
		2007	2006	2007	2006
GROSS OPERATING REVENUE	**9**	—	—	**15,997,388**	**15,111,318**
Deductions from gross revenue	**9**	—	—	**(4,938,842)**	**(4,814,659)**
NET OPERATING REVENUE	**9**	—	—	**11,058,546**	**10,296,659**
Cost of services and sales	**10**	—	—	**(6,382,201)**	**(6,459,929)**
GROSS PROFIT		**—**	**—**	**4,676,345**	**3,836,730**
OPERATING INCOME (EXPENSES)		**(17,483)**	**(11,509)**	**(3,350,155)**	**(3,066,214)**
Sales of services	**11**	—	—	(1,485,352)	(1,470,632)
General and administrative expenses	**12**	(16,957)	(15,210)	(1,348,878)	(1,322,264)
Management compensation		(1,448)	(1,408)	(10,546)	(9,388)
Other operating income (expenses)	**13**	922	5,109	(505,379)	(263,930)
INCOME (LOSS) FROM OPERATIONS BEFORE FINANCIAL EXPENSES AND EQUITY IN SUBSIDIARIES		**(17,483)**	**(11,509)**	**1,326,190**	**770,516**
Financial expenses, net	**14**	(109,602)	(204,790)	(489,321)	(609,992)
Equity in subsidiaries	**28**	531,519	287,245	—	—
INCOME FROM OPERATIONS		**404,434**	**70,946**	**836,869**	**160,524**
Nonoperating income (expenses)	**15**	**(516)**	**554**	**(2,974)**	**31,419**
INCOME BEFORE TAXES AND PROFIT SHARING		**403,918**	**71,500**	**833,895**	**191,943**
Income and social contribution taxes	**16**	(64,312)	(11,246)	(352,903)	(108,081)
INCOME AFTER TAXES AND BEFORE MINORITY INTEREST		**339,606**	**60,254**	**480,992**	**83,862**
MINORITY INTEREST		—	—	(260,656)	(141,065)
INCOME BEFORE REVERSAL OF INTEREST ON CAPITAL		**339,606**	**60,254**	**220,336**	**(57,203)**
Reversal of Interest on Shareholders' Equity	**8**	336,300	413,400	450,954	527,571
NET INCOME		**675,906**	**473,654**	**671,290**	**470,368**
Outstanding shares at balance sheet date(1)		**362,488,413**	**362,488,414**		
Earnings per share (R$)(1)		**1.86**	**1.31**		

(1) In 2006, data is presented per thousand shares.

The accompanying notes are an integral part of these financial statements.



BRASIL TELECOM PARTICIPAÇÕES S.A.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(COMPANY)
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(In thousands of Brazilian *reais* – R$)

	Capital reserves			Profit reserves				
	Capital	Share subscription premium	Other	Legal reserve	Unrealized profit reserve	Retained earnings	Treasury Shares	Total
Balances as of December 31, 2005	**2,596,272**	**306,961**	**2,217**	**208,487**	**74,180**	**2,082,824**	**(20,846)**	**5,250,095**
Changes in retained earnings								
Net income						473,654		**473,654**
Prescribed dividends						4,407		**4,407**
Allocation proposed to the Shareholders' Meeting								
Recognition of legal reserve				23,682		(23,682)		
Proposed dividends/ interest on capital						(449,972)		**(449,972)**
Balances as of December 31, 2006	**2,596,272**	**306,961**	**2,217**	**232,169**	**74,180**	**2,087,231**	**(20,846)**	**5,278,184**
Changes in retained earnings								
Reversal of reserves					(74,180)	74,180		
Net income						675,906		**675,906**
Prescribed dividends						8,714		**8,714**
Allocation proposed to the Shareholders' Meeting								
Recognition of legal reserve				33,795		(33,795)		
Proposed dividends/ interest on capital						(716,291)		**(716,291)**
Balances as of December 31, 2007	**2,596,272**	**306,961**	**2,217**	**265,964**	**—**	**2,095,945**	**(20,846)**	**5,246,513**

The accompanying notes are an integral part of these financial statements.



BRASIL TELECOM PARTICIPAÇÕES S.A.

STATEMENTS OF CHANGES IN FINANCIAL POSITION
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(In thousands of Brazilian *reais* – R$)

	Company		Consolidated	
	2007	2006	2007	2006
STATEMENT OF FUNDS PROVIDED BY OPERATIONS				
Net income	**675,906**	**473,654**	**671,290**	**470,368**
Minority interest	**—**	**—**	**260,656**	**141,065**
Items not affecting working capital	**(620,050)**	**(316,020)**	**2,478,995**	**2,786,782**
Depreciation and amortization	256	312	2,470,957	2,731,232
Deferred taxes	(1,660)	(28,822)	(142,804)	(147,856)
Taxes recovered	(69,758)	—	(69,758)	—
Equity in subsidiaries	(531,519)	(287,245)	—	—
Provision for Contingencies	1,214	919	462,927	378,178
Provision for pension plans	—	—	32,954	20,014
Recovery of expenses on pension plans — surplus	—	—	(55,733)	—
Monetary variation and interest on long-term items	(19,099)	(630)	(238,775)	(171,632)
Loss (gain) on disposal of permanent assets	(454)	(494)	18,253	(37,528)
Losses (gains) on investments	970	(60)	974	(99)
Write-off of tax incentives	—	—	—	14,473
Total funds provided by operations	**55,856**	**157,634**	**3,410,941**	**3,398,215**
THIRD PARTIES				
Loans and financing	—	—	601,028	1,915,937
Transfer from long-term to current assets	49,490	748,264	258,202	268,234
Transfer from permanent to current assets	—	110	2,992	1,320
Declared dividends and interest on capital receivable	474,246	241,145	—	—
Sale of Goods of permanent assets	—	15	47,708	15,272
Dividends lapsed	8,714	4,407	16,440	14,475
Other sources	35,362	35,209	—	—
Total from third parties	**567,812**	**1,029,150**	**926,370**	**2,215,238**
TOTAL SOURCES	**623,668**	**1,186,784**	**4,337,311**	**5,613,453**
USES OF FUNDS				
Increase in long-term assets	**17,592**	**595**	**699,220**	**285,928**
Escrow deposits	331	—	564,399	165,572
Taxes available for offset	17,261	—	124,184	113,237
Prepaid expenses	—	595	10,543	6,722
Cash investments — fixed-income securities	—	—	94	397
Increase in permanent assets	**1,385**	**68**	**1,399,795**	**1,452,091**
Investments	1,385	—	1,004	1,003
Property, plant and equipment	—	68	1,098,138	1,149,736
Intangible assets	—	—	274,616	300,117
Deferred charges	—	—	26,037	1,235
Dividends/Interest on Shareholders' Equity	**716,291**	**449,972**	**964,106**	**584,390**
Transfer from long-term to current liabilities	**80**	**14,283**	**1,211,272**	**1,646,910**
TOTAL USES	**735,348**	**464,918**	**4,274,393**	**3,969,319**
Increase (decrease) in working capital	**(111,680)**	**721,866**	**62,918**	**1,644,134**
REPRESENTED BY:				
Working capital at end of year				
Current assets	1,959,747	1,724,840	7,435,999	7,498,113
Current liabilities	824,149	477,562	4,727,371	4,852,403
	1,135,598	**1,247,278**	**2,708,628**	**2,645,710**
Less working capital at beginning of year	**1,247,278**	**525,412**	**2,645,710**	**1,001,576**
INCREASE (DECREASE) IN WORKING CAPITAL	**(111,680)**	**721,866**	**62,918**	**1,644,134**

The accompanying notes are an integral part of these financial statements.



BRASIL TELECOM PARTICIPAÇÕES S.A.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(In thousands of Brazilian *reais* – R$)

	Company		Consolidated	
	2007	2006	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES				
Net income	**675,906**	**473,654**	**671,290**	**470,368**
Minority interest	**—**	**—**	**260,656**	**141,065**
Items not affecting cash	**(600,950)**	**(315,662)**	**3,221,448**	**3,474,604**
Depreciation and amortization	256	312	2,470,957	2,731,232
Losses on accounts receivables	—	—	348,001	384,320
Provision for contingencies	1,215	921	650,898	488,078
Provision for pension plans	—	—	89,675	28,709
Recovery of expenses on pension plans — surplus	—	—	(81,209)	—
Deferred taxes	(1,660)	(29,096)	(206,343)	(120,108)
Taxes recovered	(69,758)	—	(69,758)	—
Loss (gain) on disposal of permanent assets	(454)	(494)	18,253	(37,528)
Equity in subsidiaries	(531,519)	(287,245)	—	—
Gains on investments	970	(60)	974	(99)
Changes in shareholders' equity	**98,521**	**60,553**	**(872,216)**	**(1,424,123)**
Trade accounts receivable	—	—	(410,050)	(359,161)
Inventories	—	—	31,453	18,871
Personnel, payroll charges and benefits	2	(53)	11,812	292
Accounts payable and accrued expenses	(11,612)	(19,892)	(44,807)	(344,216)
Taxes	41,993	55,008	261,502	(71,447)
Financial charges	—	45,936	(175,998)	(47,449)
Service exploitation licenses	—	—	(101,905)	47,591
Reserves for contingencies	(450)	(1,116)	(469,624)	(483,379)
Provisions for pension funds	—	—	(51,143)	(107,585)
Other assets and liabilities accounts	68,588	(19,330)	76,544	(77,640)
CASH FLOWS FROM OPERATING ACTIVITIES	**173,477**	**218,545**	**3,281,178**	**2,661,914**
CASH FLOWS FROM INVESTING ACTIVITIES				
Temporary investments	(475,389)	666,495	(439,615)	11,883
Funds obtained in the sale of permanent assets	—	15	47,708	15,272
Escrow deposits	(372)	11,246	(871,807)	(277,552)
Investments in permanent assets	(1,385)	(68)	(1,317,712)	(1,504,903)
Dividends/interest on capital received from subsidiaries	241,145	220,708	—	—
CASH FLOWS FROM INVESTING ACTIVITIES	**(236,001)**	**898,396**	**(2,581,426)**	**(1,755,300)**
CASH FLOWS FROM FINANCING ACTIVITIES				
Dividends/interest on capital paid in the year	(382,306)	(296,098)	(493,180)	(399,872)
Loans and financing	—	(272,189)	(815,978)	853,437
Obtained Loans	—	—	601,028	1,915,937
Repayment loans	—	(272,189)	(1,417,006)	(1,062,500)
CASH FLOWS FROM FINANCING ACTIVITIES	**(382,306)**	**(568,287)**	**(1,309,158)**	**453,565**
CASH FLOW FOR THE PERIOD	**(444,830)**	**548,654**	**(609,406)**	**1,360,179**
CASH, BANKS AND TEMPORARY CASH INVESTMENTS				
Ending balance	987,514	1,432,344	3,364,546	3,973,952
Beginning balance	1,432,344	883,690	3,973,952	2,613,773
CHANGES IN THE YEAR	**(444,830)**	**548,654**	**(609,406)**	**1,360,179**



BRASIL TELECOM PARTICIPAÇÕES S.A.

STATEMENTS OF VALUE ADDED
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(In thousands of Brazilian *reais* — R$)

	Company				Consolidated			
	2007		2006		2007		2006	
REVENUE	**1,900**	**0.2%**	**4,826**	**0.8%**	**15,432,778**	**199.9%**	**14,528,845**	**207.5%**
Sale of goods and services	—	—	—	—	15,997,388	207.2%	15,111,318	215.9%
Voluntary discounts and cancelations	—	—	—	—	(585,034)	(7.6)%	(528,706)	(7.6)%
Losses on receivables	—	—	—	—	(348,001)	(4.5)%	(384,320)	(5.5)%
Other nonoperating income	1,900	0.2%	4,826	0.8%	368,425	4.8%	330,553	4.7%
INPUTS ACQUIRED FROM THIRD PARTIES	**(6,426)**	**(0.7)%**	**(7,221)**	**(1.2)%**	**(5,452,871)**	**(70.6)%**	**(5,193,179)**	**(74.1)%**
Materials	—	—	—	—	(380,219)	(4.9)%	(412,016)	(5.9)%
Third Parties Services	(6,208)	(0.7)%	(7,030)	(1.2)%	(4,951,888)	(64.1)%	(4,681,795)	(66.8)%
Other Third Parties Designations	(218)	—	(191)	—	(120,764)	(1.6)%	(99,368)	(1.4)%
WITHHOLDINGS	**(1,471)**	**(0.1)%**	**(1,233)**	**(0.3)%**	**(3,121,855)**	**(40.4)%**	**(3,219,310)**	**(46.0)%**
Depreciation and amortization	(256)	—	(312)	(0.1)%	(2,470,957)	(32.0)%	(2,731,232)	(39.0)%
Provisions for contingencies	(1,215)	(0.1)%	(921)	(0.2)%	(650,898)	8.4%	(488,078)	(7.0)%
NET VALUE ADDED GENERATED	**(5,997)**	**(0.6)%**	**(3,628)**	**(0.7)%**	**6,858,052**	**88.9%**	**6,116,356**	**87.4%**
VALUE ADDED RECEIVED IN TRANSFER	**873,214**	**100.6%**	**573,917**	**100.7%**	**861,947**	**11.1%**	**882,448**	**12.6%**
Equity in subsidiaries	531,519	61.2%	287,245	50.4%	—	—	—	—
Dividends (investments stated at acquisition cost)	329	—	3	—	712	—	265	—
Financial income	341,366	39.4%	286,669	50.3%	773,796	10%	803,387	11.5%
Rental income	—	—	—	—	87,439	1.1%	78,796	1.1%
TOTAL VALUE ADDED FOR DISTRIBUTION	**867,217**	**100.0%**	**570,289**	**100.0%**	**7,719,999**	**100.0%**	**6,998,804**	**100.0%**
DISTRIBUTION OF VALUE ADDED								
Work compensation	**4,422**	**0.5%**	**4,288**	**0.8%**	**657,456**	**8.5%**	**614,105**	**8.7%**
Payroll charges, benefits and profit sharing	4,422	0.5%	4,286	0.8%	310,404	4.0%	311,232	4.4%
Charges, Social Benefits and Interests	—	—	2	—	257,377	3.3%	274,164	3.9%
Provision for pension plans	—	—	—	—	89,675	1.2%	28,709	0.4%
Government — taxes	**90,350**	**10.4%**	**35,421**	**6.2%**	**5,049,506**	**65.5%**	**4,651,701**	**66.6%**
Donations and sponsoring	**—**	**—**	**10**	**—**	**11,499**	**0.1%**	**9,902**	**0.1%**
Renters	**96,539**	**11.1%**	**56,916**	**9.9%**	**1,069,595**	**13.9%**	**1,111,663**	**15.9%**
Rents, leases and insurance	7,273	0.8%	4,745	0.8%	354,281	4.6%	321,733	4.6%
Financial expenses	89,266	10.3%	52,171	9.1%	715,314	9.3%	789,930	11.3%
Shareholders	**675,906**	**78.0%**	**473,654**	**83.1%**	**790,560**	**10.2%**	**587,825**	**8.3%**
Interest on Shareholder's Equity	336,300	38.8%	413,400	72.5%	450,954	5.8%	527,571	7.5%
Dividends	305,811	35.3%	36,572	6.4%	305,811	4.0%	36,572	0.5%
Allocation to legal reserve	33,795	3.9%	23,682	4.2%	33,795	0.4%	23,682	0.3%
Minority interest	**—**	**—**	**—**	**—**	**145,999**	**1.9%**	**26,894**	**0.4%**
Insufficient amount withheld	**—**	**—**	**—**	**—**	**(4,616)**	**(0.1)%**	**(3,286)**	**—**
VALUE ADDED DISTRIBUTED	**867,217**	**100.0%**	**570,289**	**100.0%**	**7,719,999**	**100.0%**	**6,998,804**	**100.0%**
Supplemental information:								
Dividends paid with prior years' value added	74,180		—		74,180		—	

The accompanying notes are an integral part of these financial statements.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(In thousands of Brazilian *reais* — R$)

1. OPERATIONS

Brasil Telecom Participações S.A. ("the Company") is a publicly-held company, incorporated according to article 189 of Law 9472/97 — General Telecommunications Law, as part of TELEBRÁS' spin-off process, whose protocol and justification was approved on May 22, 1998.

The Company is engaged in controlling companies that exploit fixed telephony public services in Region II of the PGO (General Concession Plan), approved by Decree 2.534 of April 2, 1998. Such control is exercised through Brasil Telecom S.A., which is a concessionaire responsible for the Switched Fixed Telephone Service ("STFC") in Region II of PGO. In addition, the Company may also hold equity interests in other companies.

The Company is registered at the Brazilian Securities Commission (CVM) and at the U.S. Securities and Exchange Commission (SEC). Its shares are traded on the São Paulo Stock Exchange (BOVESPA), where it also integrates Level 1 of Corporate Governance, and trades its American Depositary Receipts (ADRs) on the New York Stock Exchange (NYSE).

The Company is controlled by SOLPART Participações S.A. ("SOLPART"), which holds, at the balance sheet date, 51.00% of its voting capital and 18.78% of its total capital.

Direct subsidiaries

a. Brasil Telecom S.A.

BRASIL TELECOM S.A. is a concessionaire of the STFC (Switched Fixed Telephone Service) in Region II of the PGO, covering the Brazilian states of Acre, Rondônia, Mato Grosso, Mato Grosso do Sul, Tocantins, Goiás, Paraná, Santa Catarina and Rio Grande do Sul, in addition to Federal District. In this area, Brasil Telecom S.A. renders, since July 1998, the STFC in the modalities of local and intraregional long distance.

Because of the early compliance of the universal service obligations set forth by the General Universal Service Goals Plan ("PGMU"), required for December 31, 2003, Brasil Telecom S.A. obtained from the ANATEL (National Telecommunications Agency), on January 19, 2004, licenses to exploit STFC services in the following service modalities: (i) Local and Domestic Long Distance calls in Regions I and III, and Sectors 20, 22 and 25 of Region II of the PGO (General Concession Plan); and (ii) International Long Distance calls in Regions I, II and III of PGO. As a result of these authorizations, this subsidiary began to exploit the Domestic and International Long Distance services in all Regions starting January 22, 2004. For Local Service in the new regions and PGO sectors, the service offering started on January 19, 2005.

The concession agreements in effect under the local and long distance services modalities, came into effect on January 1, 2006 and are effective until December 31, 2025. Additional information about these agreements is mentioned in note 5.i.

Information related to the quality and universal service goals of the Switched Fixed Telephone Service are available to interested parties on ANATEL's homepage, on the web*site* www. anatel.gov. br.

b. Nova Tarrafa Participações Ltda. and Nova Tarrafa Inc.

The Company also holds the control of Nova Tarrafa Participações Ltda. ("NTP") and Nova Tarrafa Inc. ("NTI"). These subsidiaries are engaged in holding interest in Internet Group (Cayman) Limited ("iG Cayman"), which is engaged in providing Internet access. iG Cayman is subsidiary of Brasil Telecom Serviços de Internet S.A, a company that is also an indirect subsidiary and operates in the internet segment.

NTP's and NTI's interest in iG Cayman at the balance sheet date represented 9.25% and 0.16%, respectively, and together with Brasil Telecom Serviços de Internet S.A. total interest was 98.2%.

Indirect subsidiaries

On August 1, 2006, Board of Directors of Brasil Telecom S.A. approved the corporate restructuring of its subsidiaries. This restructuring, whose purpose is to optimize the controlling structure through company downsizing, concentration of similar activities, simplification of intercompany shareholdings, started in the second half of 2006. The changes made in 2007 are mentioned in the comments on the companies' below, when applicable. The corporate changes made in 2006 and 2007, carried out at book value, did not have material impacts on the costs structure.

Brasil Telecom S.A. has the following subsidiaries:

a. 14 Brasil Telecom Celular S.A.

14 Brasil Telecom Celular S.A. ("BrT Celular") is a wholly-owned subsidiary which is operating since the fourth quarter of 2004 to provide Personal Mobile Services (SMP), with authorization to serve Region II of the PGO.

b. BrT Serviços de Internet S.A.

BrT Serviços de Internet S.A. ("BrTI") is a wholly-owned subsidiary whose main product is providing broadband internet services. It also provides a series of value-added services both residential and corporate customers, including wireless internet access.

In turn, BrTI holds the control of the following companies:

(i) iBest companies

iBest concentrates its operations in providing dialup Internet access, selling advertising space in its portal and value-added services, and one of its main services is its internet connection accelerator. iBest activities are fully represented by Freelance S.A., established in Brazil. It also includes iBest Holding Corporation, established in the Cayman Islands, which has no operations and holds no investments in other companies.

(ii) iG companies

iG operates as an internet service provider of both dialup and broadband access. It also provides value-added services focused on the residential and corporate markets. In addition, iG also sells advertising space in its portal.

BrTI's control over the iG Companies is attributed to its 88.81% share in the capital stock of Internet Group (Cayman) Limited ("iG Cayman"), established in the Cayman Islands.

iG Cayman is a *holding* company which, in its turn, holds the control of Internet Group do Brasil Ltda. ("iG Brasil") and Central de Serviços Internet Ltda. ("CSI"), both established in Brazil.

Agência O Jornal da Internet Ltda. ("Jornal Internet")

BrTI holds 30 percent interest in the capital stock of Jornal Internet, which is engaged in the on-line sale of goods and services, issue of daily newspapers or magazines, and gathering, generating and disclosing news on selected events. Seventy percent of the capital stock of Jornal Internet is held by Caio Túlio Vieira Costa, executive vice president of the Company's subsidiaries related to internet businesses.

c. Brasil Telecom Cabos Submarinos Ltda.

Brasil Telecom Cabos Submarinos Ltda. ("BrT CS") was a subsidiary of BrTI up to January 2, 2007. On this date BrTI reduced the portion of its capital held by Brasil Telecom S.A., using the investment held in BrT CS, in the amount of R$132,678 to settle part of de reduction. Thus, Brasil Telecom S.A. is now the parent of BrT CS, holding practically all of the latter's capital. BrTI still holds a share of the capital of BrT CS, corresponding to an interest lower than 0.01%.

BrT CS and its subsidiaries operate through a system of submarine optic fiber cables, with connection points in the United States, Bermuda, Venezuela and Brazil, allowing data traffic through integrated service packages, offered to local and international corporate clients.

BrT CS holds 100% of the capital of Brasil Telecom Subsea Cable Systems (Bermuda) Ltd. ("BrT SCS Bermuda"), which, in turn holds the total shares of Brasil Telecom of America Inc. ("BrT of America") and Brasil Telecom de Venezuela, S.A. ("BrT Venezuela").

d. BrT Comunicação Multimídia Ltda.

Brasil Telecom S.A. held 100% of MTH Ventures do Brasil Ltda. ("MTH"), a holding company that controlled the capital of Brasil Telecom Comunicação Multimídia Ltda, and Brasil Telecom S.A. and BrTI holding the remaining ownership interest. The Extraordinary General Meeting held on this date decided for the merger of MTH into Brasil Telecom S.A.

Currently Brasil Telecom S.A. holds 89.8% of BrT Multimídia's capital, and the remaining 10.2% capital is held by BrTI.

BrT Multimídia is a service provider of a private telecommunications network through local optical fiber digital networks in São Paulo, Rio de Janeiro and Belo Horizonte, and a long distance network connecting these major metropolitan business centers. It operates nationwide through commercial agreements with other telecommunication companies to offer services to other regions in Brazil. It also has web solution centers in São Paulo, Brasília, Curitiba, Porto Alegre, Rio de Janeiro e Fortaleza, which offer co-location and hosting, and other value added services.

e. Vant Telecomunicações S.A. ("VANT")

Company whose total capital stock is practically held by Brasil Telecom S.A. BrTI holds only one share in VANT's capital, representing less than 0.01% interest.

VANT is engaged in rendering multimedia communication services, acquisition and onerous assignment of capabilities and other means, operating in the main Brazilian state capitals.

f. Brasil Telecom Call Center S.A. ("BrT Call Center")

Previously named Santa Bárbara dos Pinhais S.A, BrT Call Center, changed together with the of its corporate name, as decided in the shareholders' meeting held on August 21, 2007, its corporate purpose to be engaged in providing call center services to third parties, including customer service, outbound and inbound telemarketing, training, support, consulting services and related activities, etc. Its operations started in November 2007 with rendering call center services to Brasil Telecom S.A. and its subsidiaries that demand this type of service. Previously, the call center services were outsourced.

Change in the Management

During the third quarter of 2005, there were changes in the management of the Company and Brasil Telecom S.A. The process for replacing the former management, related to the former manager Opportunity, was litigious, as disclosed in various material events issued by the Companies during 2005 and several lawsuits still in progress, filed by the former manager, aiming at retaking the Companies' management.

Agreements of April 28, 2005 under the Previous Management

On April 28, 2005, still under previous management, Brasil Telecom Participações S.A. and Brasil Telecom S.A. entered into various agreements involving the Opportunity Group and Telecom Italia ("April 28 Agreements").

Among such agreements, Brasil Telecom S.A. and its subsidiary 14 Brasil Telecom Celular S.A. entered into with TIM International N.V. ("TIMI") and TIM Brasil Serviços e Participações S.A. ("TIMB") an agreement named "Merger Agreement" and a "Protocol" related thereto.

As disclosed in material events issued, the merger was forbidden by injunctions issued by the Brazilian and U.S. courts. It was also the subject-matter of a discussion under arbitration involving the controlling shareholders.

The current management of Brasil Telecom Participações S.A. and of the Company understood that the Merger Agreement, the related Protocol, and other April 28 agreements, which included the withdrawal and termination of lawsuits involving the Companies, were entered into with conflict of interests, breaching the Law and the Bylaws of the Companies, and also, are contrary to shareholders' agreements and do not have the required corporate approvals. In addition, the current management deemed that such agreements were contrary to the best interests of the Companies, especially regarding their mobile telephony business.

As regards the "Merger Agreement" above, the subsidiary Brasil Telecom S.A. and BrT Celular started on March 15, 2006 an arbitration proceeding against TIMI and TIMB to annul it. The Company released a material event on this matter on March 16, 2006.

TIMI and TIMB sent to Brasil Telecom S.A. and BrT Celular a letter dated May 2, 2006, unilaterally terminating said "Merger Agreement", setting a reserve for the alleged right to indemnity for damage, which was being discussed in said arbitration proceeding. According to analyses of the Company's legal advisors, the risk of losses referring to the supposed right to indemnification has been considered remote and its amount were not possible to be measured. Also in May 2006, TIMI filed with ANATEL and CADE, petitions requesting to file the operation related to the Merger Agreement due to lack of grounds.

On July 18, 2007, Brasil Telecom Participações S.A. and Brasil Telecom S.A., jointly with 14 Brasil Telecom Celular S.A., Zain Participações S.A., Invitel S.A., Solpart Participações S.A. ("Solpart"), Techold Participações S.A. ("Techold"), Caixa de Previdência dos Funcionários do Banco do Brasil — Previ ("Previ"), Petros — Fundação Petrobras de Seguridade Social, Fundação dos Economiários Federais — Funcef, Investidores Institucionais Fundo de Investimento em Ações, Fundação 14 de Previdência Privada, Fundação Vale do Rio Doce de Seguridade Social — Valia, Citigroup Venture Capital International Brazil, L.P., Citigroup Venture Capital International Brazil, Ltd., International Equity Investments Inc., Citibank, N.A., Priv Fundo de Investimento em Ações, Tele Fundo de Investimento em Ações, Angra Partners Consultoria Empresarial e Participações Ltda., on the one hand, and Telecom Italia S.p.A., Brasilco S.R.L., Credit Suisse Securities (Europe) Limited, TIMB and TIMI (Telecom Itália Companies), on the other hand, signed a Mutual Release Agreement, by means of which the signatory parties undertake, provided that they are granted prior authorization of the proper corporate bodies and upon the effective acquisition by Previ, Petros and Funcef, or by Techold, as the case may be, of the entire shareholding represented by shares issued by Solpart held by Brasilco ("Brasilco Shares") to waive pleadings and dismiss ongoing disputes at the Judiciary Branch and at international Arbitration Courts, involving the Companies and its shareholders, direct or indirect, on the one hand, and Telecom Italia Companies, on the other hand.

The Mutual Release Agreement terminates, among others, the potential demands involving the Companies and their subsidiaries and the companies, and the Telecom Italia Group companies, including the termination of arbitrations mentioned in the Note issued by the Companies on March 16, 2006.

The actual acquisition of Brasilco Shares, which under regulations in effect is subject to approval of the ANATEL (National Telecommunications Agency) and other conditions, would permit to terminate the existing administrative proceedings regarding the overlapping of telephony licenses (STFC, SMP, LDN and LDI) among Brasil Telecom Group companies and Telecom Italia Group companies and, thus, permanently removing the possibility of material adverse impact on the businesses and interests of the Brasil Telecom Group companies.

The National Telecommunications Agency — ANATEL granted its prior consent, through Act 68899, of December 3, 2007, published on December 5, 2007, to the acquisition, by Techold, of the entire ownership interest held by Brasilco S.r.l. ("Brasilco") in the capital of Solpart ("Brasilco Shares"). Therefore, the last condition precedent set forth in the *Share Purchase Agreement* and *Letter Agreement* entered into on July 18, 2007 was fulfilled and the transaction was completed.

On December 5, 2007, Brasilco transferred Brasilco Shares to Techold through annotation and signature of the Solpart Share Transfer Book and the related Registered Shares Registry Book, after the payment by Techold of the total amount of US$515 million provided for by the Share Purchase Agreement and Letter Agreement. Due to such transfer, Techold has become the holder of approximately 99.98% of the voting and total capital of Solpart.

With the effective transfer of Brasilco Shares to Techold, the *Mutual Release Agreement* entered into on July 18 became effective, terminating definitely the litigation among the signatory parties thereto, including the

Companies, Brasilco, Telecom Italia S.p.A., and their subsidiaries and the other parties mentioned at the Material Event published on July 18, 2007.

2. PRESENTATION OF FINANCIAL STATEMENTS

Preparation Criteria

The financial statements have been prepared in accordance with Brazilian accounting practices as set forth by Corporate Law, Brazilian Securities Commission (CVM) standards, and the standards applicable to telephony service concessionaires.

As the Company is a SEC registrant, it is subject to SEC's standards and it must prepare financial statements and other information using criteria that comply with this agency's requirements. To comply with these requirements and aiming at meeting the market's information requirements', the Company adopts as a principle the disclosure of information in both markets in their respective languages.

The notes to the financial statements are presented in thousands of reais, unless otherwise indicated. According to each situation, they present information related to the Company and the consolidated statements, identified as "COMPANY" and "CONSOLIDATED", respectively. When the information is common to both situations, it is indentified as "COMPANY AND CONSOLIDATED".

The amounts of escrow deposits tied to the Accrued liabilities for contingencies are presented as a deduction from the recognized liabilities.

Accounting estimates were based on objective and subjective factors and Management's judgment for determining the adequate amount to be recorded in the financial statements. Significant items subject to these estimates and assumptions are the net book value of property, plant and equipment, the allowance for doubtful accounts, inventories, deferred income and social contribution taxes, the reserve for contingencies, measurement of financial instruments, and assets and liabilities related to benefits to employees. Actual results could differ from those estimates. The Company's management reviews these estimates at least quarterly.

Consolidated financial statements

The consolidation was prepared in accordance with CVM Instruction No. 247/96 and includes the companies listed in note 1.

Some of the main consolidation procedures are:

- Elimination of intercompany balances and revenue and expenses.
- Elimination of intercompany investment account balances and related shareholdings, reserves and retained earnings; and.
- Segregation of the portions of shareholders' equity and income belonging to minority shareholders, indicated in specific items.

The reconciliation of the net income and the shareholders' equity belonging to the Company and Consolidated is as follows:

	NET INCOME		SHAREHOLDERS' EQUITY	
	2007	2006	2007	2006
COMPANY	**675,906**	**473,654**	**5,246,513**	**5,278,184**
Recordings in the subsidiary's Shareholders' Equity				
Prescribed dividends	(5,198)	(6,778)	—	—
Capitalized interest in the subsidiary	582	3,492	—	(582)
CONSOLIDATED	**671,290**	**470,368**	**5,246,513**	**5,277,602**

Supplemental information

The Company also submits the following statements as supplemental information:

Statements of Cash Flows

These statements have been prepared in accordance with the Accounting Standard and Procedure 20 (NPC 20) issued by the Brazilian Institute of Independent Auditors (IBRACON). For a better presentation and maintenance of comparability with FY 2007, reclassifications regarding FY 2006 have been made, basically related to escrow deposits, which started to be presented under investment activities. In order to form such balances, the escrow deposits tied to contingencies were reclassified — note 7, indirect taxes — note 34 and accounts payable and accrued expenses.

Statements of Value Added

Prepared in prepared in accordance with the Brazilian Accounting Standard 3.7 (NBC T 3.7), approved by Federal Accounting Council Resolution No. 1010/05.

Segment Reporting

The Company is presenting, as supplement to note 43, the report by business segment. A segment is an identifiable component of a company, engaged in providing services (business segment) or supplying products and providing services which are subject to different risks and consideration.

3. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

The criteria mentioned below refer to significant accounting practices adopted by the Company and its subsidiaries that are reflected in the consolidated financial statements.

a. ***Cash, banks and temporary cash investments:*** Cash investments are temporary high-liquidity investments, with immediate maturity. They are stated at cost, plus income earned through the balance sheet date and do not exceed their fair value. Shares in fixed-income investment funds are stated at cost plus income earned through the balance sheet date.

b. ***Trade accounts receivable:*** Receivables from users of telecommunications services are recorded at the amount of the tariff or service on the date the service is provided. Accounts receivable from services include credits for services rendered and not billed until the balance sheet date. Receivables resulting from sales of cell phones and accessories are recorded at the amount of sales made when the goods are delivered and accepted by customers. The criterion adopted for recognizing the allowance for doubtful accounts takes into account the calculation of the actual percentage of losses incurred on each maturity of receivables. Future losses on the current receivables balance are estimated based on these loss percentages, which include accounts falling due and also the portion of unbilled services, thus forming the amount that could become a future loss, which is recognized as an allowance.

c. ***Material inventories:*** Stated at the average acquisition cost, which does not exceed replacement cost. Inventories are segregated into plant expansion and plant maintenance, and inventories of goods for resale, consisting mainly of cell phones, accessories and electronic cards. The plant expansion inventories are classified into property, plant and equipment (construction in progress), and maintenance inventories are classified into current and long-term assets, in accordance with the period in which they will be used, and the resale inventories are classified into current assets. Obsolete inventories are recorded as provisions for losses. As regards cell phones and accessories, the subsidiary BrT Celular records adjustments, in those cases where purchases were made at higher prices, conforming them to their realization value.

d. ***Investments:*** Investments in subsidiaries are accounted for under the equity method. Goodwill is calculated based on based on estimated future results and its amortization is based on the expected realization amount and period, not exceeding ten years. Other investments are stated at acquisition cost, less a provision for losses, when applicable. Investments resulting from income tax incentives are recognized on the date of investment, and result in shares of companies with tax incentives or investment funds. During the period between the investment date and receiving of shares or fund shares, they are recognized in long-term assets. These investments are periodically measured and the result of the comparison between their original and market costs, when lower, is recognized in provisions for probable losses.

e. ***Property, plant and equipment:*** Stated at acquisition and/or construction cost, less accumulated depreciation. Financial charges related to obligations from assets and construction in progress financing are capitalized.

Expenses incurred are capitalized when they represent improvements (increase in installed capacity or useful life). Maintenance and repair expenses are recorded in the statement of income, on the accrual basis.

Depreciation is calculated under the straight-line method. Depreciation rates used are based on expected useful lives of the assets and in accordance with the standards of the Public Telecommunications Service. The main rates used are stated in note 29.

f. Intangible assets: Refer mainly to licenses and software and regulatory licenses. The amortization of software licenses is calculated under the straight-line method over a five-year period, while regulatory licenses are amortized according to the terms determined by the regulatory agency. When benefits are not expected from a license or right related such asset, the asset is written off against the nonoperating income.

g. Deferred charges: Refer mainly to implementation and reorganization expenses. Amortization is calculated under the straight-line method over a period of 5 years. When benefits are not expected from such asset, the asset is written off against the nonoperating income.

h. ***Income and social contribution taxes:*** Income and social contribution taxes are accounted for on an accrual basis. These taxes levied on temporary differences and tax loss carryforwards are recorded under assets or liabilities, as applicable, according to the assumption of future realization or payment, within the criteria set forth by CVM Instruction No. 371/02.

i. ***Loans and financing:*** Restated based on monetary and exchange variations, plus interest incurred through the balance sheet dates. The same adjustment is applied to the guarantee contracts to hedge the debt.

j. ***Reserve for contingencies:*** The reserve for contingency are recognized based on an assessment of their risks and are quantified based on economic grounds and legal opinions on the lawsuits and other events known on the balance sheet date, according to the criteria of CVM Deliberation No. 489/05. The basis and nature of the reserve for contingencies are described in note 7.

k. ***Provision recognition:*** Service revenue is recognized when services are provided. Local and long distance calls are charged based on time measurement according to the legislation in effect. Revenue from sales of payphone cards [Public Use Telephony (TUP)], cell phones and accessories is recognized when delivered and accepted by customers. For prepaid services linked to mobile telephony, revenue is recognized in accordance with services utilization. Revenue is not recognized when there is significant uncertainty as to its realization.

l. ***Expense recognition:*** Expenses are recognized on an accrual basis, considering their relation with revenue realization. Expenses related to future periods are deferred.

m. ***Financial income (expenses), net:*** Financial income is recognized on an accrual basis and comprises interest earned on overdue bills settled after maturity, gains on cash investments and *hedge*s. Financial expenses comprise interest incurred and other charges on loans, financing, hedging and other financial transactions.

Interest on Shareholders' Equity, when credited, is included in financial expenses, and for financial statements presentation purposes, the amounts are reversed against income for the year and reclassified as a deduction from retained earnings, in the shareholders' equity.

n. ***Employee benefits:*** Private pension plans and other retirement benefits sponsored by the Company and its subsidiaries for their employees are managed by three foundations. Contributions are determined on an actuarial basis, when applicable, and accounted for on an accrual basis.

As of December 31, 2001, Brasil Telecom S.A. recorded the existing actuarial deficit against shareholders' equity, excluding the corresponding tax effects. Starting 2002, as new actuarial evaluations show the need for adjustments to the provision, they are recognized in the statement of income. Additional information on pension plans is described in note 6.

o. ***Profit sharing:*** The provision for employee and management profit sharing is recognized on an accrual basis, and is accounted as an operating expense. The calculation of the amount, which is paid in the year subsequent to the year the provision is recognized, is based on the goals program established with the labor union through the collective bargaining agreement, in accordance with Law No. 10101/00 and the Company's bylaws.

p. ***Earnings per share:*** Calculated based on the number of shares outstanding at the balance sheet date. Outstanding shares are represented by the totality of shares issued less treasury shares.

4. RELATED-PARTY TRANSACTIONS

Related-party transactions refer to Company transactions with the subsidiaries Brasil Telecom S.A., Nova Tarrafa Participações Ltda. and Nova Tarrafa Inc.

Intercompany transactions are carried out under regular market prices and conditions. The main transactions are:

Brasil Telecom S.A.

Guarantees and sureties: (i) The Company pledges sureties as guarantee of loans and financing owed by the subsidiary to the lending financial institutions. In 2007, the Company recorded income related to the guarantee pledged amounting to R$ 3,401 (R$ 3,562 in 2006); and (ii) the Company pledged surety to its subsidiary related to the contracting of insurance policies, guarantee of contractual obligations (GOC), which amounted to R$97,457 (R$155,294 in 2006). In 2007, the Company recorded as consideration for such surety, an operating income of R$117 (R$214 in 2006).

5. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (FINANCIAL INSTRUMENTS) AND RISK ANALYSIS

The Company and its subsidiaries evaluated of its assets and liabilities at their book value as compared to market or realizable values (fair value), based on information available and evaluation methodologies applicable to each case. The interpretation of market data regarding the choice of methodologies requires considerable judgment and determination of estimates to obtain an amount considered appropriate for each case. Accordingly, the estimates presented may not necessarily indicate the amounts that can be obtained in the current market. The use of different assumptions for calculation of market value or fair value may have material effect on the obtained amounts. The selection of assets and liabilities presented in this note was based on their materiality. Instruments whose amounts approximate their fair values, for example, cash, bank and temporary cash investments, accounts receivable, assets and liabilities of taxes, pension funds, etc., and whose risk assessment is immaterial, are not mentioned.

According to their nature, financial instruments may involve known or unknown risks and the Company's judgment is important for the risk assessment. Thus, there may exist risks with guarantees or without guarantees depending on circumstantial or legal aspects. Some of the main market risk factors affecting the Company's and its subsidiaries business are as follows:

a. Credit risk

Most of the services provided by subsidiary Brasil Telecom S.A. are related to the Concession Agreement, and a significant portion of these services is subject to the determination of tariffs by the regulatory agency. The credit policy, in turn, in case of telecommunications public services, is subject to legal standards established by the concession grantor. The risk exists because Brasil Telecom S.A. and its subsidiaries may incur in losses arising from the difficulty in receiving amounts billed to its customers. Consolidated default for 2007 was 2.18% (2.54% in 2006), taking into account total losses on accounts receivable in relation to gross revenue. The level of accounts receivable is constantly monitored through internal controls, thus limiting the risk of default, and cuts off access to the service (outbound phone traffic) if the bill is overdue for more than thirty days. Exceptions are made for telephone services, which should be maintained for national security or defense reasons.

Subsidiary Brasil Telecom S.A. operates in co-billing related to long distance calls with the use of its CSP (Operator Selection Code) originated by subscribers of other fixed and mobile telephony operators. Co-billing receivables are managed by these operators, based on the operational agreements entered into with them and according to the rules set forth by ANATEL. The blocking rules set forth by the regulatory agency are the same for the fixed and mobile telephony companies, which are co-billing suppliers. This subsidiary controls separately this type of receivables and maintains an allowance for losses that may occur, due to risks of not receiving such amounts.

As regards mobile telephony, the credit risk in cell phones sales and services provide under the post-paid category is minimized by a credit pre-analysis. Also regarding post-paid services, whose customer base at the end of the year was 20.1% of the total portfolio (29.4% in 2006), accounts receivable are also monitored in order to limit the default rate and service is blocked (outbound phone traffic) when the bill is overdue for more than 15 days.

b. Exchange rate risk

Liabilities

Brasil Telecom S.A. has loans and financing contracted in foreign currency. The risk associated with these liabilities arises from the possibility that exchange rate changes may increase the balance of these liabilities. Loans subject to this risk represent approximately 16.0% (17.0% as of December 31, 2006) of total liabilities of consolidated loans and financing, less the foreign exchange hedge transactions contracted. In order to minimize this kind of risk, exchange hedge contracts have been entering into with financial institutions. Of the debt installment consolidated in foreign currency, 92.6% (61.6% as of December 31, 2006) is hedged with exchange rate swap and dollar options transactions and foreign currency-denominated cash investments. The unrealized positive or adverse effects in hedge transactions, using exchange rate swaps and dollar options, are recorded in the statement of income as earnings or losses, according to the status of each instrument.

Net exposure to exchange rate risk prevailing, at carrying and fair values, was as follows:

	CONSOLIDATED			
	2007		2006	
	Carrying value	Fair value	Carrying value	Market value
Liabilities				
Loans and financing	636,912	655,533	840,177	880,803
Hedge contracts	398,112	397,832	398,518	395,612
Total	**1,035,024**	**1,053,365**	**1,238,695**	**1,276,415**
Current	213,050	213,528	203,824	204,938
Long term	821,974	839,837	1,034,871	1,071,477

The method used for calculating the fair value of swap instruments was future cash flows associated to each instrument contracted, discounted at market rates prevailing at balance sheet date. For securities tradable in organized markets, the fair value is equivalent to the value of the last closing quotation available at balance sheet date multiplied by the number of outstanding securities. For contracts in which the current contracting terms and conditions are similar to those in which they have been originated, or that do not present parameters for quotation or contracting, fair values are equal to carrying values.

In the case of US dollar options, the fair value adopted for accounting recognition has been calculated based on the Black&Scholes model adapted by Garman Kohlhagen to consider specific features of exchange options. Such transactions, which have been contracted with maturity up to February, 2009, recorded, at the balance sheet date, a net loss of R$2,465 represented by R$761 for call options and R$1,704 for put options.

c. Interest rate risk

Assets

Consolidated arise from loans bearing interest at the rates below and CDBs (bank certificates of deposit) with Banco de Brasília S.A. related to the guarantee to credit benefit granted by the Federal District Government under a program called PRO-DF (Economic and Sustained Development Support Program of the Federal District), which bear interest equivalent to 95% and of the SELIC rate (Central Bank overnight rate).

	CONSOLIDATED	
	Carrying and fair values	
	2007	2006
Assets		
Loans, tied to:		
Loans tied to IPA-OG Column 27 (FGV) and IGP-DI	7,973	8,409
Fixed-income securities, tied to:		
SELIC rate	3,709	3,280
Total	**11,682**	**11,689**
Current	1,797	5,557
Long term	9,885	6,132

Carrying values match fair values because the current contract terms and conditions for these types of financial instruments are similar to the ones in which those were originated or do not presented parameters for quotation or contracting.

Liabilities

Brasil Telecom S.A. has loans and financing contracted in Brazilian currency subordinated to interest rates indexed to following indices: TJLP (long-term interest rate), UMBNDES (National Bank for Economic and Social Development monetary unit), CDI (Interbank Deposit Rate), and IGP-DI. The risk inherent to these liabilities arises from possible fluctuations in these rates. The market rates are continuously monitored to assess the need to contract instruments to hedge against the fluctuations in these rates.

In addition to loans and financing, the subsidiary issued public debentures, nonconvertible into or exchangeable for shares. This liability has been contracted at an interest rate tied to CDI and the risk on this liability arises from possible rate increases.

These liabilities are represented in the balance sheet as follows:

	CONSOLIDATED			
	2007		2006	
	Carrying value	Fair value	Carrying value	Market value
Liabilities				
Loans indexed to TJLP	2,112,204	2,123,308	2,240,615	2,261,198
Debentures — CDI	1,088,956	1,088,956	1,625,939	1,628,510
Loans indexed to UMBNDES	94,713	94,713	185,881	185,990
Hedge contracts subject to UMBNDES	—	—	22,087	21,197
Loans indexed to IGP-DI	26,599	26,599	25,501	25,501
Other loans (fixed rate)	25,907	25,907	36,472	36,472
Total	**3,348,379**	**3,359,483**	**4,136,495**	**4,158,868**
Current	283,725	287,264	905,740	913,887
Long term	3,064,654	3,072,219	3,230,755	3,244,981

The method used for calculating the fair value of swap instruments was future cash flows associated to each instrument contracted, discounted at market rates prevailing at balance sheet date. For securities tradable in organized markets, the fair value is equivalent to the value of the last closing quotation available at balance sheet date multiplied by the number of outstanding securities. For contracts in which the current contracting terms and conditions are similar to those in which they have been originated, or that do not present parameters for quotation or contracting, fair values are equal to carrying values.

d. Risk of failure to tie loans and financing monetary adjustment indexes to accounts receivable

Loan and financing rates contracted by subsidiary Brasil Telecom S.A. are not tied to receivables. Thus, there is a risk because the adjustments of telephone tariffs do not necessarily follow increases in local interest rates, which affect this subsidiary.

e. Contingencies

Contingencies are assessed according to probable, possible or remote loss. Contingencies considered as of probable risk are recorded in liabilities. Details on these risks are shown in note 7.

f. Investment-related risks

The Company has investments measured under the equity method of accounting and the acquisition cost. Brasil Telecom S.A., Nova Tarrafa Participações Ltda. and Nova Tarrafa Inc. are subsidiaries, whose investments are measured under the equity method of accounting.

Investments measured at cost are immaterial in relation to total assets. The risks associated to them would not produce significant impacts for the Company in case of significant losses on these investments.

The amounts related to the investments are as follows:

	2007		2006	
	Carrying value	Fair value	Carrying value	Fair value
Investments	**3,779,118**	**9,925,609**	**3,756,338**	**8,247,697**
Investments in subsidiaries	**3,771,114**	**9,917,605**	**3,748,789**	**8,240,148**
Listed in the stock market	3,751,699	9,898,190	3,719,264	8,210,623
Not listed in the stock market	19,415	19,415	29,525	29,525
Other investments	**8,004**	**8,004**	**7,549**	**7,549**

The investment listed in the stock market refers to the interest held in Brasil Telecom S.A. and its fair value was measured based on the market quotation used for trading among minority shareholders.

g. Cash investment risks

Temporary cash equivalents in local currency are made in financial investment funds (FIFs) and investments in its own portfolio of private securities (floating rate bank certificates of deposit) issued by prime financial institutions. The FIFs portfolios consist mainly of federal-government securities (floating, fixed, and foreign exchange rate securities) and CDBs issued by prime financial institutions (floating rate securities). Funds may carry out non-leveraged derivative transactions to hedge their portfolios and complying with the goals established in their corresponding investment policies. The exposure to market risks is monitored on a daily basis based on the VaR (Value at Risk) methodology, which qualifies the loss risk on these investments.

Foreign currency-denominated temporary cash investments are represented by overnight operations backed by securities issued by foreign financial institutions, with low credit risk.

Short-term investments, classified as temporary cash investments, are represented by investments in securities issued by the Republic of Austria, with remuneration subject to CDI variation, and the Official Credit Institute (ICO), Spanish government entity, bearing fixed interest.

BrT Celular holds short-term investments in federal government securities to ensure its participation in bids conducted by ANATEL. These investments are represented by LTN (National Treasury Bills), bearing fixed interest rate. The Company has contracted *hedge* transactions under the exchange rate swap modality to *hedge* against these securities' market rates fluctuations, the yield of which is tied to the percentage variation of CDI.

Investments in CDBs and overnight transactions are subject to the credit risk of financial institutions, and foreign currency-denominated investments are subject to the exchange rate risk.

The balances of cash investments, short-term investments — temporary cash investments, and government securities — are shown in notes 17, 18 and 19, respectively.

h. Risk of Early Maturity of Loans and Financing

Liabilities derived from financing mentioned in note 37, related to BNDES agreements, public debentures and most referring to financial institutions, have covenants that prescribe the early maturity of obligations or retention of amounts pegged to debt portions in the cases where certain levels for certain indicators, such as indebtedness ratios and leverage (financial covenants), are not met.

For the financing agreements maintained with BNDES, subsidiary Brasil Telecom S.A. must comply with a set of financial ratios and in the event of noncompliance with some of these ratios, the Bank is allowed to request the temporary blocking of values deposited in collection accounts tied to the agreements.

All indicators set forth in agreements are being complied with and thus no sanctions or penalties set forth in the agreement clauses entered into are being enforced upon the Company.

i. Regulatory risk

Concession agreements

Brasil Telecom S.A. entered into with ANATEL local and domestic long distance concession agreements, effective for the period January 1, 2006 — December 31, 2025. These new concession agreements, which provide for reviews on a five-year basis, in general have a higher intervention level in the management of the business and several provisions defending consumer's interests, as noticed by the regulatory agency. The main highlights are:

- The burden of the concession defined as 2% of revenue net of taxes, calculated every two years, started in 2006, and the initial payment was made on April 30, 2007. This will occur successively until concession termination. This calculation method, as regards its accrual, corresponds to 1% for each financial year;
- The definition of new universal service goals, particularly AICE (Special Class Individual Access) with mandatory and progressive offer and the PSTs (Telecommunications Service Centers), fully defrayed by the Concessionaire;
- Possibility of the Regulatory Agency imposing alternative mandatory offer plans;
- Introduction of Regulatory Agency's right to be involved in and change agreements of the concessionaire with third parties;
- Inclusion of the parent company's, subsidiary's, affiliated companies' and third parties' assets, indispensable to the concession, as returnable assets;
- Creation of the users' council in each concession;

Interconnection tariffs are defined as a percentage public local and domestic long distance tariff until the effective implementation of cost model by service/modality, scheduled for 2008, as defined in the Regulation for Separation and Accounting Allocation Regulations (Resolution No. 396/05).

The amendment to the tariff method applicable to the STFC Basic Plan in the Modality Local Service Provided under Public Concession (PBS) — Conversion from Pulses to Minutes, and the implementation of the PASOO (Alternative Mandatory Offer Service Plan) was completed in all areas of operations of the Company on July 31, 2007, in accordance with the regulatory requirements defined by ANATEL in Rules No. 423/05, 432/06 and 450/06. This change permits customers to select one of two mandatory service offer plans (PBS and PASOO), as well as exercising the right to request the detailing on their local calls in the telephone bills.

Bill No. 103/2007 and Bill No. 1.481/2007, in progress as priority bills, to amend Law No. 9394/96 and Law No. 9998/00, provide for the access to digital information networks in educational institutions and permit the use of funds raised by the FUST (Telecommunications Universal Service Fund) by all the telecommunication operators, or even on a decentralized basis, under agreements of the federal government with the States. On the date of the preparation of these financial statements is not possible to assess the future impacts of these Bills under discussion on the Company's results.

The Executive Board of ANATEL approved on December 21, 2007, the Draft Decree for amending the PGMU (General Plan of Universal Goals Service for the Switched Fixed Telephone Service), and the Draft Amendment to the Concession Agreements. The amendment aims at deploying a support network infrastructure for the Switched Fixed Telephone Service for use of the general public (STFC), for broadband connection via high-speed IP protocol in the cities where such infrastructure is not yet available, taking into account the effectiveness of government policies on the needs of the Brazilian society. It aims at replacing the current universal service goals related to the deployment of PSTs (Telecommunications Services Centers) by backhaul. The replacement of PGMU obligations has been sent to the Ministry of Communications, which will prepare the presidential draft decree to be sent to the President of the Republic. The draft decree prescribes that 20% of the cities will be served by June 2008, 40% by December 2008, 80% by December, 2009, with full service provided by December 2010. On the date of the preparation of these financial statements is not possible to assess the future impacts of the intended replacement of universal service goals, still in progress, on the results of the Company.

Third–generation personal mobile services (3G) licenses

In the bidding process organized by ANATEL for the licenses to exploit Personal Mobile Service (SMP) concurrently with the radiofrequency licenses, 14 Brasil Telecom Celular S.A. won the auction conducted in the second half of December 2007 for the acquisition of licenses to operate in subbands that will allow this to offer products related to third generation mobile services network (3G) in its services area. The amount paid for these licenses, effective for a period of fifteen years, extendable once for an equal period, was R$488,235. The execution of the License Terms is scheduled for February 2008, pursuant to the regulatory procedures of ANATEL. The new and the existing will SMP licenses be unified within a maximum period of eighteen months as of the publication of the extract of the Radiofrequency Use License Agreement in the Federal Official Gazette, and the distinction of the radiofrequency blocks will be maintained according to the respective original agreements and their effective periods.

The deployment of the new 3G network will allow offering SMP customers data communication services at speeds higher than those made available by the current network 2.5G in addition to the mobile voice services. Additionally, the 3G network will operate complementarily to the 2.5G network, allowing the extension and update of BrT Celular's coverage network and meeting the growth of the customer base.

6. EMPLOYEE BENEFITS

The benefits described herein are offered to employees of the Company, and its subsidiary Brasil Telecom S.A. and its direct or indirect subsidiaries, except for BrT Call Center, as regards supplementary pension plans. These companies can be better jointly referred to as "Brasil Telecom Companies" and also as "Sponsor" or "Sponsors" for purposes of the supplementary pension plan mentioned in this note.

a. Supplementary pension plan

The Company sponsors supplementary pension plans related to retirement for its employees and assisted participants, and, in the case of the latter, medical assistance in some cases. These plans are managed by the following foundations: (i) Fundação 14 de Previdência Privada ("Fundação 14"); (ii) Fundação BrTPREV ("FBrTPREV") former CRT, a company merged into Brasil Telecom S.A. on December 28, 2000; and (iii) Fundação SISTEL de Seguridade Social ("SISTEL"), originated from certain companies of the former Telebrás System.

Bylaws establish the approval of the supplementary pension plan policy, and the joint liability attributed to the defined benefit plans is ruled by the agreements entered into with the foundations, with the agreement of the SPC (Secretariat for Pension Plans), as regards the specific plans.

The sponsored plans are valued by independent actuaries at the balance sheet date. As regards the defined benefit plans described in this note, immediate recognition of the actuarial gains and losses is adopted, and therefore the full liabilities are recognized for the plans presenting a deficit. This measure has been applied since the 2001 fiscal year, when the regulations of CVM Resolution No. 371/00 were adopted. In cases that show a positive actuarial situation, assets are recorded in case of express authorization for offsetting with future employer contributions.

The characteristics of the sponsored supplementary pension plans are as follows:

FUNDAÇÃO 14

Fundação 14 de Previdência Privada was created in 2004 and since March 10, 2005 has been in charge of managing and operating the TCSPREV pension plan. On that date, it entered into a management agreement with SISTEL so that the latter provides management and operating services to the TCSPREV and PAMEC-BrT plans until September 30, 2006. Staring this date, Fundação 14 took over the management and operation services of its plans. As of October 31, 2007, Fundação 14 ceased to manage the assistance plan PAMEC-BrT because it is an entity engaged in the management of private pension plans. In November, 2007, the assets and liabilities of PAMEC-BrT were transferred to the Company which, in addition to sponsoring the plan, started to manage it.

Plans

TCSPREV (Defined Contribution, Settled Benefit and Defined Benefit)

This defined contribution and settled benefit plan was introduced on February 28, 2000. On December 31, 2001, all pension plans sponsored by the Company together with SISTEL were merged, and the SPC exceptionally and provisionally approved the document sent to that Agency, due to the need for adjustments to the regulations. Thus, TCSPREV consists of defined contribution groups with settled and defined benefits. The plans added to the TCSPREV were the PBS-TCS, PBT-BrT, BrT Management Agreement, and the Unusual Contractual Relationship Instrument, and the terms and conditions set out in the original plans were maintained. In March 2003, this plan was no longer offered to the sponsors' new hires. However, this plan started to be offered starting March 2005 to the defined contribution group. TCSPREV currently serves nearly 66.9% of the staff.

Contributions to this plan, by group of participants, are established based on actuarial studies prepared by independent actuaries according to regulations in force in Brazil, using the capitalization system to determine the costs. Currently, contributions are made by the participants and the sponsor only for the internal groups PBS-TCS (defined benefit) and TCSPREV (defined contribution). In the TCSPREV group, the contributions are credited in individual accounts of each participant, equally by employee and sponsor, and the basic contribution percentages vary between 3% and 8% of the participant's salary, according to participant's age and limited to R$20,070.00 for 2007. Participants have the option to make additional contributions to the plan but without parity of the Company. In the PBS-TCS group, the sponsor's contribution corresponds to 12% of the participants' payroll, while the employees' contribution varies according to the age, time of service and salary. An entry fee may also be payable depending on the age a participant joined the plan. The sponsors are responsible for defraying all administrative expenses and fund risk benefits.

FUNDAÇÃO SISTEL DE SEGURIDADE SOCIAL

The supplementary pension plan — PBS-A, which remains under SISTEL's management, comes from the period before the Telebrás' Spin-off and serves participants who had the status of beneficiaries in January 2000. SISTEL also manages the PAMA/PAMA-PCE pension plan, formed by participants assisted by the PBS-A Plan, the PBS's plans segregated by sponsor in January 2000 and PBS-TCS' Internal Group, merged into the TCSPREV plan in December 2001.

Plans

PBS-A (Defined Benefit)

Maintained jointly with other sponsors associated to the provision of telecommunications services and intended for participants that had the status of beneficiaries on January 31, 2000.

Contributions to the PBS-A are contingent to the determination of an accumulated deficit. As of December 31, 2007, actuarial appraisal date, the plan presented a surplus.

PAMA — Retirees Health Care Plan/PCE – Special Coverage Plan (Defined Contribution)

Maintained jointly with other sponsors subject to the provision of telecommunications services and destined for participants that had the status of beneficiaries on January 31, 2000, for the beneficiaries of the PBS-TCS Group, merged on December 31, 2001 into TCSPREV (plan currently managed by Fundação 14) and for the participants of PBS's defined benefit plans sponsored by other companies, together with SISTEL and other foundations. According to a legal and actuarial appraisal, the Sponsor's responsibility is exclusively limited to future contributions. In March-July 2004 and December 2005-April 2006, there was an incentive to the migration of PAMA pensioners for the new coverage conditions (PCE). Participants who opted for the migration began to contribute to PAMA/PCE.

The contributions to this plan correspond to 1.5% of payroll of active participants subject to PBS plans, segregated and sponsored by the several sponsoring company. In the case of Brasil Telecom, the PBS-TCS was merged into the TCSPREV plan on December 31, 2001, and began to constitute an internal group of the plan. Pensioners who migrated to the PAMA/PCE also made contributions.

FUNDAÇÃO BrTPREV

It is the manager originated from the plans sponsored by former CRT, company merged into Brasil Telecom S.A. at the end of 2000. The main purpose of the Company sponsoring FBrTPREV is to maintain the pensions supplementary to the benefits survival pensions and other benefits provided by the official social security system to participants.

Plans

BrTPREV

Defined contribution and settled benefits plan, launched in October 2002, intended to grant pension plan benefits supplementary to those of the official social security benefits and that initially served only employees of the Rio Grande do Sul Branch. This pension plan started to be offered to new employees of the Company and its subsidiaries in March 2003-February 2005, when its offering was suspended. BrTPREV currently serves nearly 23.6% of the staff.

Contributions to this plan are determined based on actuarial studies prepared by independent actuaries according to the regulations in force in Brazil, using the capitalization system to determine funding. Contributions are credited in individual accounts of each participant, equally by employee and sponsor, and the basic contribution percentages vary between 3% and 8% of the participant's salary, according to participant's age and limited to R$20,761.00 for 2007. Participants have the option to make additional contributions to the plan but without parity of the Company. The Company is responsible for defraying all administrative expenses and fund risk benefits.

Fundador – Brasil Telecom and Alternativo—Brasil Telecom

Defined benefits plans intended to provide pension benefits supplementary in addition to the benefits of official social security, closed to the entry of new participants. These plans currently serve approximately 0.15% of the staff.

The regular contribution by the sponsor is equal to the regular contribution of the participant, the rates of which vary according to age, time of service and salary. In the Alternativo Plan – Brasil Telecom, the contributions are limited to three times the ceiling benefit of INSS and the participant also pays an entry fee depending on the age he or she joins the plan.

ASSISTANCE PLAN ADMINISTERED BY THE COMPANY

PAMEC-BrT – Health Care Plan for Supplementary Pension Beneficiaries (Defined Benefit)

Intended to provide health care to retirees and pensioners linked to the PBT-BrT Group, pension plan administered by Fundação 14.

The contributions for PAMEC-BrT were fully paid in July 1998, through a single payment. However, as that plan is now managed by the Company after the transfer of management by Fundação 14 in November 2007, there are no assets recognized to cover current expenses, and the actuarial obligation is fully recognized in the Company's liabilities.

Status of sponsored plans, reassessed at balance sheet date

The data below refers to the sponsored pension plans that hold obligations of defined benefit:

	FBrTPREV — BrTPREV, Alternativo and Fundador		Fundação 14 - TCSPREV	
	2007	2006	2007	2006
RECONCILIATION OF ASSETS AND LIABILITIES				
Actuarial obligations with benefits granted	1,377,917	1,320,851	248,428	227,007
Actuarial obligations with benefits to be granted	121,125	84,750	216,011	193,199
(=) Total present value of actuarial obligations	**1,499,042**	**1,405,601**	**464,439**	**420,206**
Fair value of plan assets	**(813,374)**	**(757,034)**	**(791,362)**	**(717,764)**
(=) Net actuarial liability (asset)	**685,668**	**648,567**	**(326,923)**	**(297,558)**
CHANGE IN NET ACTUARIAL LIABILITY (ASSET)				
Present value of actuarial obligation at beginning of year	**1,405,601**	**1,362,809**	**420,206**	**337,173**
Cost of interest	152,349	147,861	46,226	37,097
Cost of current service	5,017	8,030	3,424	5,285
Paid benefits, net	(113,102)	(106,759)	(19,887)	(18,072)
Actuarial gains (losses) on the actuarial obligation	49,177	(6,340)	14,470	58,723
Present value of actuarial obligation at end of year	**1,499,042**	**1,405,601**	**464,439**	**420,206**
Fair value of plan assets at beginning of year	**757,034**	**634,894**	**717,764**	**645,051**
Return on plan assets	53,544	101,017	92,228	89,457
Regular contributions received by the plan	3,081	4,614	1,257	1,328
Sponsor	3,081	4,505	772	893
Participants	—	109	485	435
Contributions for amortization received from the sponsor	112,817	123,268	—	—
Payment of benefits	(113,102)	(106,759)	(19,887)	(18,072)
Fair value of plan assets at end of year	**813,374**	**757,034**	**791,362**	**717,764**
(=) Net actuarial liability (asset) (1)	**685,668**	**648,567**	**(326,923)**	**(297,558)**

(1) Due to the approvals from the Board of Fundação 14 on December 18, 2007, which decided for the allocation of surpluses to a reserve for contingencies, a special reserve in favor of participants, beneficiaries and the sponsor, and sponsor's contributions surplus, consolidated assets amounting to R$81,209 were recognized to be offset against future employer's contributions. Accordingly, Fundação 14 also made amendments to the Regulations of the TCSPREV Plan, which were filed with the SPC on October 24, 2007. At the balance sheet data, the consolidated balance of this asset was R$74,476, consisting of R$18,743 and R$55,733 recorded in current and long-term assets, respectively.

	FBrTPREV — BrTPREV, Alternativo and Fundador		Fundação 14 - TCSPREV	
	2007	2006	2007	2006
EXPENSE RECOGNIZED IN THE STATEMENT OF INCOME OF BRASIL TELECOM				
Cost of current service	5,017	8,030	3,424	5,285
Participants' contributions	—	(109)	(485)	(435)
Cost of interest	152,349	147,861	—	—
Return on plan assets	(53,544)	(101,017)	—	—
Recognized actuarial losses (gains)	49,177	(6,340)	—	—
Total recognized expense	**152,999**	**48,425**	**2,939**	**4,850**

	FBrTPREV — BrTPREV, Alternativo and Fundador		Fundação 14 – TCSPREV	
	2007	2006	2007	2006
SIGNIFICANT ACTUARIAL ASSUMPTIONS				
Actuarial obligation discount rate (6% + Inflation)	10.77%	11.30%	11.30%	11.30%
Estimated inflation rate	4.50%	5.00%	5.00%	5.00%
Estimated salary increase rate	2%	2%	2%	2%
Estimated rate of nominal benefit increase	4.50%	5.00%	5.00%	5.00%
Expected total rate of return on plan assets	10.70%	13.22%	12.86%	12.86%
General mortality biometric table	UP94	UP94 + 1	UP94	UP94 + 1
Disability biometric table	Mercer Disability	Álvaro Vindas, -20% up to 40; and +30% over 40.	Mercer Disability	Álvaro Vindas, -20% up to 40; and +30% over 40.
Disabled mortality biometric table	IAPB-57		IAPB-57	
Turnover rate	Null		Null	

ADDITIONAL INFORMATION — 2007

a) Plans' assets and liabilities are stated as of December 31, 2007.

b) The registry data used is from August 31, 2007, projected for December 31, 2007.

	SISTEL - PBS-A		PAMEC	
	2007	2006	2007	2006
RECONCILIATION OF ASSETS AND LIABILITIES				
Actuarial obligations with benefits granted	604,572	580,506	2,077	1,471
Actuarial obligations with benefits to be granted	—	—	—	58
(=) Total present value of actuarial obligations	**604,572**	**580,506**	**2,077**	**1,529**
Fair value of plan assets	**(1,006,475)**	**(895,205)**	**—**	**(883)**
(=) Net actuarial liability (asset)	**(401,903)**	**(314,699)**	**2,077**	**646**
CHANGE IN NET ACTUARIAL LIABILITY (ASSET)				
Present value of actuarial obligation at end of year	**580,506**	**570,260**	**1,529**	**1,099**
Cost of interest	62,984	61,684	170	122
Cost of current service	—	—	7	5
Paid benefits, net	(50,072)	(49,096)	(52)	(19)
Actuarial gains (losses) on the actuarial obligation	11,154	(2,342)	423	322
Present value of actuarial obligation at end of year	**604,572**	**580,506**	**2,077**	**1,529**
Fair value of plan assets at beginning of year	**895,205**	**738,735**	**883**	**925**
Return (loss) on plan assets	161,342	205,566	36	(23)
Payment of benefits	(50,072)	(49,096)	(52)	(19)
Plan assets transferred to the Sponsor	—	—	(867)	—
Fair value of plan assets at end of year	**1,006,475**	**895,205**	**—**	**883**
(=) Net actuarial liability (asset) (1)	**(401,903)**	**(314,699)**	**2,077**	**646**

(1) In the case of the net actuarial assets of the PBS-A Plan there is no accounting recognition at the Sponsor.

	SISTEL - PBS-A		PAMEC	
	2007	2006	2007	2006
EXPENSE RECOGNIZED IN THE STATEMENT OF INCOME OF BRASIL TELECOM				
Cost of current service	—	—	7	5
Cost of interest	—	—	170	122
Return (loss) on plan assets	—	—	(36)	23
Recognized actuarial losses (gains)	—	—	423	322
Total recognized expense	**—**	**—**	**564**	**472**
SIGNIFICANT ACTUARIAL ASSUMPTIONS				
Actuarial obligation discount rate (6% + Inflation)	10.77%	11.30%	10.77%	11.30%
Estimated inflation rate	4.50%	5.00%	4.50%	5.00%
Estimated rate of nominal benefit increase	4.50%	5.00%	4.50%	5.00%
Expected total rate of return on plan assets	10.82%	13.18%	N/A	13,75%
General mortality biometric table	UP94	UP94 + 1	UP94	UP94 + 1
Disability biometric table	N/A		N/A	Mercer Disability
Initial age of benefits	N/A		2007: N/A 2006: 5% at the age of 52; 3% at each subsequent year; 100% at the eligibility for retirement	

N/A = Not applicable

ADDITIONAL INFORMATION — 2007

a) Plans' assets and liabilities are stated as of December 31, 2007.

b) The registry used for PBS-A and PAMEC are from September 30, 2007 and August 31, 2007, respectively, both projected for December 31, 2007.

b. Stock options plan for management and employees

The Extraordinary Shareholders' Meeting of Brasil Telecom S.A. held on November 6, 2007, approved a new general plan for granting stock options to officers and employees of the Company and its subsidiaries; the plans described were in effect at the balance sheet date, in accordance to the respective approval dates.

Plan Approved on April 28, 2000

The rights vested through stock options agreements while this previously approved plan was effective remain valid and effective according to the respective terms agreed. The plan is divided into two separate programs:

Program A

This program prescribed that stock options were granted as the performance goals, established by the Board of Directors for a five-year period, were attained. No option was granted for this program.

Program B

The exercise price is established by the managing committee based on the market price of one thousand shares on option granting date and will be monetarily adjusted based on the IGP-M variation between the agreement execution date and payment date.

The stock options are vested as follows:

Granting					Adjusted exercise price (In Brazilian reais)	Options (in shares)
Grant date		Lot	Exercise as from	Exercise deadline		
1st	12/20/02	33%	01/01/04	12/31/08	15.69	9,345
		33%	01/01/05	12/31/08	15.69	9,345
		34%	01/01/06	12/31/08	15.69	9,346
2nd	12/19/03	33%	12/19/05	12/31/10	15.89	15,060
		33%	12/19/06	12/31/10	15.89	15,060
		34%	12/19/07	12/31/10	15.89	15,060
3rd	12/22/04	33%	12/22/05	12/31/11	17.30	61,213
		33%	12/22/06	12/31/11	17.30	61,213
		34%	12/22/07	12/31/11	17.30	61,213

These vesting periods can be anticipated as a result of special events or conditions established in the option granting agreement. Since December, 2004 until the balance sheet date, no options were granted for Program B.

The information on the general stock options plan is summarized below:

	2007		2006	
	Preferred shares options	Average exercise price - R$	Preferred shares options	Average exercise price - R$
Balance at beginning of year	270,802	13.00	410,737	13.00
Extinguished options	(13,947)	17.30	(139,935)	13.00
Balance at end of year	256,855	16.88	270,802	13.00

Stock options represent 0.05% of total outstanding shares of subsidiary Brasil Telecom S.A. (0.05% as of December 31, 2006).

Assuming that the options will be fully exercised, the premiums on the related options, calculated based on the Black&Scholes method, payable by the subsidiary, would total R$1,761 (R$532 in 2006).

Plan approved on November 06, 2007

The new plan authorizes granting stock options, allowing plan participants, under certain conditions, to purchase or subscribe, in the future, shares that are part of a basket of shares defined as UP (Performance Unity), at a preestablished price. The amount corresponding to the number of UPs granted cannot exceed the maximum amount of 10% of the book value of the shares of each type of share of the subsidiary.

The shares derived from the exercise of options entitle beneficiaries to the same rights granted to the subsidiary's other shareholders.

The Board of Directors is responsible for managing of this plan and is vested with full powers for establishing stock options programs, which can be delegated to a compensation committee formed by up to three Board members.

At the Meeting held on December 14, 2007, the Board of Directors of Brasil Telecom S.A. approved two programs related to the new stock options plan, with retroactive effects to July 1, 2007, which consist of the following:

Program 1

Options are granted as a one-time concession and do not allow new grants for a period of up to four years. The exercise price of the UP has been set up by the Board of Directors, under the terms defined in the plan and it is subject to indexation by the IGP-M, plus 6% p.a., to be discounted from the amounts paid as dividends and/or interest on capital in the period.

Program 2

Stock options under this program are granted annually, on July 1 of every year. Stock options for Program 2 were granted on July 1, 2007 and the exercise price of the UP has been set up by the Board of Directors, under the terms defined in the plan, to be discounted from the amounts paid as dividends and/or interest on capital in the period.

The stock options for programs 1 and 3 are vested as follows:

	Granting				Adjusted exercise price	
Program	Grant date	Lot	Exercise as from	Exercise deadline	(In Brazilian reais)	Options (in UPs)
1	07/01/07	25%	07/01/08	06/30/11	28.91	791,259
		25%	07/01/09	06/30/12	28.91	791,259
		25%	07/01/10	06/30/13	28.91	791,259
		25%	07/01/11	06/30/14	28.91	791,258
2	07/01/07	25%	07/01/08	06/30/11	26.41	217,851
		25%	07/01/09	06/30/12	26.41	217,851
		25%	07/01/10	06/30/13	26.41	217,851
		25%	07/01/11	06/30/14	26.41	217,852

The vesting periods set out in programs 1 and 2 can be anticipated as a result of special events or conditions established in the option granting agreement.

The stock options balance (UPs) as of December 31, 2007 represents 2.23% of Brasil Telecom S.A shareholders' equity.

Assuming that the options included in programs 1 and 2 will be fully exercised, the amount of the premiums on the related options, calculated according to the Binomial stock options pricing model, for this subsidiary would be R$53,462.

c. Other employee benefits

Other benefits are granted to employees, such as: health/dental care, meal allowance, group life insurance, occupational accident allowance, sick pay, transportation allowance, and others.

7. PROVISION FOR CONTINGENCIES

a. Contingent liabilities

The Company and its subsidiaries periodically assess their contingency risks, and also review their lawsuits taking into consideration the legal, economic, tax and accounting aspects. The assessment of these risks aims at classifying them according to the chances of unfavorable outcome as probable, possible or remote, taking into account the opinion of its legal counsel.

Contingencies whose risks are classified as probable are accrued. Contingencies classified as possible are discussed in this note. These proceedings are under discussion at the administrative or judicial level, in all the court levels, from the lower to the extraordinary courts.

In a number of situations, due to legal requirement or as a caution measure, escrow deposits are made to ensure the continuity of the proceedings in discussion. The escrow deposits related to contingencies with possible and remote likelihood of loss are shown in note 25.

Note that in some cases similar matters may be ranked in different risk degree ratings, which is justified by the facts and the particular status of each proceeding.

Labor

The provisions for labor lawsuits include an estimate made by the Company's management, supported by the opinion of its legal counsel, of the losses related to lawsuits filed by employees and former employees of the Company and service providers related to labor matters.

Tax

Provisions for tax contingencies refers specially to issues related to the tax collection arisen from disagreements between the management's understanding, supported by the opinion of the Company's legal advisors and the Tax Authorities regarding the interpretation, enforcement, legality and constitutionality of tax legislation.

Civil lawsuits

The reserves for civil contingencies refer to an estimate of lawsuits related to contractual adjustments arising from Federal Government economic plans, and other cases related to community telephony plans and suit for damages and consumer lawsuits.

Classification by risk level

Probable risk contingencies

Contingencies classified as probable loss risk, which are accrued in liabilities and have the following balances:

	COMPANY		CONSOLIDATED	
Nature	**2007**	**2006**	**2007**	**2006**
Provisions	**5,026**	**4,260**	**1,193,554**	**1,012,280**
Labor	—	—	421,759	487,266
Tax	4,974	4,208	372,896	178,710
Civil	52	52	398,899	346,304
Related escrow deposits	**—**	**—**	**(295,843)**	**(279,491)**
Labor	—	—	(220,679)	(244,579)
Tax	—	—	(22,046)	(1,882)
Civil	—	—	(53,118)	(33,030)
Total provisions, net of escrow deposits	**5,026**	**4,260**	**897,711**	**732,789**
Current	15	13	197,472	175,603
Long term	5,011	4,247	700,239	557,186

Labor

Changes in 2007:

	COMPANY	CONSOLIDATED
Provisions as of December 31, 2006	**—**	**487,266**
Changes allocated to income	**449**	**92,119**
Monetary adjustment	—	49,266
Reassessment of contingent risks	—	(18,158)
Provisions of new lawsuits	449	61,011
Payments	**(449)**	**(157,626)**
Subtotal I (provisions)	**—**	**421,759**
Related escrow deposits as of December 31, 2006	**—**	**(244,579)**
Changes in escrow deposits	—	23,900
Subtotal II (escrow deposits)	**—**	**(220,679)**
Balance as of December 31, 2007, net of escrow deposits	**—**	**201,080**

The main matters affecting the accrued labor contingencies are as follows:

(i) Hazardous duty premium — refers to the claim of hazardous duty premium, based on Law No. 7369/85, regulated by Decree No. 93412/86, due to the alleged risk of contact by the employee with the electric power system;

(ii) Salary differences and related effects — refer mainly to claims for salary increases due to alleged noncompliance with agreements with trade union. The effects relate to the impact of the salary increase allegedly due on the other amounts calculated based on the employee's salary.

(iii) Career plan — refers to the claim for enforcement of the career and salaries plan for employees of Brasil Telecom S.A., Santa Catarina Branch (formerly Telesc), with promotions for seniority and merit, allegedly not granted by the former Telesc;

(iv) Joint/vicarious liability — refers to the claim to assign liability to Brasil Telecom S.A., filed by outsourced personnel, due to alleged noncompliance with this personnel's labor rights by their direct employers;

(v) Overtime — refers to the claim for the payment of salary and allowances derived form alleged overtime worked;

(vi) Job reinstatement — claim due to alleged noncompliance of an employee's special condition which would prevent the termination of the employment contract without cause;

(vii) Claim for the application of regulation that established the payment of a percentage on the income of Brasil Telecom S.A., specifically attributed to the Santa Catarina Branch; and

(viii) Supplement to FGTS (severance pay fund) fine arising from understated inflation — refers to claims to increase the FGTS indemnity fine due to the adjustment of accounts of this fund because of inflation effects.

Brasil Telecom S.A. filed a lawsuit against Caixa Econômica Federal to assure the reimbursement of all amounts paid for this purpose.

Tax

Changes in 2007:

	COMPANY	CONSOLIDATED
Provisions as of December 31, 2006	**4,208**	**178,710**
Changes allocated to income	**766**	**226,979**
Monetary adjustment	458	16,943
Reassessment of contingent risks	300	82,176
Provisions of new lawsuits	8	127,860
Payments	**—**	**(32,793)**
Subtotal I (provisions)	**4,974**	**372,896**
Related escrow deposits as of December 31, 2006	**—**	**(1,882)**
Changes in escrow deposits	—	(20,164)
Subtotal II (escrow deposits)	**—**	**(22,046)**
Balance as of December 31, 2007, net of escrow deposits	**4,974**	**350,850**

The main accrued lawsuits provisioned refer to the following disputes:

(i) Federal Taxes — several tax deficiency assessments that require the payment of federal taxes on events qualified in a allegedly inadequate way or on differences in the calculation of these taxes; and

(ii) State Taxes — claim for payment of ICMS (State value added tax) on transactions that, according to the Company, are not subject to this tax, and discussions on ICMS credits taken, the validity or legality of which is questioned by the State Tax Authorities.

Civil

Changes in 2007:

	COMPANY	CONSOLIDATED
Provisions as of December 31, 2006	**52**	**346,304**
Changes allocated to income	**—**	**331,800**
Monetary adjustment	—	27,611
Reassessment of contingent risks	—	230,958
Provisions of new lawsuits	—	73,231
Payments	**—**	**(279,205)**
Subtotal I (provisions)	**52**	**398,899**
Related escrow deposits as of December 31, 2006	**—**	**(33,030)**
Changes in escrow deposits	—	(20,088)
Subtotal II (escrow deposits)	**—**	**(53,118)**
Balance as of December 31, 2007, net of escrow deposits	**52**	**345,781**

The accrued lawsuits are as follows:

(i) Review of contractual terms and conditions — lawsuit filed by an equipment supplier against the subsidiary Brasil Telecom S.A. to claim the revision of contractual terms and conditions due to changes introduced by an economic stabilization plan;

(ii) Financial Participation Agreements — the TJ/RS (Court of Appeals of Rio Grande do Sul) has issued decisions against the procedure previously adopted by the former CRT, a company merged into Brasil Telecom S.A. in lawsuits related to the application of a rule issued by the Ministry of the Communications. These lawsuits are in various stages: lower courts, Court of Appeals and Superior Court of Justice;

(iii) Customer service centers — public civil actions related to the closing of customer services centers;

(iv) Free Mandatory Telephone Directories (LTOGs) — lawsuits questioning the non-delivery of printed residential telephone directories; and

(v) Other lawsuits — refer to various ongoing lawsuits, comprising civil liability suits, indemnities for contract termination and consumer matters in progress in the Special Courts, Courts of Law and Federal Courts throughout the country.

Possible risk contingencies

Contingencies with risk level considered possible, and therefore not recorded in the books, are broken down as follows:

	COMPANY		CONSOLIDATED	
Nature	**2007**	**2006**	**2007**	**2006**
Labor	1,737	8,866	542,427	488,474
Tax	51,558	30,666	2,113,653	2,176,063
Civil	416	—	1,129,591	606,938
Total	**53,711**	**39,532**	**3,785,671**	**3,271,475**

Labor

Changes in 2007:

	COMPANY	CONSOLIDATED
Amount estimated as of December 31, 2006	**8,866**	**488,474**
Monetary adjustment	1,179	68,943
Reassessment of contingent risks	(8,308)	(114,069)
New lawsuits	—	99,079
Amount estimated as of December 31, 2007	**1,737**	**542,427**

The main matters involving possible losses in labor lawsuits are related to joint/vicarious responsibility, supplement of FGTS indemnity fine resulting from understated inflation, hazardous duty premium, promotions and claim of payment of alleged overtime worked.

Tax

Changes in 2007:

	COMPANY	CONSOLIDATED
Amount estimated as of December 31, 2006	**30,666**	**2,176,063**
Monetary adjustment	4,288	236,555
Reassessment of contingent risks	3,077	(478,949)
New lawsuits	13,527	179,984
Amount estimated as of December 31, 2007	**51,558**	**2,113,653**

The main existing lawsuits are represented by the matters below:

(i) Social Security (INSS) infraction notices on the addition of captions to the contribution salary allegedly due by the company;

(ii) Tax infraction notices issued by the Federal Revenue Service due to differences in amounts reported in the DCTF (Declaration of Federal Tax Debits and Credits) and the DIPJ (Corporate Income Tax Return);

(iii) Public civil lawsuits questioning the alleged pass-through of PIS and COFINS (taxes on revenues) to end consumers;

(iv) ICMS levied on international calls, whose tax liability for the collection is assigned to another operator;

(v) ICMS — credit and related tax rate difference on interstate purchases made by the Company;

(vi) ICMS — tax infraction notices on the alleged levy of the tax on the activities described in Agreement No. 69/98;

(vii) ICMS — tax credit on cancelled invoices;

(viii) Withholding Income Tax — on hedge transactions for debt coverage;

(ix) FUST (Telecommunications Universal Service Fund) — due to the illegal retroactivity, according to the Company, of the effects generated by the change in interpretation of its calculation basis by ANATEL.

(x) ISS (Service Tax) — alleged levy on communications auxiliary services and discussion on the classification of services taxed by the cities listed in the Supplementary Law No. 116/2003.

Civil

Changes in 2007:

	COMPANY	CONSOLIDATED
Amount estimated as of December 31, 2006	**—**	**606,938**
Monetary adjustment	34	80,711
Reassessment of contingent risks	1	(51,671)
New lawsuits	381	493,613
Amount estimated as of December 31, 2007	**416**	**1,129,591**

The main existing lawsuits are represented by the matters below:

(i) Payments made in lawsuits related to the PCT (Community Telephony Program) – the plaintiffs claim from Brasil Telecom S.A. payment in lawsuits related to the contracts resulting from the Community Telephony Program. These lawsuits are in various stages: lower courts, Court of Appeals and Superior Court of Justice.

(ii) Lawsuit for damages and consumers; and

(iii) Contractual — lawsuits related to the claim of a percentage resulting from the Real Plan, to be applied on a service agreement, review of conversion of installments into URV (units of account) and later into reais, related to equipment supply and service provision.

Letters of guarantee

As for contingent liabilities, the Company has contracts for letters of guarantee entered into with financial institutions, as supplementary guarantees for lawsuits in provisional foreclosure and guarantees for attending bidding processes with ANATEL. The total amount of guarantees contracted and in force at the balance sheet date is R$21,483 (R$13,740 as of December 31, 2006) and R$1,381,488 (R$747,754 as of December 31, 2006) for consolidated purposes. The commission charges on these contracts are based on market rates.

b. Contingent assets

The tax lawsuits below have been by to claim the refund of taxes paid.

PIS/COFINS: tax lawsuits challenging the enforcement of Law No. 9718/98, which increased the PIS and COFINS tax basis. The period comprised by the Law was February 1999-November 2002 for PIS and February 1999-January 2004 for COFINS. In November 2005, the STF (Federal Supreme Court) concluded the judgment of certain lawsuits on the same matter and considered the increase of tax basis introduced by said Law unconstitutional. Part of the lawsuits filed by the Company and the STFC concessionaires from Region II of the Granting Plan, merged into Brasil Telecom S.A. in February 2000, became final and unappealable in as regards the increase in PIS and COFINS tax basis. The Company is awaiting the judgments of the lawsuits filed by the other merged companies, whose likelihood of a favorable outcome in future filing of appeals is considered as probable by the Company's legal counsel. At balance sheet date, these lawsuits represented unrecognized contingent assets totaling R$17,445 in consolidated (R$996 of COFINS and R$16,449 of PIS).

8. SHAREHOLDERS' EQUITY

a. Capital

The Shareholders' Meeting held on April 27, 2007 approved the reverse split of shares of the Company's capital stock. Accordingly, the shares will be grouped at the ratio of one thousand (1,000) shares per one

(1) share, and capital will be represented by 134,031,688 common shares and 229,937,525 preferred shares, totaling 363,969,213 shares issued. From the total amount of shares, 1,480,800 common shares are held in treasury.

The reverse stock split aims at bringing the unit price for quotation of shares to a more appropriate level from the market point of view, reducing operating costs for the Company and its shareholders, and increasing the efficiency of the systems for registration, controls and information disclosure to shareholders. After the approval of the reverse stock split, shareholders had a period of 30 days to adjust their share positions in lots of one thousand (1,000) shares by type, through trading on BOVESPA or an over-the-counter market. After that period, the shares are trade in groups with unit quotation. The remaining shares fractions were separated and grouped into full numbers and sold at an auction held on BOVESPA. The amounts resulting from such auction, after final settlement of the sale, were made available on behalf of the respective shareholders.

The Company is authorized to increase its capital, according to a resolution of the Board of Directors, up to the total limit of 700,000,000 common or preferred shares, in compliance with the legal limit of two thirds (2/3) for the issue of new preferred shares without voting rights.

By means of a resolution of the Shareholders' Meeting or the Board of Directors, the Company's capital may be increased by the capitalization of retained earnings or prior reserves allocated by the Shareholders' Meeting. Under these conditions, the capitalization may be carried out without changing the number of shares.

Capital is represented by common and preferred stocks, with no par value, and it is not mandatory to maintain the proportion between the shares in the case of capital increases.

By resolution of the Shareholders' Meeting or the Shareholders' Meeting, the preemptive right on the issue of shares, warrants or debentures convertible into shares may be excluded, in the cases stipulated in article 172 of Corporate Law.

The preferred shares do not have voting rights, except in the cases specified in sole paragraphs of Articles 11 and 14 of the Bylaws, but are assured priority in receiving the minimum noncumulative dividend equal to the higher of 6% per year, calculated on the amount resulting from dividing the capital by the total number of the Company's shares or 3% per year, calculated on the amount resulting from dividing shareholders' equity by the total number of the Company's shares, whichever is greater.

Subscribed and paid-up capital at the balance sheet date is R$2,596,272 (R$2,596,272 as of December 31, 2006), represented by the following shares with no par value:

	Total		Treasury Shares		Outstanding Shares	
Share type	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Common	134,031,688	134,031,688,203	1,480,800	1,480,800,000	132,550,888	132,550,888,203
Preferred	229,937,525	229,937,525,684	—	—	229,937,525	229,937,525,684
Total	**363,969,213**	**363,969,213,887**	**1,480,800**	**1,480,800,000**	**362,488,413**	**362,488,413,887**

	2007	2006(1)
Book value per outstanding share (R$)	**14.47**	**14.56**

(1) Per thousand shares.

Common shares maintained in treasury are deducted when determining the net book value per thousand shares.

b. Treasury Shares

Treasury shares derive from Stock Buyback Programs carried out in 2002 to 2004. On September 13, 2004, a material event was disclosed on the last proposal approved by the Company's Board of Directors for the buyback of preferred and common shares issued by the Company to be held in treasury or cancellation, or subsequent sale.

The number of treasury shares is as follows:

	2007		2006	
	Common shares	Amount	Common shares	Amount
Balance at beginning of year	1,480,800	20,846	1,480,800,000	20,846
Balance at end of year	1,480,800	20,846	1,480,800,000	20,846

	2007	2006(1)
History cost of the purchase of treasury shares in (R$ per shares)		
Weighted average cost	14.08	14.08
Minimum	12.40	12.40
Maximum	17.00	17.00

(1) Per thousand shares.

The unit purchase cost considers all the share stock buyback programs.

By balance sheet date, no common shares purchased had been sold.

Market value of treasury shares

The market value of treasury shares at the balance sheet date was the following:

	2007	2006(1)
Number of common shares	1,480,800	1,480,800
Quotation per share on BOVESPA (R$)	46.50	35.00
Fair value	**68,857**	**51,828**

(1) Per thousand shares.

The Company maintains the balance of treasury shares in a separate caption in books. For presentation purposes, the balance of retained earnings used to buy back these shares is as follows:

	2007	2006
Book balance	2,095,945	2,087,231
Treasury shares	(20,846)	(20,846)
Retained earnings, net of treasury shares	**2,075,099**	**2,066,385**

c. Capital reserves

Capital reserves are recognized in accordance with the following practices:

Reserve for share subscription premium: results from the difference between the amount paid on subscription and the portion allocated to capital.

Other capital reserves: formed by the contra entry of funds invested in income tax incentives.

d. Profit reserves

The profit reserves are recognized in accordance with the following practices:

Legal reserve: allocation of five percent of the annual net income up to twenty percent of paid-up capital or thirty percent of capital plus capital reserves. The legal reserve is used only to increase capital or absorb losses.

Unrealized profit reserve: recognized in the years in which the mandatory dividend amount, calculated pursuant to the bylaws or article 202 of Law no. 6404/76, exceeded the realized portion of the net income for the year. The reserve may absorb losses in subsequent years or, when realized, is included in tax basis of adjusted net income calculation for dividend payment purposes. Under the amendments introduced by Law no. 10303/01, net income recorded in the unrealized profits reserve as from 2002 are considered at the amount of the postponed dividend itself. However, while this rule is in effect the unrealized profits reserve will be included, when realized, in the calculation basis of the dividends, which is the case of the unrealized profits reserve that was recognized by the Company.

Retained earnings: and consist of the remaining balances of net income or loss for the year, adjusted according to the terms of article 202 of Law No. 6404/76, or by the recording of prior years' adjustments, if applicable.

e. Dividends and Interest on Shareholders' Equity

The dividends are calculated according to the Company's Bylaws and in compliance with the Corporate Law. Mandatory minimum dividends are calculated in accordance with article 202 of Law No. 6404/76, and the preferred or priority dividends are calculated in accordance with the Company's Bylaws.

By decision of the Board of Directors, the Company may pay or credit, as dividends, on shareholders' equity ("JSCP"), under article 9, paragraph 7, of Law No. 9249, of December 26, 1995. The interest paid or credited will be offset with the minimum mandatory annual dividend amount, in accordance with article 44 of the Company's Bylaws.

Mandatory minimum dividends calculated in accordance with article 202 of Law No. 6404/76.

	2007	2006
Net income	**675,906**	**473,654**
Realization of unrealized profits reserve	74,180	—
Allocation to legal reserve	(33,795)	(23,682)
Adjusted net income	**716,291**	**449,972**
Mandatory dividends (25% of adjusted net income)	**179,073**	**112,493**

Dividends and Interest on Shareholders´ Equity — JSCP Credited

The Company credited Interest on Shareholders' Equity to its shareholders during the year, according to the share position on the date of each credit was made. At the balance sheet date, interest on capital credited, net of withholding income tax, was attributed to dividends and is part of the net income allocation proposal to be submitted to the approval at the Annual Shareholders' Meeting (A.G.O.).

	2007	2006
Interest on Shareholder's Equity — JSCP — Credited	**336,300**	**413,400**
IRRF (withholding income tax)	(50,445)	(62,010)
Net JSCP	**285,855**	**351,390**
Dividends Provisioned, supplementing JSCP	**379,991**	**36,572**
Total shareholders' compensation	**665,846**	**387,962**
Common shares	243,479	141,866
Preferred shares	422,367	246,096

	2007	2006(2)
Total compensation per share (in Brazilian reais)(1)		
Common	1.836875	1.070272
Preferred	1.836875	1.070272
Total shares	1.836875	1.070272

(1) The calculation of dividends/JSCP per share takes into account shares outstanding at the balance sheet date.
(2) Per thousand shares.

Shareholders' compensation in 2007 and 2006 exceeded the value of mandatory dividends and it is also higher than the value of priority dividends and dividends for common shares, calculated under the same conditions.

9. OPERATING REVENUE FROM TELECOMMUNICATIONS SERVICES

	CONSOLIDATED	
	2007	2006
Fixed telephone service		
Local service	**6,566,256**	**6,928,969**
Activation fees	16,352	27,443
Subscription	3,541,429	3,517,369
Measured service	1,101,419	1,374,012
Fixed Mobile — VC1	1,876,132	1,963,497
Rental	1,157	1,680
Other	29,767	44,968
Long distance service	**2,947,454**	**2,770,089**
Intra-sector fixed	863,484	878,880
Intraregional (inter-sector) fixed	264,243	302,432
Interregional fixed	241,077	260,402
VC2	788,455	713,095
Fixed origin	292,343	283,802
Mobile origin	496,112	429,293
VC3	746,316	569,980
Fixed origin	365,588	244,433
Mobile origin	380,728	325,547
International	43,879	45,300
Interconnection	**357,674**	**442,148**
Fixed x Fixed	243,236	298,203
Mobile x Fixed	114,438	143,945
Cession of means	**357,893**	**328,431**
Public telephony	**546,007**	**540,610**
Supplementary services, smart network and advanced telephony	**393,980**	**367,559**
Other	**35,168**	**43,459**
Total fixed telephone service	**11,204,432**	**11,421,265**
Mobile telephone service		
Telephony	**1,753,231**	**1,140,055**
Subscription	433,555	305,376
Use	547,050	388,231
Charge per call	6,810	5,658
Roaming	16,070	13,319
Interconnection	624,691	300,089
Value added services	104,415	102,983
Other services	20,640	24,399
Sale of products	**270,515**	**286,198**
Cell phones	263,982	274,295
Electronic cards — *Brasil Chip*, accessories and other goods	6,533	11,903
Total of mobile telephony service	**2,023,746**	**1,426,253**
Data transmission services and others		
Data communication	**2,310,959**	**1,897,542**
Other services of core activities	**458,251**	**366,258**
Total data transmission services and others	**2,769,210**	**2,263,800**
Gross operating revenue	**15,997,388**	**15,111,318**
Deductions from gross revenue	**(4,938,842)**	**(4,814,659)**
Taxes on gross revenue	(4,353,809)	(4,285,952)
Other deductions from gross income	(585,033)	(528,707)
Net operating revenue	**11,058,546**	**10,296,659**

10. COST OF SERVICES AND SALES

Costs incurred on services and sales are as follows:

	CONSOLIDATED	
	2007	2006
Depreciation and amortization	(2,032,963)	(2,301,262)
Interconnection	(2,318,884)	(2,114,865)
Third-Party Services	(934,023)	(911,059)
Rental, leases and insurance	(313,925)	(348,238)
Products sold	(255,429)	(294,727)
Personnel	(162,494)	(169,260)
Connection means	(135,532)	(105,996)
Materials	(69,951)	(72,394)
Price of the public service concession	(69,406)	(67,363)
FISTEL(Telecommunications Inspection Fund) FEE	(64,820)	(48,551)
Employee profit sharing	(20,959)	(22,519)
Other	(3,815)	(3,695)
Total	**(6,382,201)**	**(6,459,929)**

11. SALES OF SERVICES

The expenses related to selling activities are detailed as follows:

	CONSOLIDATED	
	2007	2006
Third-Party Services	(735,592)	(747,202)
Losses on accounts receivables	(348,001)	(384,320)
Personnel	(229,004)	(235,745)
Rental, leases and insurance	(56,801)	(9,449)
Materials	(50,753)	(23,798)
Employee and management profit sharing	(21,149)	(22,229)
Depreciation and amortization	(19,080)	(16,504)
Other	(24,972)	(31,385)
Total	**(1,485,352)**	**(1,470,632)**

12. GENERAL AND ADMINISTRATIVE EXPENSES

The expenses related to administrative activities, which include information technology expenses, are detailed as follows:

	COMPANY		CONSOLIDATED	
	2007	2006	2007	2006
Third-Party Services	(6,208)	(7,030)	(763,084)	(722,972)
Depreciation and amortization	(256)	(312)	(327,380)	(325,273)
Personnel	(3,212)	(3,114)	(166,462)	(172,728)
Rental, leases and insurance	(7,275)	(4,745)	(48,329)	(43,747)
Employee and management profit sharing	—	—	(38,340)	(34,674)
Materials	—	—	(4,058)	(21,097)
Other	(6)	(9)	(1,225)	(1,773)
Total	**(16,957)**	**(15,210)**	**(1,348,878)**	**(1,322,264)**

13. OTHER OPERATING INCOME (EXPENSES)

Other revenues and expenses attributed to operating activities are shown as follows:

	COMPANY		CONSOLIDATED	
	2007	2006	2007	2006
Refunded taxes and recovered expenses	102	2,811	95,857	199,941
Rental of operating infrastructure and others	—	—	87,439	78,796
Recovery of expenses on pension funds — surplus	—	—	81,209	—
Fines	(3)	(79)	77,984	67,494
Technical and administrative services	2,315	4,165	59,600	62,134
Reversal of other provisions	—	47	32,390	15,587
Subsidies and grants received	—	—	16,889	13,856
Settlement of litigation with telecommunications companies	—	—	16,610	53,838
Dividends from investments stated at acquisition cost	329	3	712	265
Provision for contingencies(1)	(1,215)	(921)	(650,898)	(488,078)
Amortization of goodwill on acquisition of investments	—	—	(91,408)	(80,382)
Provision Pension funds	—	—	(89,675)	(28,709)
Taxes (other than on gross revenue, and income and social contribution tax)	(389)	(714)	(87,243)	(106,620)
Court fees	—	—	(51,060)	(32,870)
Donations and sponsoring	—	(10)	(11,499)	(9,902)
Results on write-off of maintenance/resale inventories	—	—	(1,923)	1,996
Indemnities — labor, telephony and others	—	—	(157)	(103)
Other income (expenses)	(217)	(193)	9,794	(11,173)
Total	**922**	**5,109**	**(505,379)**	**(263,930)**
Other operating income	**2,746**	**7,027**	**561,147**	**572,703**
Other operating expenses	**(1,824)**	**(1,918)**	**(1,066,526)**	**(836,633)**

Revenues and expenses of the same nature are presented at their net amount.

(1) Accrued contingencies are described in note 7.

14. FINANCIAL EXPENSES, NET

	COMPANY		CONSOLIDATED	
	2007	2006	2007	2006
Financial income	**341,366**	**286,669**	**773,796**	**803,387**
Local currency	341,362	265,764	769,481	791,898
On foreign currency-denominated rights	4	20,905	4,315	11,489
Financial expenses	**(450,968)**	**(491,459)**	**(1,263,117)**	**(1,413,379)**
Local currency	(114,537)	(55,117)	(727,303)	(728,300)
On foreign currency-denominated liabilities	(131)	(22,942)	(84,860)	(157,508)
Interest on Shareholders' Equity	(336,300)	(413,400)	(450,954)	(527,571)
Total	**(109,602)**	**(204,790)**	**(489,321)**	**(609,992)**

15. NONOPERATING (EXPENSES) INCOME

	COMPANY		CONSOLIDATED	
	2007	2006	2007	2006
Allowance for losses on tax incentives	—	—	—	(14,473)
Allowance for/reversal of investment losses	454	480	(25,714)	8,026
Losses on write-off of fixed assets and deferred charges	—	14	(22,759)	(9,283)
Gains (losses) on investments	(970)	60	(974)	99
Amortization of goodwill on merger	—	—	(126)	(7,811)
Gain on investment write-off	—	—	26,216	—
Provision for/reversal of realization amount and losses of property, plan and equipment	—	—	20,384	51,522
Other nonoperating expenses	—	—	(1)	3,339
Total	**(516)**	**554**	**(2,974)**	**31,419**

16. INCOME AND SOCIAL CONTRIBUTION TAXES

The Company records a provision for income and social contribution taxes on an accrual basis, and recognizes deferred taxes for temporary differences. The provision for income and social contribution taxes recognized in the statement of income is as follows:

	COMPANY		CONSOLIDATED	
	2007	2006	2007	2006
Income before taxes and profit sharing	**403,918**	**71,500**	**833,895**	**191,943**
Income of companies not subject to the calculation of income and social contribution taxes(1)	**—**	**—**	**12,221**	**62,862**
Total of taxable income	**403,918**	**71,500**	**846,116**	**254,805**
IRPJ (Corporate Income Tax)				
IRPJ on taxable income (10%+15%=25%)	(100,980)	(17,875)	(211,529)	(63,701)
Permanent additions	(21,883)	(487)	(77,008)	(40,177)
Goodwill amortization	—	—	(22,754)	(11,516)
Exchange variation on investments	(59)	(44)	(3,510)	(5,520)
Nonoperating equity in subsidiaries	(243)	—	(50)	—
Other additions	(21,581)	(443)	(50,694)	(23,141)
Permanent deductions	75,556	13,308	17,043	25,091
Equity in subsidiaries	74,003	13,187	—	—
Dividends from investments stated at acquisition cost	82	1	178	89
Recovery of federal taxes	—	—	—	1,387
Other deductions	1,471	120	16,865	23,615
Offset of tax loss carryforwards	—	—	3,411	1,634
Recognition of deferred income tax on tax loss carryforwards	—	—	5,817	—
Other	24	(4,506)	2,244	(3,539)
Effect of IRPJ on the Statement of Income	**(47,283)**	**(9,560)**	**(260,022)**	**(80,692)**
CSLL (social contribution on net profit)				
CSLL on taxable income (9%)	(36,353)	(6,435)	(76,150)	(22,932)
Permanent additions	(7,877)	(175)	(26,231)	(12,938)
Goodwill amortization	—	—	(8,191)	(4,146)
Exchange variation on investments	(21)	(16)	(1,264)	(1,987)
Nonoperating equity in subsidiaries	(87)	—	(266)	—
Other additions	(7,769)	(159)	(16,510)	(6,805)
Permanent deductions	27,201	4,791	6,293	7,906
Equity in subsidiaries	26,641	4,748	—	—
Dividends from investments stated at acquisition cost	30	—	64	32
Recovery of federal taxes	—	—	—	499
Other deductions	530	43	6,229	7,375
Offset of tax loss carryforwards	—	—	1,220	587
Recognition of social contribution tax on tax loss carryforwards	—	—	2,094	—
Other	—	133	(107)	(12)
Effect of CSLL on the Statement of Income	**(17,029)**	**(1,686)**	**(92,881)**	**(27,389)**
Effect of IRPJ and CSLL on the Statement of Income	**(64,312)**	**(11,246)**	**(352,903)**	**(108,081)**

(1) Negative result of subsidiaries which do not recognize income and social contribution taxes on tax loss carryforwards because they do not expect their realization.

17. CASH, BANKS AND TEMPORARY CASH INVESTMENTS

	COMPANY		CONSOLIDATED	
	2007	2006	2007	2006
Cash and banks	702	740	315,032	127,900
Temporary cash investments	986,812	1,431,604	3,049,514	3,846,052
Total	**987,514**	**1,432,344**	**3,364,546**	**3,973,952**

The breakdown of the temporary cash investments portfolio is as follows:

	COMPANY		CONSOLIDATED	
	2007	2006	2007	2006
Exclusive investment funds				
Government securities	682,337	1,411,169	2,235,356	3,530,380
Private-sector securities	252,080	16,105	606,804	93,570
Cash and repos — Overnight	56,316	10,527	187,046	89,922
Derivatives	38	—	440	—
Provision for income tax — amending	(3,926)	(6,197)	(11,366)	(15,803)
Total exclusive investment funds	**986,845**	**1,431,604**	**3,018,280**	**3,698,069**
Overnight fund	**—**	**—**	**—**	**120,377**
CDB	**—**	**—**	**3,583**	**5,670**
Open investments funds	**—**	**—**	**27,579**	**21,870**
Investments abroad — certificates of deposit	**—**	**—**	**377**	**466**
Total investments	**986,845**	**1,431,604**	**3,049,819**	**3,846,452**
Partial block by court order	(33)	—	(305)	(400)
Total temporary cash investments	**986,812**	**1,431,604**	**3,049,514**	**3,846,052**

Exclusive investment funds are subject to obligation associated to the payment of services provided for the asset management, attributed to investment transactions, such as custody and audit fees, and other related expenses, and there are no relevant financial liabilities not Company's assets to guarantee those liabilities.

18. TEMPORARY INVESTMENTS

The Company holds securities issued by the Austrian Republic, bearing interest equal to a given percentage of CDI variation, and by the Official Credit Institute (ICO), a Spanish government entity, with fixed interest. The maturity of these securities is on December 19, 2008 and June 2, 2008, respectively, and the adjusted amount at the balance sheet date was R$ 475,389.

19. GOVERNMENT SECURITIES

Investments made by BrT in fixed rate federal securities represented by LTN (National Treasury Bills), maintained as guarantee for the participation in a bidding process of ANATEL, totaling the consolidated amount of R$53,573 at the balance sheet date, for which there is the reduction amount of R$17, resulting from the hedge transactions under interest rate *swap* modality, resulting in the net amount of R$53,556. Such securities are released for immediate availability of the Subsidiary with the completion of the bidding process associated thereto.

20. TRADE ACCOUNTS RECEIVABLE

The amounts related to trade accounts receivable are as follows:

	CONSOLIDATED	
	2007	2006
Billed services	1,597,040	1,476,842
Unbilled services	892,448	916,672
Sale of products	75,603	91,775
Subtotal	**2,565,091**	**2,485,289**
Allowance for loan losses	**(375,390)**	**(357,635)**
Services	(370,799)	(353,203)
Sale of products	(4,591)	(4,432)
Total	**2,189,701**	**2,127,654**
Current	1,681,551	1,632,138
Past-due		
From 01 to 30 days	390,471	415,040
From 31 to 60 days	125,924	124,393
From 61 to 90 days	87,161	76,947
From 91 to 120 days	61,219	61,490
120 days	218,765	175,281

21. INVENTORIES

Maintenance and resale inventories, for which provisions for losses or adjustments to their estimated realization are recognized, are as follows:

	CONSOLIDATED	
	2007	2006
Resale inventories (cell phones and accessories)	53,532	96,476
Maintenance inventories	7,158	9,175
Provision for adjustment to realization value	(27,554)	(39,062)
Provision for probable losses	(425)	(2,425)
Total	**32,711**	**64,164**

22. LOANS AND FINANCING — ASSETS

	CONSOLIDATED	
	2007	2006
Loans	7,973	8,409
Total	**7,973**	**8,409**
Current	1,797	5,557
Long term	6,176	2,852

Loans and financing receivable refer to the transfer of funds to the company responsible for the production of phone directories, and result from the sale of fixed assets to other telephony companies. Loans and financing bear interest equal to the IGP-DI and IPA-OG/Industrial Products of Column 27 issued by Fundação Getulio Vargas (FGV).

23. DEFERRED AND RECOVERABLE TAXES

	COMPANY		CONSOLIDATED	
	2007	2006	2007	2006
Deferred taxes	22,324	17,735	1,608,083	1,407,142
Other recoverable taxes	332,550	304,835	989,635	1,186,436
Total	**354,874**	**322,570**	**2,597,718**	**2,593,578**
Current	13,683	42,915	804,500	944,115
Long term	341,191	279,655	1,793,218	1,649,463

Deferred taxes related to income and social contribution taxes

	COMPANY		CONSOLIDATED	
	2007	2006	2007	2006
Corporate income tax				
Deferred income tax on:				
Income tax loss carryforwards	—	—	498,803	433,124
Provision for contingencies	1,256	1,065	298,809	245,966
Provision for covering actuarial deficiency of pension plans	—	—	171,936	162,303
Allowance for loan losses	—	—	93,548	89,245
ICMS — Agreement No. 69/98 and 78/01	—	—	39,820	58,480
Provision for suspended payment — COFINS/CPMF	20,615	16,287	40,770	17,341
Provision for profit sharing	—	—	16,092	15,922
Provision for inventory losses	—	—	10,606	10,288
Provision for suspended payment — FUST	—	—	19,027	10,246
Allowance for losses — BIA	—	—	71	1,285
Unearned income	—	—	—	221
Other provisions	—	—	16,358	11,100
Subtotal	**21,871**	**17,352**	**1,205,840**	**1,055,521**
Social contribution tax				
Deferred social contribution tax on:				
Tax loss carryforwards	—	—	181,382	156,388
Provision for contingencies	453	383	109,082	90,014
Provision for covering actuarial deficiency of pension plans	—	—	61,897	58,429
Allowance for loan losses	—	—	33,677	32,128
Provision for profit sharing	—	—	6,476	6,421
Provision for inventory losses	—	—	3,818	3,704
Allowance for losses — BIA	—	—	25	463
Unearned income	—	—	—	79
Other provisions	—	—	5,886	3,995
Subtotal	**453**	**383**	**402,243**	**351,621**
Total	**22,324**	**17,735**	**1,608,083**	**1,407,142**
Current	6	4	336,513	270,782
Long term	22,318	17,731	1,271,570	1,136,360

The following table shows the periods in which the deferred tax assets related to income and social contribution taxes are expected to be realized, which are derived from temporary differences between book income on the accrual basis and taxable income, as well as in the tax loss carryforwards, if any. The realization periods are based on a technical study that used expected future taxable income generated as from the years when the temporary differences become deductible expenses for tax purposes. These assets are recorded in accordance with the requirements in the CVM Instruction No. 371/02 and the technical study submitted to the approval of the executive board and the Board of Directors, and the examination of the supervisory board.

	COMPANY	CONSOLIDATED
2008	5	336,512
2009	1,704	139,354
2010	20,615	182,624
2011	—	162,798
1012	—	186,602
2013 to 2015	—	232,865
2016 to 2017	—	181,442
2018 and following years	—	185,886
Total	**22,324**	**1,608,083**
Current	6	336,513
Long term	22,318	1,271,570

The recoverable amount expected after 2017 is a result of a provision to cover the actuarial deficiency of pension plans that is being settled by subsidiary Brasil Telecom S.A. according to the maximum remaining period of 14 years, in line with the period established by the SPC (Secretariat for Pension Plans). Despite the time limit stipulated by the SPC and according to the estimated future taxable income, this subsidiary is in a position to fully offset the deferred taxes within a period lower than ten years, if it opts to fully anticipate the repayment of the debt. The Company did not recognize tax credits in the amount of R$26,384, and R$161,879 in Consolidated, because of the lack of the necessary requirements in terms of history and/or history future taxable income. The indirect subsidiaries that did not recognize these tax credits were VANT, BrT Multimídia and BrT CS.

Other recoverable taxes

Consist of federal withholding taxes, credits for offset, and payments made, calculated based on legal estimates, which will be offset against future taxes payable. ICMS recoverable arises mostly from credits recorded upon the purchase of fixed assets, whose offset against ICMS payable may occur within up to 48 months, according to Supplementary Law No. 102/00.

	COMPANY		CONSOLIDATED	
	2007	2006	2007	2006
ICMS (State VAT)	—	—	500,994	632,227
Corporate income tax	253,040	268,157	309,533	322,848
PIS and COFINS	147,358	—	237,768	183,307
Social contribution tax	9,752	36,678	14,164	44,269
FUST (Telecommunications Universal Service Fund)	—	—	724	720
Other	—	—	4,052	3,065
Subtotal	**410,150**	**304,835**	**1,067,235**	**1,186,436**
Provision to recoverable amount	(77,600)	—	(77,600)	—
Total	**332,550**	**304,835**	**989,635**	**1,186,436**
Current	13,677	42,911	467,987	673,333
Long term	318,873	261,924	521,648	513,103

The provision to recoverable amount corresponds to the tax credits portion which can be offset in a period that exceeds the next ten years.

24. FIXED-INCOME SECURITIES

Represented by CDB (bank certificates of deposit) of Banco de Brasília S.A. — BRB, bearing interest of 94%, 95% and 97% of the SELIC rate, maintained as guarantee for the financing obtained through the PRÓ-DF (Economic and Sustained Development Support Program of the Federal District) by Brasil Telecom S.A. and 14 Brasil Telecom Celular S.A. These fixed-income securities will be maintained during the period of utilization and repayment of the financing (liability), whose grace period establishes the first payment for year 2019, repayable in 180 monthly, consecutive installments. This asset may be used to repay the final installments of that financing.

	CONSOLIDATED	
	2007	2006
Banco de Brasília S.A. — BRB — Bank Certificates of Deposit	3,709	3,280
Total	**3,709**	**3,280**

25. ESCROW DEPOSITS

Balances of escrow deposits related to contingencies with possible and remote risk of loss.

	COMPANY		CONSOLIDATED	
	2007	2006	2007	2006
Restriction by nature of contingencies				
Labor	—	—	250,564	198,343
Tax	5,552	5,284	103,705	133,656
Civil lawsuits	103	—	1,044,254	216,984
Total	**5,655**	**5,284**	**1,398,523**	**548,983**
Current	40	—	329,396	119,058
Long term	5,615	5,284	1,069,127	429,925

Escrow deposits tied to provisions for liabilities are shown as a deduction from such provisions. Refer to notes 7 and 34.

26. RECEIVABLE DIVIDENDS/INTEREST ON SHAREHOLDERS' EQUITY

Refer to the interest on shareholders' equity, net of withholding income tax and dividends credited by the subsidiary Brasil Telecom S.A. in 2007, the amount receivable of which is R$ 474,247 (R$ 241,145 as of December 31, 2006).

27. OTHER ASSETS

	COMPANY		CONSOLIDATED	
	2007	2006	2007	2006
Pension funds — future recoverable contributions(1)	—	—	74,476	—
Tax credits acquired(2)	—	—	46,543	—
Advances to suppliers	450	—	19,038	59,183
Advances to employees	—	—	36,541	33,610
Amounts receivable from telecommunications companies	—	—	8,807	9,501
Prepaid expenses	8,424	8,900	65,830	100,207
Compulsory deposits	—	—	1,562	1,750
Assets for sale	—	—	1,280	1,016
Other	—	131	25,182	11,759
Total	**8,874**	**9,031**	**279,259**	**217,026**
Current	8,874	8,436	184,403	174,189
Long term	—	595	94,856	42,837

(1) Asset recognized to be used on the offset of future employer contributions to the supplementary pension — TCSPREV plan, as mentioned in note 6.

(2) State Letters of Credit, acquired for the full payment of ICMS Infraction notices issued against the Company.

28. INVESTMENTS

	COMPANY		CONSOLIDATED	
	2007	2006	2007	2006
Investments accounted for under the equity method	**3,771,093**	**3,748,768**	**—**	**—**
Brasil Telecom S.A.	3,751,699	3,719,264	—	—
Nova Tarrafa Participações Ltda.	18,620	28,123	—	—
Nova Tarrafa Inc.	774	1,381	—	—
Advances for future capital increase	**21**	**21**	**—**	**—**
Nova Tarrafa Participações Ltda.	21	21	—	—
Goodwill on acquisition of investments	—	—	**169,288**	**260,852**
iG Cayman Ltd	—	—	107,464	161,019
MTH Ventures do Brasil Ltda.	—	—	29,431	51,504
iBEST companies	—	—	31,452	45,508
BRT Cabos Submarinos companies	—	—	941	2,821
Investments accounted for at cost	**6,911**	**6,911**	**11,924**	**46,059**
Tax incentives, net of provisions for losses	**1,093**	**638**	**20,259**	**22,774**
Other investments	**—**	**—**	**39**	**389**
Total	**3,779,118**	**3,756,338**	**201,510**	**330,074**

Advances for future capital increase in favor of the subsidiary were considered in the evaluation of investments, since the allocated contributions are only waiting for the formalization of the corporate documentation to complete the related capital increases.

Investments accounted for under the equity method: comprise the Company's ownership interest held in its subsidiaries Brasil Telecom S.A., Nova Tarrafa Participações Ltda. and Nova Tarrafa Inc., the main data of which is as follows:

	BT S.A.	NTP (Ltda.)	NTI
Shareholders' equity	5,575,891	18,620	774
Capital	3,470,758	32,625	1,776
Book value per share (R$)	10.19	0.57	771.68
Net income (loss)	797,287	(9,503)	(370)
Number of shares held			
Common shares	247,317,180	—	1,003
Preferred shares	120,911,021	—	—
Shares	—	32,624,928	—
Ownership interest — %(1)			
In total capital	67.28%	99.99%	100%
In voting capital	99.09%	99.99%	100%

(1) Considers outstanding capital.

The equity in subsidiaries result consists of the following:

	Operating		Nonoperating	
	2007	2006	2007	2006
Brasil Telecom S.A.	541,629	297,677	(970)	60
Nova Tarrafa Participações Ltda.	(9,503)	(9,803)	—	(3)
Nova Tarrafa Inc.(1)	(607)	(629)	—	—
Total	**531,519**	**287,245**	**(970)**	**57**

(1) Includes exchange variation related to investment abroad.

Investments accounted for at cost: represented by shareholdings obtained by converting shares from tax incentive investments in the FINOR/FINAM regional programs, the Incentive Law for Information Technology Companies, and the Audiovisual Law. The amount is predominantly composed of shares of other telecommunications companies located in the regions covered by these regional incentives.

Tax incentives: arise from investments in FINOR/FINAM and audiovisual programs and result from allocated amount of income tax payable.

Other investments: related to cultural assets.

29. PROPERTY, PLANT AND EQUIPMENT

		COMPANY			
		2007			2006
Type	Annual depreciation rates	Cost	Accumulated depreciation	Net book value	Net book value
Assets for general use	5% - 20%	52,283	(51,543)	740	952
Other assets	19.9%(1)	188	(150)	38	52
Total		**52,471**	**(51,693)**	**778**	**1,004**

(1) Weighed annual average rate

		CONSOLIDATED			
		2007			2006
Type	Annual depreciation rates	Cost	Accumulated depreciation	Net book value	Net book value
Construction in progress	—	460,353	—	460,353	322,712
Public switching equipment	20%	5,156,451	(4,929,268)	227,183	371,709
Transmission equipment and means	16.9%(1)	12,521,489	(10,449,717)	2,071,772	2,661,538
Termination	20%	513,909	(469,381)	44,528	37,219
Data communication equipment	20%	2,169,375	(1,436,307)	733,068	824,318
Buildings	4.2%	957,334	(565,294)	392,040	412,638
Infrastructure	8.7%(1)	3,893,938	(2,582,980)	1,310,958	1,450,335
Assets for general use	18.5%(1)	1,217,013	(877,398)	339,615	369,982
Land	—	84,613	—	84,613	84,830
Other assets	—	66	—	66	66
Total		**26,974,541**	**(21,310,345)**	**5,664,196**	**6,535,347**

(1) Weighed annual average rate

According to the STFC concession agreements, the assets of subsidiary Brasil Telecom S.A. that are indispensable to providing the service and qualified as "returnable assets" will be automatically returned to ANATEL when the concession ends, and the Company will be entitled to the indemnities established in the legislation and the related agreements. The amount of returnable assets at the balance sheet was R$21,636,432 for cost, with residual value of R$3,288,196.

Leasing

Financial lease agreements are entered into for IT equipment. The position of the long-term payables related to those contracts at the balance sheet date is as follows, per year of outlay.

	CONSOLIDATED	
	2007	2006
2007	—	20,953
2008	30,395	19,643
2009	11,601	7,614
Total minimum payments	**41,996**	**48,210**

Lease agreements bear charges subject to the DI-Over rate variation.

Insurance

The Company has an insurance policy program for covering returnable assets, loss of profits and contractual guarantees, as established in the Concession Agreement entered into with the government, and civil liability for telephony service operations.

The assets, liabilities and interests covered by insurance are as follows (unaudited):

		Insured amount	
Type	Coverage	2007	2006
Operating risks	Buildings, machinery and equipment, premises, call centers, towers, infrastructure and IT equipment	12,705,368	12,046,261
Loss of profits	Fixed expenses and net income	8,669,400	9,015,211
Contractual guarantees	Compliance with contractual obligations	89,405	143,648
Civil liability	Telephony service operations	12,000	12,000

The Company contracted also insurance coverage related to civil liability of management, which also provides coverage for subsidiary Brasil Telecom S.A., whose total approximate amount is equivalent to US$90,000,000.00.

There is no insurance coverage for the optional civil liability, related to casualties with Company vehicles involving third parties.

30. INTANGIBLE ASSETS

	COMPANY			
	2007			2006
	Cost	Accumulated amortization	Net book value	Net book value
Data processing systems	148	(148)	—	30
Trademarks and patents	36	(26)	10	10
Other	3,702	(3,702)	—	—
Total	**3,886**	**(3,876)**	**10**	**40**

	CONSOLIDATED			
	2007			2006
	Cost	Accumulated amortization	Net book value	Net book value
Data processing systems	2,166,965	(1,420,783)	746,182	861,197
Regulatory licenses	325,368	(78,075)	247,293	272,022
Trademarks and patents	687	(76)	611	1,112
Other	72,111	(16,627)	55,484	29,101
Total	**2,565,131**	**(1,515,561)**	**1,049,570**	**1,163,432**

31. DEFERRED CHARGES

	CONSOLIDATED			
	2007			2006
	Cost	Accumulated amortization	Net book value	Net book value
Installation and reorganization costs	302,054	(194,397)	107,657	133,825
Goodwill from merger	—	—	—	126
Other	14,251	(10,955)	3,296	4,516
Total	**316,305**	**(205,352)**	**110,953**	**138,467**

32. PAYROLL AND RELATED ACCRUALS

	COMPANY		CONSOLIDATED	
	2007	2006	2007	2006
Salaries and fees	—	—	6,010	4,402
Payroll charges	21	19	72,854	61,083
Social benefits	—	—	3,837	6,447
Other	—	—	7,691	6,648
Total	**21**	**19**	**90,392**	**78,580**

33. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	COMPANY		CONSOLIDATED	
	2007	2006	2007	2006
Suppliers	437	140	1,496,446	1,481,376
Consignment in favor of third parties	22,349	34,258	154,198	138,423
Total	**22,786**	**34,398**	**1,650,644**	**1,619,799**
Current	22,786	34,398	1,637,188	1,613,090
Long term	—	—	13,456	6,709

The amounts recorded in long-term liabilities are derived from obligations as consideration for the use of third-party networks, the settlement of which depends on verification between the operators, such as the reconciliation of traffic.

34. INDIRECT TAXES

	COMPANY		CONSOLIDATED	
	2007	2006	2007	2006
ICMS, net of escrow deposits of Agreement No. 69/98	—	108	621,601	775,579
ICMS (State VAT)	—	108	811,743	993,117
Escrow deposits related to Agreement No. 69/98	—	—	(190,142)	(217,538)
PIS and COFINS (taxes on revenue)	6,569	6,499	168,156	83,612
Other	9	23	60,720	54,474
Total	**6,578**	**6,630**	**850,477**	**913,665**
Current	18	165	746,234	851,399
Long term	6,560	6,465	104,243	62,266

The balance of ICMS comprises amounts resulting from Agreement no. 69/98, which has been questioned in Courts and is deposited in an escrow deposited on a monthly basis. It also includes the ICMS deferral, based on incentives by the State Government of Paraná.

35. TAXES ON INCOME

	COMPANY		CONSOLIDATED	
	2007	2006	2007	2006
Corporate income tax				
Payable	4,161	1,254	103,940	61,443
Law No. 8200/91 — Special monetary adjustment	—	—	5,491	6,171
Subtotal	**4,161**	**1,254**	**109,431**	**67,614**
Social contribution tax				
Payable	65	44	30,080	18,698
Law No. 8200/91 — Special monetary adjustment	—	—	1,977	2,222
Subtotal	**65**	**44**	**32,057**	**20,920**
Total	**4,226**	**1,298**	**141,488**	**88,534**
Current	—	—	74,628	37,050
Long term	4,226	1,298	66,860	51,484

36. DIVIDENDS/INTEREST ON SHAREHOLDERS' EQUITY AND PROFIT SHARING

	COMPANY		CONSOLIDATED	
	2007	2006	2007	2006
Controlling shareholders	**125,562**	**73,160**	**125,562**	**73,160**
Dividends/ Interest on Shareholders' Equity	135,075	84,853	135,075	84,853
IRRF Interest on Shareholders' Equity	(9,513)	(11,693)	(9,513)	(11,693)
Minority interest	**600,360**	**369,521**	**890,954**	**541,251**
Dividends/ Interest on Shareholders' Equity	581,216	365,118	829,031	499,536
IRRF Interest on Shareholders' Equity	(40,932)	(50,317)	(58,130)	(67,443)
Unclaimed prior years' dividends	60,076	54,720	120,053	109,158
Total shareholders	**725,922**	**442,681**	**1,016,516**	**614,411**
Employees and management profit sharing	**—**	**—**	**81,328**	**76,334**
Total	**725,922**	**442,681**	**1,097,844**	**690,745**

37. LOANS AND FINANCING

	CONSOLIDATED	
	2007	2006
Financing	4,284,543	5,129,237
Accrued interest and other charges on financing	98,860	242,496
Loans	—	3,457
Total	**4,383,403**	**5,375,190**
Current	496,775	1,109,564
Long term	3,886,628	4,265,626

Financing

	CONSOLIDATED	
	2007	2006
BNDES (National Bank for Economic and Social Development)	2,206,917	2,448,583
Local currency	2,112,204	2,240,615
Basket of currencies, including US dollar	94,713	207,968
Loans and financing	1,086,153	1,295,034
Local currency	52,506	61,973
Foreign currency	1,033,647	1,233,061
Public debentures	1,088,956	1,625,939
Suppliers — foreign currency	1,377	2,177
Total	**4,383,403**	**5,371,733**
Current	496,775	1,106,107
Long term	3,886,628	4,265,626

Financing in local currency: bear (i) fixed interest ranging from 2.4% p.a. to 11.5% p.a., resulting in a weighted average rate of 6.90% p.a.; and (ii) variable interest based on TJLP plus 2.3% to 5.5% p.a., UMBNDES plus 5.5% p.a., 104% of CDI, resulting in a weighted average rate of 11.13% p.a.

Financing in foreign currency: bear (i) fixed interest ranging from 1.75% p.a. to 9.38% p.a., resulting in a weighted average rate of 9.35% p.a.; and (ii) variable interest based on LIBOR and 1.92% p.a. above the YEN LIBOR, resulting in a weighted average rate of 3.28 p.a. LIBOR and YEN LIBOR rates as of December 31, 2007, for half-yearly payments, were 5.4% p.a. and 1.0825% p.a., respectively.

Public debentures issued by subsidiary Brasil Telecom S.A.

Forth public issue: 108,000 non-convertible debentures without renegotiation clause, with unit face value of R$10, amounting to R$1,080,000, carried out on June 1, 2006. Repayment term is seven years, maturing on June 1, 2013. Yield corresponds to an interest rate of 104.0% of CDI and its payment periodicity is semiannual. Repayment, which shall indistinctly consider all debentures, will occur annually as from June 1, 2011, in three installments of 33.3%, 33.3% and 33.4% of the unit face value, respectively. At the balance sheet date there were no debentures from this issue in treasury.

Loans

	CONSOLIDATED	
	2007	2006
Foreign currency loans	—	3,457
Total	**—**	**3,457**

Loans refer to a debt of VANT to its former controlling shareholder. This liability was settled on February 5, 2007.

Payment schedule

Long-term debt payment is scheduled for the following years:

	CONSOLIDATED	
	2007	2006
2008	—	437,569
2009	608,463	1,026,792
2010	719,714	588,426
2011	778,469	651,880
2012	640,969	520,459
2013	641,720	521,143
2014 and following years	497,293	519,357
Total	**3,886,628**	**4,265,626**

Breakdown of financing by currency/index

Adjusted by	CONSOLIDATED 2007	2006
TJLP	2,112,204	2,240,615
CDI	1,088,956	1,625,939
US dollar	394,979	488,391
Yen	241,933	351,786
Hedge of yen-denominated debt	398,112	398,518
UMBNDES — BNDES currency basket	94,713	185,881
Hedge of UMBNDES debt	—	22,087
IGP-DI	26,599	25,501
Other (fixed rate)	25,907	36,472
Total	**4,383,403**	**5,375,190**

Guarantees

Certain loans and financing raised are guaranteed by collateral of receivables from the provision of telephony services and the Parent Company's surety.

For consolidated loans and financing, the Company maintains hedging contracts on 60.1% of these US dollar- and yen-denominated loans and financing entered into with third parties to hedge against significant fluctuations in quotations of these debt adjustment indices. As of December 31, 2007, considering the hedging transactions and foreign currency cash investments, the actual exposure was 3.6% (9.7% as of December 31, 2006). The gains and losses on these contracts are recognized on the accrual basis.

The debentures issued by Brasil Telecom S.A. are collateralized by a surety granted by the Company. Under the indenture, the Company, as intervening guarantor, undertakes before the debenture holders as primary obligor and guarantor, to be jointly liable for all obligations assumed by the subsidiary related to its debentures.

38. SERVICE EXPLOITATION LICENSES AND CONCESSIONS

	CONSOLIDATED 2007	2006
Personal mobile service	242,162	275,985
STFC concession	—	67,363
Other licenses	11,314	12,033
Total	**253,476**	**355,381**
Current	78,844	135,848
Long term	174,632	219,533

The licenses for Personal Mobile Services are represented by the agreements entered into in 2002 and 2004 by 14 Brasil Telecom Celular S.A. with ANATEL, to exploit SMP services during a fifteen-year period in the same area of operation where Brasil Telecom S.A. has a concession for fixed telephony. Out of the contracted value, 10% was paid on execution date and the remaining balance was fully recognized in the BrT Celular's liabilities to be paid in equal, consecutive annual installments, with maturities scheduled for 2008-2010 (balance of three installments), and 2008-2012 (balance of five installments), depending on the year the agreements were executed. The remaining balance is adjusted based on the variation of IGP-DI, plus 1% per month.

The STFC concession as of December 31, 2006 refers to the provision recognized by Brasil Telecom S.A. on an accrual basis, based on the application of 1% upon the taxes net revenue. According to the concession agreement in effect, the payment in favor of ANATEL becomes due at each two-year period, set up for April of odd years and equivalent to 2% of net revenue verified in the previous year. The first payment was made in April 2007.

The amount of other licenses relates to BrT Multimídia and refers to the license granted to the use of radiofrequency blocks associated with the exploitation of multimedia communication services. Initially, such granting was obtained from ANATEL by VANT and on April 2006 the transfer registration to BrTMultimídia took place, which assumed the outstanding balance, with a variation of the IGP-M, plus 1% a month. The settlement of the balance of such obligation will be paid in four equal, consecutive and annual installments, falling due in May.

39. PROVISIONS FOR PENSION FUND

Refer to the recognition by Brasil Telecom S.A. of the actuarial deficit of the pension plans of defined benefit managed by FBrTPREV and the pension plan managed by this subsidiary appraised by independent actuaries in accordance with CVM Resolution No. 371/00. Such sponsored plans are detailed in note 6.

	CONSOLIDATED	
	2007	2006
FBrTPREV — BrTPREV, Alternativo and Fundador plans	685,668	648,567
PAMEC plan	2,077	646
Total	**687,745**	**649,213**
Current	101,467	43,238
Long term	586,278	605,975

40. ADVANCES FROM CUSTOMERS

	CONSOLIDATED	
	2007	2006
Assignment of telecommunications means	91,273	92,630
Prepaid services	42,877	28,969
Other advances from customers	940	1,709
Total	**135,090**	**123,308**
Current	62,957	52,643
Long term	72,133	70,665

The long-term balance refers to the assignment agreements of telecommunications means, for which the customers made advances aimed at obtaining benefits for a more extensive period, and realization is estimated for the following years:

	CONSOLIDATED	
	2007	2006
2008	—	7,063
2009	7,920	6,976
2010	7,770	6,826
2011	7,718	6,774
2012	7,496	6,774
2013	7,238	6,766
2014	6,589	6,766
2015 and following year	27,402	22,720
Total	**72,133**	**70,665**

41. OTHER LIABILITIES

	COMPANY		CONSOLIDATED	
	2007	2006	2007	2006
Obligations from reverse stock split	75,387	—	81,230	—
Self-financing funds	—	—	24,143	24,143
Bank credits and repeater receivables under processing	—	—	12,293	12,226
Other taxes	—	—	11,332	4,835
Obligations from acquisition of tax credits	—	—	7,053	15,086
Bonuses and premiums — subsequent periods	—	—	3,249	—
CPMF (tax on banking transactions) — suspended payment	—	—	2,421	2,286
Obligations with other telecommunications companies	—	—	1,616	1,616
Return of self–financing funds	—	—	607	737
Other	—	286	16,846	8,996
Total	**75,387**	**286**	**160,790**	**69,925**
Current	75,387	286	143,570	64,643
Long term	—	—	17,220	5,282

Self-financing funds

Correspond to the financial participation credits, paid by committed subscribers, for the purchase of the right of use of switched fixed telephone service, still under the discontinued self-financing modality. It happened that, as the shareholders of Brasil Telecom S.A. — Rio Grande do Sul branch (former CRT) had fully subscribed the capital increase made to repay in shares the credits for capital participation, there were no unsold shares to be delivered to the committed subscribers. Part of these committed subscribers, who did not accept this subsidiary's Public Offering to return the referred credits in cash, as established in article 171, paragraph 2, of Law No. 6.404/76, are awaiting the termination of the ongoing lawsuit, filed by the Public Prosecution Office and Others, aiming at reimbursement in shares.

42. CAPITALIZABLE FUNDS

The expansion plans (self-financing) were the means by which the telecommunications companies financed part of the network investments. With the issue of Administrative Rule No. 261/97 by the Ministry of Communications, this fund raising mechanism was discontinued and the existing consolidated amount of R$7,974 (R$7,974 as of December 31, 2006) derives from plans sold prior to the issue of said Administrative Rule, the corresponding assets to which are already incorporated to fixed assets through the PCT (Community Telephony Plant). For reimbursement in shares, it is necessary to await a court decision on the suits filed by the interested parties.

43. INFORMATION BY BUSINESS SEGMENT — CONSOLIDATED

The information by segment refers to the business of the Company and its subsidiaries and has been identified based on their operating and management structure, as well as internal management information.

The transactions of the business segments have been carried out under market terms and conditions.

Results by segment, and balance sheet account presented, consider revenues, costs, and expenses directly linked to each segment and those that can be reasonably allocated.

	2007						
	Fixed telephony and data transmission	Mobile telephony	Internet	Call center	Adminis-tration	Eliminations between segments	Consolidated
Gross operating revenue	**13,911,298**	**2,445,806**	**445,820**	**22,151**	**—**	**(827,687)**	**15,997,388**
Deductions from gross revenue	**(4,178,153)**	**(699,872)**	**(66,305)**	**(1,252)**	**—**	**6,740**	**(4,938,842)**
Net operating revenue	**9,733,145**	**1,745,934**	**379,515**	**20,899**	**—**	**(820,947)**	**11,058,546**
Cost of services and sales	**(5,487,894)**	**(1,531,692)**	**(55,203)**	**(20,517)**	**—**	**713,105**	**(6,382,201)**
Gross profit	**4,245,251**	**214,242**	**324,312**	**382**	**—**	**(107,842)**	**4,676,345**
Operating expenses, net	**(2,487,461)**	**(546,325)**	**(400,630)**	**(617)**	**(23,981)**	**108,859**	**(3,350,155)**
Sales of services	(898,192)	(453,909)	(274,212)	—	—	140,961	(1,485,352)
General and administrative expenses	(1,158,241)	(128,803)	(68,475)	(617)	(16,957)	24,215	(1,348,878)
Management compensation	(8,290)	—	(808)	—	(1,448)	—	(10,546)
Other operating income (expenses)	(422,738)	36,387	(57,135)	—	(5,576)	(56,317)	(505,379)
Income (loss) from operations before financial expenses (income)	**1,757,790**	**(332,083)**	**(76,318)**	**(235)**	**(23,981)**	**1,017**	**1,326,190**
Trade accounts receivable	**2,033,133**	**194,556**	**110,223**	**22,151**	**—**	**(170,362)**	**2,189,701**
Inventories	**6,165**	**26,546**	**—**	**—**	**—**	**—**	**32,711**
Property, plant and equipment and intangible assets, net	**5,254,440**	**1,399,206**	**59,332**	**—**	**788**	**—**	**6,713,766**

	2006					
	Fixed telephony and data transmission	Mobile telephony	Internet	Administration	Eliminations between segments	Consolidated
Gross operating revenue	**13,653,447**	**1,788,972**	**342,050**	**—**	**(673,151)**	**15,111,318**
Deductions from gross revenue	**(4,234,182)**	**(541,595)**	**(42,508)**	**—**	**3,626**	**(4,814,659)**
Net operating revenue	**9,419,265**	**1,247,377**	**299,542**	**—**	**(669,525)**	**10,296,659**
Cost of services and sales	**(5,769,433)**	**(1,176,083)**	**(145,564)**	**—**	**631,151**	**(6,459,929)**
Gross profit	**3,649,832**	**71,294**	**153,978**	**—**	**(38,374)**	**3,836,730**
Operating expenses, net	**(2,328,060)**	**(548,647)**	**(215,156)**	**(18,077)**	**43,726**	**(3,066,214)**
Sales of services	(986,621)	(432,432)	(135,687)	—	84,108	(1,470,632)
General and administrative expenses	(1,123,975)	(125,930)	(76,576)	(15,210)	19,427	(1,322,264)
Management compensation	(7,767)	—	(213)	(1,408)	—	(9,388)
Other operating income (expenses)	(209,697)	9,715	(2,680)	(1,459)	(59,809)	(263,930)
Income (loss) from operations before financial expenses (income)	**1,321,772**	**(477,353)**	**(61,178)**	**(18,077)**	**5,352**	**770,516**
Trade accounts receivable	**1,966,744**	**196,266**	**69,383**	**—**	**(104,739)**	**2,127,654**
Inventories	**5,674**	**58,490**	**—**	**—**	**—**	**64,164**
Property, plant and equipment and intangible assets, net	**6,129,360**	**1,472,857**	**96,400**	**1,044**	**(882)**	**7,698,779**

44. LAW 11638/07 — AMENDMENTS TO THE BRAZILIAN CORPORATE LAW

Law No. 11638 was issued on December 28, 2007 and amends the provisions of the Brazilian Corporate Law — Law No. 6.404/76. Said law sets forth several amendments on the preparation of financial statements, aiming at aligning them with the international accounting standards and grants to the CVM (Brazilian Securities Commission) the power to issue standards for publicly traded companies. The main amendments introduced by said Law are effective from 2008 and refer to: (i) replacement of the DOAR (Statements of Changes in Financial Position) for the Statement of Cash Flows; (ii) mandatory preparation of the DVA (Statement of Value Added); (iii) possible inclusion of tax bookkeeping in the commercial bookkeeping, with segregation between the commercial and tax statements; (iv) creation of subgroup Asset Appraisal Adjustment in shareholders' equity; (v) standardization of financial instruments measurement and classification criteria; (vi) mandatory evaluation the noncurrent assets recovery level; (vii) change on subsidiaries' measurement parameters under the equity method of accounting; (viii) possible recognition of the Tax Incentive Reserve; and (ix) mandatory recognition of new assets at fair value, in cases of merger, consolidation or spin-off.

The Company already issues the Statement of Cash Flows and the Statement of Value Added, and the segregation of Intangible assets in permanent assets. On the date of preparation of these financial statements it was not possible to estimate the possible effects from adopting the other changes set forth by said law, applicable to the Company, which might impact its financial statements.

45. SUBSEQUENT EVENT

Establishment of the company IG Participações S.A. and assignment of investments among subsidiaries

On January 7, 2008, the company iG Participações S.A. ("iG Part") was established with a capital contribution in the amount of R$5, represented by the issue of five thousand registered common shares with no par value. Subscription and payment were carried out by BrTI and Freelance at the ratio of 98% and 2%, respectively. This company, headquartered in Brasília, DF, is engaged in holding capital in other companies, whether commercial or civil, and other entities, including consortiums, funds, foundations or associations, domestic or foreign, as partner or shareholder, whether a subsidiary or not, which are engaged in activities related to the telecommunications industry or the provisions of internet and similar services

On January 10, 2008, iG Cayman assigned its investment held in iG Brasil to iG Part in the amount of R$76,867, which represents a capital contribution corresponding to the issue of 76,866,991 registered common shares with no par value.

BNDES Financing for BrT Celular

On January 9, 2008 BNDES communicated the approval of a financing in the amount of R$259,100 to 14 Brasil Telecom Celular S.A., to be invested in the expansion and modernization of the mobile phone network (personal mobile service) by 2009. The financing shall have the total term of nine years and six months, with a thirty months grace period, as from which period the payment in eighty four installments shall begin. This financing bears charges based on the TJLP variation, plus 3.52% a year. Funding for this financing, which is already approved by the administrative bodies, is expected to occur in the periods of 2008 and 2009, after executing the contract and according to the procedures of the financing body.

Communication

We reproduced below the joint communication from the Company and Brasil Telecom S.A., disclosed after the balance sheet date:

Communication disclosed on January 9, 2008:

Brasil Telecom Clarifies CVM Consultation

In response to the Official Letters CVM/SEP/GEA-2/No. 003/08 and CVM/SEP/GEA-4/No. 004/08, sent, respectively, on January 08 and 09, 2008, regarding news that are being published by the press, such as Valor Econômico newspaper, under the heading "BrT prepares corporate restructuring" and "Oi buys back shares with an eye on possible consolidation", comments of the "De olho na bolsa (An eye on the Stock market)", as well as due to the today's notes published on Radar On-Line ("Telemar Buys Brasil Telecom"), Brasil Telecom Participações S.A. and Brasil Telecom S.A. (jointly, the "Companies") clarify that they have no participation on a occasional negotiation regarding the pledging of shares companies in its corporate structure by their controlling shareholders. In addition, the Companies reinforce that they have not entered into any agreement, even preliminary, regarding merge or purchase or sale with Oi/Telemar or with any other company or investment vehicle.

The Companies also communicate that the group companies belonging to Brasil Telecom control network group (Solpart Participações S.A., Techold Participações S.A., Invitel S.A. and Zain Participações S.A., herein referred to as "Parent Companies") were questioned and expressed themselves as follows:

"As is widely known by the Companies shareholders and by the market in general, the Parent Companies have been evaluating, with the assistance of specialized companies, several strategic alternatives for their participation on the Companies.

The Parent Companies clarify that, regarding rumors in contrary, and notwithstanding the fact that there are discussion on the matter, they did not take any decision as to carry out a corporate reorganization of the Companies, nor have they celebrated any agreement, even preliminary, regarding merge or purchase or sale with Oi/Telemar or with any other company or investment vehicle.

The Parent Companies inform that, under the applicable laws and regulations, they will promptly disclose any material act or event which takes place.

Brasília, January 9, 2008

Paulo Narcélio Simões Amaral
Investor Relations Officer
Brasil Telecom Participações S.A.
Brasil Telecom S.A."

46. AUTHORIZATION FOR COMPLETION OF THE FINANCIAL STATEMENTS

The meeting held by the Company's Board of Directors on January 29, 2008, authorized the completion of these financial statements, which comprise the subsequent events to the closing date of the financial year 2007, and are therefore approved for disclosure.

Brasília (DF), January 29, 2008

Paulo Narcélio Simões Amaral
Financial Officer

Célio José Godinho
Accountant

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Invitel S.A.

Consolidated Financial Statements
at December 31, 2008 and 2007
and for the two years ended December 31, 2008
and Report of Independent Public Accountants

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Report of independent public accountants

(Translation of the report originally issued in the Portuguese language. See Note 42 to the financial statements.)

To the management and shareholders of Invitel S.A.:

1. We have audited the balance sheet of Invitel S.A. (individual and consolidated) as of December 31, 2008 and the related statements of income, of changes in shareholders' equity, of cash flows and of the added value for the year then ended. These financial statements are under the responsibility of the Company's Management. Our responsibility is to express an opinion on our audit. The financial statements of the indirect controlled Brasil Telecom Participações S.A. for the year ended December 31, 2008 were audited by other independent public accountants and our opinion, regarding the value of investment and its results, is solely based on the opinion of these public accountants.

2. We conducted our audit in accordance with the audit standards generally accepted in Brazil. Those standards require that we plan and perform the audit, taking into consideration the significance of the balances, volume of transactions and the accounting and internal control systems of the Company; examining, on a test basis, the evidences and records supporting the amounts and disclosures in the financial statements; and assessing the accounting practices and significant estimates made by Management, as well as the presentation of the financial statements taken as a whole.

3. In our opinion, based on our audit and on the opinion of the independent public accountants of the indirect controlled Brasil Telecom Participações S.A., the financial statements above-mentioned fairly present, in all material respects, the equity and financial position (individual and consolidated) of Invitel S.A. as of December 31, 2008, the results of its operations, the changes in its shareholders' equity, the cash flows and the added value for the year then ended, in accordance with the accounting practices adopted in Brazil.

4. As discussed in Explanatory Note 2, as from January 1, 2008, the accounting practices adopted in Brazil have changed and the Company recorded the required adjustments in its financial statements (individual and consolidated) for the year ended December 31, 2007, which are being resubmitted to enable comparability between years, as required by the NPC 12 — Accounting Practices, Changes in Accounting Estimates and Correction of Errors.

5. The Company has outstanding promissory notes in the amount of R$956,227 thousand maturing on May 27, 2009. The settlement of the promissory notes is dependant on the financial resources from shareholders or funds to be raised in the market.

6. The financial statements as of December 31, 2007 were audited by us, which opinion, dated February 14, 2008, included emphasis paragraphs regarding the same issue described on paragraph 5 above and regarding the lack of approval by the Board on the deferred income tax asset recorded by the subsidiary Solpart Participações S.A. amounting to R$40,437 thousand. The deferred income tax credit was revised for the December 31, 2008 financial statements and approved by the Board.

Rio de Janeiro, March 27, 2009.

Terco Grant Thornton

Auditores Independentes

Eduardo José Ramón Leverone
Partner — accountant

INVITEL S.A.

BALANCE SHEETS
As at December 31, 2008 and 2007
(In thousands of *reais*)

	Note	PARENT COMPANY 31/12/2008	PARENT COMPANY 31/12/2007 (Restated)	CONSOLIDATED 31/12/2008	CONSOLIDATED 31/12/2007 (Restated)
ASSETS					
CURRENT ASSETS		**89,658**	**4,975**	**7,660,675**	**7,585,767**
Cash and Equivalents	**17**	37,005	3,763	2,760,840	838,492
Short-term Investments	**18**	—	—	775,502	3,163,487
Accounts Receivable	**19**	—	—	2,210,090	2,189,701
Inventory	**20**	—	—	54,048	32,711
Loans and Financing	**21**	—	—	1,758	1,797
Derivatives	**35**	—	—	29,179	—
Deferred and Recoverable Taxes	**22**	9,762	1,072	992,088	849,684
Judicial Deposits	**23**	—	—	679,012	329,396
Dividends/IOC Receivable	**24**	42,862	140	—	—
Other Assets	**25**	29	—	158,158	180,499
NON-CURRENT ASSETS		**1,830,396**	**1,006,130**	**12,565,097**	**10,704,771**
LONG TERM ASSETS		**138**	**138**	**4,329,599**	**2,988,317**
Loans and Financing	**21**	—	—	5,110	6,176
Derivatives	**35**	—	—	—	6,218
Deferred and Recoverable Taxes	**22**	—	—	1,953,112	1,828,983
Judicial Deposits	**23**	138	138	2,230,862	1,069,265
Other Assets	**25**	—	—	140,516	77,676
Investment in subsidiaries	**26**	**1,537,349**	**1,003,948**	**—**	**—**
Other Investments	**26**	**—**	**2,044**	**3,744**	**44,920**
Property, Plant & Equipment	**27**	**—**	**—**	**5,902,640**	**5,691,212**
Intangible Assets	**28**	**292,909**	**—**	**2,329,114**	**1,980,322**
TOTAL		**1,920,054**	**1,011,105**	**20,225,772**	**18,290,538**

The accompanying notes are an integral part of these financial statements

INVITEL S.A.

BALANCE SHEETS
As at December 31, 2008 and 2007
(In thousands of *reais*)

	Note	PARENT COMPANY		CONSOLIDATED	
		31/12/2008	31/12/2007 (Restated)	31/12/2008	31/12/2007 (Restated)
LIABILITIES					
CURRENT LIABILITIES		**956,243**	**10**	**5,886,734**	**5,632,859**
Payroll, Taxes and Benefits	**29**	4	5	110,328	103,729
Accounts Payable and Provisions for Expenses	**30**	4	1	2,072,286	1,637,225
Indirect Taxes	**31**	6	4	670,811	748,857
Corporate Income Tax	**32**	—	—	67,519	76,347
Dividends/IOC and Profit Sharing	**33**	—	—	473,606	971,027
Loans and Financing	**34**	956,227	—	1,626,934	1,392,612
Derivatives	**35**	—	—	89,920	118,752
Authorizations Payable	**36**	—	—	160,074	78,844
Provisions for Contingencies	**8**	—	—	218,510	197,472
Pension Fund Provisions	**7**	—	—	148,391	101,467
Advance Payments from Customers	**37**	—	—	79,227	62,957
Other Liabilities	**38**	2	—	169,128	143,570
NON-CURRENT LIABILITIES		**—**	**74,018**	**6,658,902**	**5,698,781**
LONG TERM LIABILITIES		**—**	**74,018**	**6,658,902**	**5,698,781**
Payroll, Taxes and Benefits	**29**	—	—	11,483	—
Accounts Payable and Provisions for Expenses	**30**	—	—	—	13,456
Indirect Taxes	**31**	—	—	262,060	104,243
Corporate Income Tax	**32**	—	—	109,084	66,877
Dividends/IOC Profit Sharing	**33**	—	74,018	—	74,018
Loans and Financing	**34**	—	—	3,993,198	3,602,633
Derivatives	**35**	—	—	132,153	287,762
Authorizations Payable	**36**	—	—	623,585	174,632
Provisions for Contingencies	**8**	—	—	714,114	700,239
Pension Fund Provisions	**7**	—	—	607,400	586,278
Advance Payments from Customers	**37**	—	—	189,172	72,133
Other Liabilities	**38**	—	—	16,653	16,509
MINORITY INTEREST		**—**	**—**	**6,716,325**	**6,021,822**
SHAREHOLDERS' EQUITY	**9**	**963,810**	**937,077**	**963,811**	**937,077**
Capital Stock		788,891	697,335	788,891	697,335
Capital Reserves		306,840	325,982	306,840	325,982
Accumulated Losses		(131,921)	(86,240)	(131,921)	(86,240)
TOTAL		**1,920,054**	**1,011,105**	**20,225,772**	**18,290,538**

The accompanying notes are an integral part of these financial statements

INVITEL S.A.

STATEMENTS OF INCOME
Fiscal Years ended on December 31, 2008 and 2007
(In thousands of *reais*)

	Note	PARENT COMPANY 31/12/2008	PARENT COMPANY 31/12/2007 (Restated)	CONSOLIDATED 31/12/2008	CONSOLIDATED 31/12/2007 (Restated)
GROSS OPERATING REVENUE	**10**	**—**	**—**	**17,007,142**	**15,997,388**
Deductions from Gross Revenue	**10**	**—**	**—**	**(5,710,307)**	**(4,938,842)**
NET OPERATING REVENUE	**10**	**—**	**—**	**11,296,835**	**11,058,546**
Cost of Goods Sold and Services Rendered	**11**	**—**	**—**	**(6,209,418)**	**(6,382,201)**
GROSS PROFIT		**—**	**—**	**5,087,417**	**4,676,345**
OPERATING INCOME (EXPENSES)		**(20,252)**	**(590)**	**(3,280,737)**	**(3,399,904)**
Commercialization Expenses	**12**	—	—	(1,364,223)	(1,485,352)
General and Administrative Expenses	**13**	(8,578)	(573)	(1,440,278)	(1,375,087)
Other Operating Income (Expenses)	**14**	(11,674)	(17)	(476,236)	(539,465)
OPERATING PROFIT (LOSS) BEFORE NET FINANCIAL RESULTS AND EQUITY ADJUSTMENT		**(20,252)**	**(590)**	**1,806,680**	**1,276,441**
Financial Income (Expenses), Net	**15**	(102,084)	406	(592,641)	(443,534)
Equity Adjustment	**26**	76,655	10,695	—	—
OPERATING PROFIT (LOSS)		**(45,681)**	**10,511**	**1,214,039**	**832,907**
PRE-TAX PROFIT (LOSS)		**(45,681)**	**10,511**	**1,214,039**	**832,907**
Income Tax and Social Contribution	**16**	—	—	(611,643)	(380,265)
AFTER TAX PROFIT (LOSS), PRIOR TO MINORITY INTEREST		**(45,681)**	**10,511**	**602,396**	**452,642**
Minority Interest		—	—	(1,042,396)	(899,345)
PROFIT (LOSS) BEFORE REVERSAL OF ISE		**(45,681)**	**10,511**	**(440,000)**	**(446,703)**
Reversal of Interest on Capital		—	—	370,951	450,954
NET PROFIT (LOSS) FOR THE YEAR		**(45,681)**	**10,511**	**(69,049)**	**4,251**
Shares Outstanding at the balance sheet date (million)		**1,731,368**	**1,692,609**		
Net Profit (Loss) per 1,000 shares (R$)		**(0.026)**	**0.006**		

The accompanying notes are an integral part of these financial statements

INVITEL S.A.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Fiscal Years ended on December 31, 2008 and 2007
(In thousands of *reais*)

		Capital Reserves			
	Capital Stock	Other Capital Reserves	Subscription Bonus	Accumulated Losses	Total
Balance at December 31, 2006	**697,335**	**400,000**	**—**	**(87,459)**	**1,009,876**
Prior Years' Adjustments					
Adjustments from Adoption of Law nº. 11,638/07				(9,292)	**(9,292)**
Balance at December 31, 2006 (Adjusted)	**697,335**	**400,000**	**—**	**(96,751)**	**1,000,584**
Changes in Accumulated Losses					
Net Profit for the Year Original Figure				10,153	**10,153**
Adjustments from Adoption of Law nº. 11,638/07				358	**358**
				10,511	**10,511**
Provision for Statutory Dividends payable in accordance with art. 5, paragraph 1, clause 1 of the company's By-Laws		(74,018)			**(74,018)**
Balance at December 31, 2007 (Adjusted)	**697,335**	**325,982**		**(86,240)**	**937,077**
Provision for Statutory Dividends payable in accordance with art. 5, paragraph 1, clause 1 of the company's By-Laws		(19,143)			**(19,143)**
Changes in Share Capital					
Capital Increase, according to the EGM held on April 18, 2008, through the paying in of statutory dividends	93,161				**93,161**
Capital Increase, according to the EGM held on April 25, 2008	395				**395**
Capital Reduction, according to the terms of a Spin-Off from the company, with the separated portion being transferred to the company Invitel Legacy S.A., on July 27, 2008	(2,000)				**(2,000)**
Capital Reserve					
Establishing of a Subscription Bonus Reserve, according to the EGM held on December 24, 2008			1		**1**
Net Loss for the Year				(45,681)	**(45,681)**
Balance at December 31, 2008	**788,891**	**306,839**	**1**	**(131,921)**	**963,810**

The accompanying notes are an integral part of these financial statements

INVITEL S.A.

CASH FLOW STATEMENTS
Fiscal Years ended on December 31, 2008 and 2007
(In thousands of *reais*)

	Parent Company		Consolidated	
	2008	2007	2008	2007
OPERATING ACTIVITIES				
Profit before Income Tax and Social Contribution (includes Reversal of ISE)	**(45,681)**	**10,511**	**1,575,261**	**1,221,798**
Items that do not affect Cash Flow	**39,612**	**(10,887)**	**3,940,654**	**3,850,786**
Depreciation and Amortization	12,061	—	2,107,940	2,464,855
Losses on Accounts Receivable	—	—	370,242	348,001
Provision / Reversal re Contingencies	—	—	710,531	650,898
Pension Fund Provision	—	—	81,324	89,675
Recovery of Pension Fund Expenses—Surplus	—	—	(61,104)	(81,209)
Recovery of Taxes	—	—	—	(69,758)
Disposal of Permanent Asset	—	—	(38,895)	19,398
Equity Adjustment	(76,655)	(10,695)	—	—
Gains on Investments	(60)	—	43,355	(229)
Provision for Financial Charges	104,281	(192)	727,276	429,155
Recovery of Sundry Expenses	(15)	—	(15)	—
Changes in Assets and Liabilities	**(741)**	**171**	**(1,170,831)**	**(857,849)**
Accounts Receivable	—	—	(390,631)	(410,050)
Inventory	—	—	(21,338)	31,453
Payroll, Taxes and Benefits	(1)	(2)	18,085	25,030
Accounts Payable and Provisions for Expenses	3	(4)	(378,702)	(50,808)
Taxes	(717)	177	(133,161)	71,804
Authorizations	—	—	90,773	(101,905)
Provisions for Contingencies	—	—	(451,050)	(469,624)
Pension Fund Provisions	—	—	(13,278)	(51,143)
Other Assets and Liabilities, net	(26)	—	108,471	97,394
OPERATIONAL CASH GENERATION	**(6,810)**	**(205)**	**4,345,084**	**4,214,735**
Financial Charges	(89,393)	—	(614,861)	(585,267)
Interest Received on Loans	—	33	—	33
Income Tax and Social Contribution Paid	—	—	(634,298)	(373,542)
Dividends / IOC Received from Subsidiaries	12,005	82	—	—
NET CASH PROVIDED BY OPERATING ACTIVITIES	**(84,198)**	**(90)**	**3,095,925**	**3,255,959**
INVESTING ACTIVITIES				
Financial Investments	—	—	2,386,698	477,060
Disposal of Permanent Assets	2,272	—	80,876	47,708
Judicial Deposits	—	(15)	(1,755,969)	(871,822)
Reduction of Stake in Subsidiary	188,072		—	—
Investment in Permanent Assets	—	—	(1,438,442)	(2,248,558)
Cash and Equivalents as a result of the Spin-Off	16,605	—	16,605	—
Change in Equity from the Spin-Off	5,211	—	5,211	—
NET CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES	**212,160**	**(15)**	**(705,021)**	**(2,595,612)**
FINANCING ACTIVITIES				
Dividends / IOC Paid Out	—	—	(736,251)	(419,286)
Capital Reduction	(2,000)	—	(2,000)	—
Loans and Financing	(92,720)	—	285,280	143,276
Loans Taken Out	939,606	—	1,317,606	984,963
Loans Settled	(1,032,326)	—	(1,032,326)	(841,687)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	**(94,720)**	**—**	**(452,971)**	**(276,010)**
NET CASH FLOW FOR THE YEAR	**33,242**	**(105)**	**1,937,933**	**384,337**
CASH AND CASH EQUIVALENTS				
Supplementary Cash Flow Information				
Changes in Economic and Financial Investments (Fixed and Intangible Assets)	—	—	(1,239,463)	(82,082)

The accompanying notes are an integral part of these financial statements

INVITEL S.A.

VALUE ADDED STATEMENTS
Fiscal Years ended on December 31, 2008 and 2007
(In thousands of *reais*)

	Parent Company				Consolidated			
	2008		2007		2008		2007	
REVENUES	—	—	—	—	**15,823,894**	**180.54%**	**15,432,789**	**200.47%**
Sales of Goods and Services	—	—	—	—	17,007,142	194.04%	15,997,388	207.80%
Discounts and Cancelations	—	—	—	—	(1,320,766)	(15.07)%	(585,034)	(7.60)%
Losses on Accounts Receivable	—	—	—	—	(370,242)	(4.22)%	(348,001)	(4.52)%
Other Revenues	—	—	—	—	507,760	5.79%	368,436	4.79%
INPUTS ACQUIRED FROM THIRD PARTIES	**(8,331)**	**(14.11)%**	**(498)**	**(4.59)%**	**(5,235,526)**	**(59.73)%**	**(5,490,941)**	**(71.33)%**
Materials	—	—	—	—	(395,235)	(4.51)%	(380,219)	(4.94)%
Third-Party Services	(589)	(1.00)%	(280)	(2.58)%	(4,738,253)	(54.06)%	(4,987,767)	(64.79)%
Other Third-Party Items	(7,742)	(13.11)%	(218)	(2.01)%	(102,038)	(1.16)%	(122,955)	(1.60)%
AMOUNTS WITHHELD	**(12,061)**	**(20.43)%**	**—**	**—**	**(2,823,640)**	**(32.22)%**	**(3,115,752)**	**(40.47)%**
Depreciation and Amortization	(12,061)	(20.43)%	—	—	(2,113,109)	(24.11)%	(2,464,854)	(32.02)%
Provisions for Contingencies	—	—	—	—	(710,531)	(8.11)%	(650,898)	(8.46)%
NET VALUE ADDED BY THE BUSINESS	**(20,392)**	**(34.53)%**	**(498)**	**(4.59)%**	**7,764,728**	**88.59%**	**6,826,096**	**88.67%**
VALUE ADDED THROUGH TRANSFERS	**79,442**	**134.53%**	**11,341**	**104.60%**	**999,884**	**11.41%**	**872,250**	**11.33%**
Equity Adjustment	76,655	129.81%	10,695	98.64%	—	—	—	—
Dividends (Investments at Acquisition Cost)	—	—	80	0.74%	3,017	0.03%	1,430	0.02%
Financial Income	2,787	4.72%	566	5.22%	909,892	10.38%	783,382	10.18%
Rents	—	—	—	—	86,975	0.99%	87,439	1.14%
TOTAL VALUE ADDED FOR ALLOCATION	**59,050**	**100.00%**	**10,843**	**100.00%**	**8,764,612**	**100.00%**	**7,698,346**	**100.00%**
ALLOCATION OF VALUE ADDED								
Remuneration	**54**	**0.09%**	**63**	**0.58%**	**894.260**	**10,20%**	**672.365**	**8,73%**
Professional Fees, Pay and Extras	45	0.08%	48	0.45%	425,158	4.85%	311,838	4.05%
Taxes, Benefits and Profit Sharing	9	0.02%	14	0.13%	387,778	4.42%	270,851	3.52%
Pension Fund Provision	—	—	—	—	81,324	0.93%	89,675	1.16%
Government — Taxes	**382**	**0.65%**	**100**	**0.92%**	**5,378,908**	**61.37%**	**5,083,202**	**66.03%**
Donations and Sponsorship	**—**	**—**	**—**	**—**	**23,011**	**0.26%**	**11,499**	**0.15%**
Rents, Insurance, etc.	**104,295**	**176.62%**	**169**	**1.56%**	**1,545,137**	**17.63%**	**1,089,750**	**14.16%**
Rents, Leasing and Insurance	14	0.02%	11	0.11%	409,961	4.68%	348,315	4.52%
Financial Expenses	104,281	176.60%	157	1.45%	1,135,176	12.95%	741,434	9.63%
Shareholders	**—**	**(77.36)%**	**—**	**96.94%**	**444,584**	**5.07%**	**804,999**	**10.46%**
Interest on Capital	—	—	—	—	370,951	4.23%	450,954	5.86%
Dividends	—	—	—	—	27,783	0.32%	317,739	4.13%
Allocation to Legal Reserve	—	—	—	—	45,850	0.52%	36,306	0.47%
Minority Interest	**—**	**—**	**—**	**—**	**547,761**	**6.25%**	**32,280**	**0.42%**
Retained Earnings/Shortfall	**(45,681)**	**(77.36)%**	**10,511**	**96.94%**	**(69,049)**	**(0.79)%**	**4,251**	**0.06%**
ALLOCATED VALUE ADDED	**59,050**	**100.00%**	**10,843**	**100.00%**	**8,764,612**	**100.00%**	**7,698,346**	**100.00%**
Additional Information:								
Dividends/IOC paid from Value Added of Prior Years	—		—		—		74,180	

The accompanying notes are an integral part of these financial statements

NOTES TO THE FINANCIAL STATEMENTS
For the fiscal years ended on December 31, 2008 and 2007
(In thousands of *reais*)

1. BACKGROUND

Invitel S.A. ("the Company" or "Invitel") has the corporate purpose of acquiring stakeholdings, as a partner or shareholder, in other companies, both commercial and civil, Brazilian or foreign, and in real estate enterprises, as well as in properly regulated investment funds.

Invitel is registered with the CVM (Brazilian Securities Commission) and its shares are traded on the over the counter market at the São Paulo Stock Exchange ("BOVESPA").

Invitel holds 100% of the common stock issued by Solpart Participações S.A. ("Solpart"), which, in turn, holds 51.41% of the voting capital and 18.93% of the total share capital of Brasil Telecom Participações S.A. ("BTP"), one of the winning bidders in the auction of the Telebrás System, held on July 29, 1998.

BTP is a publicly listed corporation, set up in accordance with article 189 of Law nº 9,472/97 — General Telecommunications Law, as part of the process of splitting up TELEBRÁS, which was approved at a meeting of the shareholders on May 22, 1998, and it is the parent company of Brasil Telecom S.A.

BTP has the corporate purpose of controlling companies providing public wireline telephone services in Region II of the General Concession Plan ("PGO"), approved by Decree nº 2,534, of April 2, 1998. This control is exercised through Brasil Telecom S.A., which is the concession holder responsible for providing STFC (Fixed Commuted Telephone Services) in Region II of the PGO. Moreover, the company may take equity stakes in other enterprises.

BTP is registered with the CVM and the SEC (US Securities and Exchange Commission), and its shares are traded at the BOVESPA, under the Corporate Governance Level 1 listing, and its ADRs (American Depositary Receipts) are traded at the New York Stock Exchange ("NYSE").

Indirectly Controlled Subsidiaries

a. Brasil Telecom S.A.

Brasil Telecom S.A. is a concession holder responsible for STFC in Region II of the PGO, which covers the states of Acre, Rondônia, Mato Grosso, Tocantins, Goiás, Mato Grosso do Sul, Paraná, Santa Catarina and Rio Grande do Sul, as well as the Federal District. Since July 1998, Brasil Telecom S.A. has been providing STFC within this region, in the local and intra-regional domestic long distance formats. Since January 2004, Brasil Telecom S.A. has also been providing national and international long distance services throughout Brazil. Local services outside Region II have been provided since January 2005.

The prevailing concession contracts for the local and long distance services came into effect as of January 1, 2006, and remain in force until December 31, 2025. Further information about these contracts is provided in Note 5 (m).

Information regarding the STFC quality and universal access targets is available to interested parties on the ANATEL website, at *www.anatel.gov.br* .

b. Nova Tarrafa Participações Ltda. and Nova Tarrafa Inc.

BTP, an indirect subsidiary of the Company, also has a controlling stake in Nova Tarrafa Participações Ltda. ("NTP") and Nova Tarrafa Inc. ("NTI"). The corporate purpose of these two subsidiaries is to take equity stakes in Internet Group (Cayman) Limited ("iG Cayman"), which is dedicated to providing Internet access. The

controlling shareholder of iG Cayman is Brasil Telecom Serviços de Internet S.A., a company that is also an indirect subsidiary operating in the Internet segment.

The holdings of NTP and NTI in iG Cayman, at the balance sheet date, were 9.42% (9.25% on Dec. 31, 2007) and 0.16% (0.16% on Dec. 31, 2007), respectively. Together with Brasil Telecom Serviços de Internet S.A., the total stake amounts to 100% (98.2% on Dec. 31, 2007). The change during the year was due to the repurchasing, by iG Cayman, of stock in the hands of minority shareholders outside BTP control.

In the second half of 2006, a corporate restructuring of the companies owned by Brasil Telecom S.A. was begun, with the approval of the company's board of directors. This process of reorganization was aimed at optimizing the controlling structure, with a reduction in the number of companies, the concentration of related activities, and the simplification of inter-company equity stakes. The changes made, based on the book values, did not have a significant impact on the cost structure. Changes made during the 2008 financial year are mentioned in the texts of the relevant companies below.

c. 14 Brasil Telecom Celular S.A.

The company 14 Brasil Telecom Celular S.A. ("BrT Celular") is a fully-owned subsidiary that has been operating since the 4Q04, providing SMP (Personal Mobile Telephone Services), under authorization to serve Region II of the PGO.

d. BrT Serviços de Internet S.A.

BrT Serviços de Internet S.A. ("BrTI") is a fully-owned subsidiary whose main product, up to July 31, 2008, was providing broadband Internet access. On August 1, 2008, its Internet activities were transferred to its subsidiary, Internet Group do Brasil S.A., with the book value of the assets transferred amounting to R$26,423. The value of the equity stake of Brasil Telecom S.A. in BrTI was reduced by the same amount, matched by a corresponding increase in the value of its stake in Internet Group do Brasil S.A.

BrTI continues to provide value added services to clients whose contracts are on specific terms.

BrTI has a controlling stake in the following companies:

iG group

The iG group comprises the companies Internet Group (Cayman) Limited ("iG Cayman"), iG Participações S.A. ("iG Part") and Internet Group do Brasil S.A. ("iG Brasil").

The operations of iG Brasil are based on providing dial-up and broadband Internet access. It also provides value added services aimed at the residential and business markets, which include an Internet connection accelerator. Moreover, iG Brasil also sells advertizing space on its Internet portal.

BrTI's controlling interest in the companies of the iG group, up to April 25, 2008, was represented by an 88.81% equity stake in iG Cayman, established in the Cayman Islands. On that date, iG Cayman declared a dividend to holders of its Series A Convertible Preferred Shares, amounting to R$76,494, with R$51,215 going to BrTI and R$25,279 to the minority shareholders that are not part of Brasil Telecom. iG Cayman then proceeded to repurchase the stock of those minority shareholders, for the nominal sum of R$19,552, and this was communicated to the market by BTP in a press release on April 29, 2008. Following this share buyback, BrTI's stake in iG Cayman increased to 90.42%.

iG Cayman is a holding company that has a controlling stake in iG Part, which in turn has an equity stake in iG Brasil equivalent to around 32.53% of its share capital. iG Part and iG Brasil are established in Brazil.

On June 2, 2008, iG Brasil absorbed Freelance S.A. (“Freelance”), the owner of iBest, whose operations are directed at the Internet, and are therefore convergent with those of iG Brasil. The merger appraisal, based on Freelance’s closing financial statements, as at May 31, 2008, calculated the net asset value at R$102,917. BrTI, which held 100% of Freelance’s share capital, now holds a 53.82% equity stake in iG Brasil.

Within the previous shareholding structure of iBest, mention should be made of the winding up of a company set up in the Cayman Islands, iBest Holding Corporation, which was not operational. The liquidation certificate, issued in the Cayman Islands on May 23, 2008, led to the writing off of a R$34 investment recorded to BrTI, its only shareholder.

On June 2, 2008, iG Brasil also absorbed Central de Serviços Internet Ltda. (“CSI”), a company in which it had a 99.99% equity stake. CSI provided exclusive services to iG Brasil, and the net assets, according to an appraisal on May 31, 2008, amounted to R$1,367.

Agência O Jornal da Internet Ltda. (“Jornal Internet”)

BrTI has a 30% stake in the share capital of Jornal Internet, which has the corporate purposes of selling goods and serviços over the Internet, publishing daily journals or periodicals, and the obtaining, generating and disseminating of news about selected events. Seventy percent of the share capital of Jornal Internet is owned by Caio Túlio Vieira Costa, vice-chairman of the Internet companies controlled by BTP.

e. Brasil Telecom Cabos Submarinos Ltda.

Brasil Telecom Cabos Submarinos Ltda. (“BrT CS”), together with its subsidiaries, operates through a system of undersea optic fiber cables, with connections in the United States, Bermuda, Venezuela and Brazil, which allows data to be transmitted using bundles of integrated services for domestic and foreign corporate clients.

BrT CS holds all the share capital in Brasil Telecom Subsea Cable Systems (Bermuda) Ltd. (“BrT SCS Bermuda”), which, in turn, owns all the shares in Brasil Telecom of America Inc. (“BrT of America”) and Brasil Telecom de Venezuela, S.A. (“BrT Venezuela”). On December 24, 2008, registro was obtained for the company Brasil Telecom de Colombia, Empresa Unipersonal (“BrT Colombia”), in which BrT SCS Bermuda has a controlling equity stake. This new comapany is awaiting payment of capital, and was not comercially operative at the balance sheet date.

f. BrT Comunicação Multimídia Ltda. (“BrT Multimídia”)

Until April 10, 2007 Brasil Telecom S.A. held a 100% stake in the share capital of MTH Ventures do Brasil Ltda. (“MTH”), a holding company that has a controlling stake in BrT Multimídia, the remaining shares in which are held by Brasil Telecom S.A. and BrTI. At an Extraordinary General Meeting of the shareholders, on the aforementioned date, it was decided that Brasil Telecom S.A. would absorb MTH. Currently, Brasil Telecom S.A. has an 89.83% stake in the share capital of BrT Multimídia, with the remaining 10.17% held by BrTI.

BrT Multimídia provides private network telecom services through local optic fiber digital networks in São Paulo, Rio de Janeiro and Belo Horizonte and a long distance network linking these metropolitan commercial centers. It also operates on a national level, by means of commercial agreements with other telecommunications companies to provide services to the rest of Brazil. The company also has ‘Internet solutions’ centers in São Paulo, Brasília, Curitiba, Porto Alegre, Rio de Janeiro and Fortaleza, offering co-location, hosting and other value added services.

g. Vant Telecomunicações S.A. (“VANT”)

Brasil Telecom S.A. owns practically al the shares in this company. BrTI has just one share in VANT, representing less than 0.01% of the total share capital.

VANT has the corporate purposes of providing multimedia communication services and the acquisition and assignment of capacity and other expedients, operating within the major Brazilian urban centers.

h. Brasil Telecom Call Center S.A. ("BrT Call Center")

At a meeting of the shareholders on August 21, 2007, it was decided to chanmge the company's name from Santa Bárbara dos Pinhais S.A. to BrT Call Center, along with its corporate purpose, which is now to provide centralized assistance to third parties, covering customer care, active and passive telemarketing, and training, support, consulting and related activities, among other services. The company's operational start-up was in November 2007, providing call center services for Brasil Telecom S.A. and those of its subsidiaries that require such services. These call center services were previously outsourced.

i. BrT Card Serviços Financeiros Ltda. ("BrT Card")

This company was set up to provide management, control and advisory services in the development and sale of financial products and services, and was registered on July 17, 2008. The payment of capital occurred on September 17, 2008, with Brasil Telecom S.A. taking a 99.99% stake. BrTI holds the remaining portion of its share capital. At the end of the financial year, BrT Card possessed only fully liquid short-term financial investments, using the resources from the paid-in capital, and had not initiated its operating activities.

Corporate Restructuring within the chain of Brasil Telecom S.A. companies

a. Techold Participações S.A. ("Techold") Split-Off, absorbed by Invitel S.A.

On April 18, 2008, the shareholders of Techold (the former name of Argolis Holdings) unanimously approved the splitting of Argolis Holdings ("Argolis Holdings split-off"), with the separation of all the assets and liabilities of Argolis Holdings, with the exception of cash amounting to R$10,000 ("Argolis Holdings split off portion"), which were then transferred to Invitel.

According to the appraisal prepared by the firm of specialists, Apsis Consultoria Empresarial Ltda., the Argolis Holdings split off portion, as at December 31, 2007, had a value of R$1,012,872. Any differences arising between the appraisal date and the approval date were appropriated by Invitel.

Given that, at the time of the approval of the Argolis Holdings split-off, Invitel held 99.9% of the share capital of that company, the net patrimony to be transferred to Invitel was negligible, so there was no capital increase or issuing of Invitel stock involved.

The Argolis Holdings split-off was not entirely proportional, the Argolis Holdings split off portion being fully absorbed by Invitel. As a result, all the shares in Argolis Holdings held by Invitel were cancelled, while the other shareholders of Argolis Holdings continue to be shareholders of that company, with the same number of shares as they possessed prior to the split-off.

Because of the split-off, the capital of Argolis Holdings was reduced by R$1,553,890 with the cancelling of 1,157,013,211 common shares and 341,898,139 class "B" preferred shares issued by the company and held by Invitel. Another result of the split-off was that Argolis Holdings is no longer part of the chain of Brasil Telecom companies.

b. Conversion of Invitel S.A. Class "A" Preferred Stock

On April 18, 2008 it was decided to convert Invitel's Class "A" preferred stock into common stock. At the same time, the fixed and cumulative dividends due to the holders of Class "A" preferred stock up to that date were capitalized (in common stock).

c. Zain Participações S.A. (“Zain”) Split-Off, absorbed by Invitel.

As part of the abovementioned corporate restructuring, with a view to the disposal of its indirect controlling stake, the shareholders of Invitel and Zain, on April 25, 2008, approved a split-off of the latter, with the split off portion being absorbed by the former (“Zain split-off”), with the separation of all the shares in Invitel that were held by Zain (“Zain split off portion”), which were then transferred to Invitel.

According to the appraisal prepared by the firm of specialists, Apsis Consultoria Empresarial Ltda., the Zain split off portion, as at December 31, 2007, had a value R$700,911. Any differences arising between the appraisal date and the approval date were appropriated by Invitel.

As a result of the Zain split-off, all the shares issued by Invitel that were held by Zain were cancelled, with new shares being issued by Invitel and distributed among the shareholders of Zain, in proportion to the share capital of Zain, using a ratio of 0.9852681055 for every new share in Zain. Hence, (i) there was no increase in Invitel’s share capital, since there was no patrimony to be absorbed by Invitel; (ii) the share capital of Zain was reduced by R$700,911, without the cancelling of shares, since the split-off did not cause any change in Zain’s shareholder structure; (iii) Zain’s shareholders also became direct shareholders of Invitel; and (iv) Zain ceased to be part of the chain of Brasil Telecom companies.

d. Alteration of the characteristics of the Common and Class “A” Preferred Stock issued by Invitel

At an Extraordinary General Meeting, held on April 25, 2008, Invitel’s shareholders decided to alter the characteristics of the class “A” preferred stock issued by Invitel, changing the privileges attributed to those shares and the terms of their redemption. The characteristics of Invitel’s common stock were also altered, making them convertible into class “A” preferred stock, at any time and at the exclusive discretion of the title holders, at the ratio of 1 (one) new class “A” preferred share for each common share converted.

e. Disproportional Split-Off of our assets and liabilities and the setting up of Invitel Legacy S.A. (“Invitel Legacy”)

In compliance with the provisions of the contract, on July 28, 2008, the Company’s shareholders unanimously approved a disproportional split-off from Invitel, with the separation of: (i) R$2.0 million of the Company’s cash and consequent reduction of its share capital; and (ii) the rights and obligations assumed by Zain, Invitel and Argolis Holdings (previously named Techold Participações S.A.) arising from and/or related to the following agreements: (a) the Share Purchase Agreement; (b) the Mutual Release Agreement; (c) the Letter Agreement; (d) the Holding Company Investment Agreement; and (e) other instruments and agreements relating to or closed with Telecom Italia International N.V. (“TII”), Brasilco S.r.l. and others, pursuant to obligations stipulated in the Share Purchase Agreement, Mutual Release Agreement, Letter Agreement and Holding Company Investment Agreement, which were transferred to the new company created from the Company split-off, Invitel Legacy S.A.

f. Buy and sell contract of shares issued by Invitel S.A.

As disclosed in the Relevant Facts as published by Invitel, on April 25, 2008 Buy and sell contract of shares issued by Invitel S.A (“the Contract”) was signed between the controlling shareholders of Invitel and people who are related to them, as sellers (“Sellers”), and the “Banco de Investimentos Credit Suisse (Brasil) S.A., as buyer (“Buyer”), with the intervention of Telemar Norte Leste S.A. (“Telemar”), Solpart and Invitel.

Through the Contract, the Buyer, in function of Telemar’s commissioner, contracted, subject to the contract’s conditions, the acquisition of 100% of shares issued by Invitel S.A. (“Shares”), at the total price of R$4,982, to be restated bu the cumulative variation in the average daily Interbank Deposits — DI, and from which will be substracted Invitel’s net debt, at the moment when the suspended conditions of the operation are met.

The transfer of the shares was subject to a: (a) suspended condition represented by the upfront approval by Anatel (national telecommunications agency), in the form of Art. 97 of Law n°9.472, of July 16, 1997: and (b) resolutive condition as consistent in the realiztion, by the Buyer, of the OPA for the acquisition of the voting shares of Brasil Telecom Participações ('BrT" Part and Brasil Telecom ("BrT"), in the form of Art.254-A of Law n° of shares issued by Invitel S.Af December 15, 1976.

In November 2008, the Decision n°6,654/2008 was published, which changed the PGO and excluded the restriction which existed for the acquistion of control of a STFC concessionaire by an other STFC concessionaire acting in a distinct region limited by the PGO itself. At the same day, Telemar requested Anatel an upfront decision for the acquisition of control over BrT Part and BrT, which had been granted through Act. N°7,828, as published in the Daily Union Gazette in December 2008.

In January 2009, Teleamr, through its indirect subsidiary Copart 1, acquired all of Invitel's outstanding shares, as well as 12,185,836 common shares of BrT Part. With this, turned indirect holder of 81,092,986 common shares as issued by BrT Part, representing 61.2% of total voting capital of BrT Part, which, at his turn, holds 65.6% of BrT's social capital, including 99.1% of its voting capital.

Settlement and Termination of Litigation

Transaction Instrument

Upon the signing of the Contract for the Sale of the Controlling interest in BTP, a solution was found for outstanding litigation involving various lawsuits that arose from the change of management at Brasil Telecom, in the third quarter of 2005. Through a material information release by BTP, Brasil Telecom Participações S.A. and 14 Brasil Telecom Celular S.A., collectively referred to as the Brasil Telecom Parties, published on April 25, 2008, announcement was made of the terms leading to the transaction instrument, as follows:

1 — On April 25, 2008, the Brasil Telecom Parties (acting on behalf of themselves and their affiliates), Opportunity Fund and other Opportunity/Banco Opportunity Parties (acting on behalf of themselves and their affiliates), and Telemar Norte Leste S.A. ("Telemar"), closed a "Public Instrument of Renunciation, Transaction and Settlement" ("Transaction Instrument"), by means of which the Brasil Telecom Parties and the Opportunity/ Banco Opportunity Parties define the terms for the termination of the present litigation between those Parties and avoidance of further litigation.

2 — Consistent with item 1, above, Telemar also issued a material information release on April 25, 2008, declaring its interest in acquiring control of the Brasil Telecom Parties and their direct and indirect subsidiaries, without Telemar becoming a party to, or being involved, directly or indirectly, in litigation of any kind between the Opportunity/Banco Opportunity Parties and the Brasil Telecom Parties (and their respective affiliates).

3 — It is widely known that the Brasil Telecom Parties and the Opportunity/Banco Opportunity Parties (and their respective affiliates) are involved in disputes and litigation, both in Brazil and abroad. The aforementioned Parties, without acknowledging the legal basis or assuming any responsibility regarding the reciprocal litigation, concluded that it would serve their mutual interests to avoid any further sacrificing of time, effort and resources in proceeding with the present litigation and entering into future litigation.

4 — Within the context of the Transaction Instrument, and to bring an end to the litigation between the Brasil Telecom Parties and the Opportunity/Banco Opportunity Parties, so as to clear the way for the objective defined in item 2, above, Telemar undertook to pay the Brasil Telecom Parties the total sum of R$175,730.

5 — It was decided that the abovementioned sum would be paid in two installments. The first, amounting to R$80,814 was to be paid immediately to Brasil Telecom S.A., with the termination of the litigation between that party and the Opportunity/Banco Opportunity Parties that is in course outside Brazil. The remaining installment, amounting to R$94,916, divided into: (i) R$89,071 to Brasil Telecom S.A.; and (ii) R$5,845 to Brasil Telecom

Participações S.A., was to be paid following the approval, at General Meetings of the shareholders of Brasil Telecom Participações S.A. and Brasil Telecom S.A, to be specially convened, of the transactions under the current litigation in Brazil.

6 — According to the Transaction Instrument, the agreement between the Brasil Telecom Parties and the Opportunity/Banco Opportunity Parties (and their respective affiliates) to bring definitive closure to their litigation and avoid future litigation, and the making of the payments undertaken by Telemar, are not dependent on the consummation of the acquisition of a controlling stake in the Brasil Telecom Parties by Telemar.

7 — The Transaction Instrument was concluded autonomously and independently of any other legal transactions or agreements between the Opportunity/Banco Opportunity Parties and Telemar and/or their respective subsidiaries, parent companies or companies under joint control, and the validity and effectiveness of the Transaction Instrument are not conditional upon or linked to the validity, effectiveness, fulfillment, satisfying conditions or any other event or circumstance relating to any other legal transactions or agreements between the aforementioned Parties, and/or their respective subsidiaries, parent companies or companies under joint control.

Approval of the Transaction Instrument

At the respective Extraordinary General Meetings of the shareholders of BTP and Brasil Telecom S.A., held on May 29, 2008, unanimous approval was given for the settlement and transactions defined in the Transaction Instrument concluded between Telemar Norte Leste S.A., Opportunity Fund and others, which depended on such shareholder approval. As a result, the amounts determined in the Transaction Instrument were settled in full by Telemar and duly received by BrT and BrT Part.

2. PRESENTATION OF THE FINANCIAL STATEMENTS

Preparation Criteria

The financial statements were prepared in accordance with the accounting principles adopted in Brazil, based on the provisions of Brazilian Corporate Legislation and the regulations laid down by the CVM. The regulations governing accounting records and the preparation of financial statements were modified as from the financial year ended on December 31, 2007. There follow some observations regarding these modifications.

Law nº 11,638/07 and Provisional Measure nº 449/08

Law nº 11,638 was enacted on December 28, 2007, making alterations in the Brazilian Corporate Legislation (Law nº 6,404/76). The new law introduces a variety of changes regarding the preparation of financial statements, to bring them into alignment with the International Financial Reporting Standards — IFRS and, to this effect, grants the CVM the power to issue rules governing publicly listed companies. The principal changes introduced by the new law came into effect as from the 2008 financial year.

Provisional Measure nº 449 ("MP nº 449/08") was introduced on December 3, 2008, with the force of law, introducing the RTT (Transitional Taxation Regime) for the calculation of taxable income. It deals with the tax adjustments deriving from the new accounting methods and criteria introduced by Law nº 11,638/07, as well as making further alterations to Law nº 6,404/76.

The principal changes introduced by Law nº 11,638/07 and MP nº 449/08, which came into effect as from 2008, are:

- Replacement of the Statement of Changes in Financial Position with the Cash Flow Statement;
- Obligatory presentation of the Value Added Statement;
- Creation of the sub-items Equity Appraisal Adjustment, under shareholders' equity, and Intangible Assets, under permanent assets;

- Establishment of standard criteria for the valuation and classification of financial instruments, including derivatives;
- Adjustment to present value of long-term asset and liability transactions, as well as for significant short-term ones;
- Recognition under property, plant and equipment of assets arising from financial leasing operations;
- Obligatory assessment of the degree of recoverability of non-current assets;
- Alteration of the parameters for the valuation of affiliates by the equity accounting method;
- Possibility of setting up a Tax Incentives Reserve;
- Elimination of the Revaluation Reserve.

Standards Issued by the CVM

CVM regulations governing the new accounting principles introduced by Law nº 11,638/07, in effect on the date that the conclusion of these financial statements was authorized, are listed below. It should be noted that these regulations are largely the result of the approval of technical pronouncements issued by the CPC (Accounting Rulings Committee).

- CVM Resolution nº 527/07 — (CPC 01) — Reduction in the Recovery Value of Assets.
- CVM Resolution nº 534/08 — (CPC 02) — Impact of Exchange Rate Variations and the Conversion of Financial Statements.
- CVM Resolution nº 539/08 — (CPC — Basic Conceptual Ruling) — Conceptual Framework for the Preparation and Presentation of the Financial Statements.
- CVM Resolution nº 547/08 — (CPC 03) — Cash Flow Statement.
- CVM Resolution nº 553/08 — (CPC 04) — Intangible Assets.
- CVM Resolution nº 560/08 — (CPC 05) — Dislosure regarding Related Parties.
- CVM Resolution nº 554/08 — (CPC 06) — Commercial Leasing Transactions.
- CVM Resolution nº 555/08 — (CPC 07) — Government Subsidies and Support.
- CVM Resolution nº 556/08 — (CPC 08) — Transaction Costs and Premiums on the Issuing of Securities.
- CVM Resolution nº 557/08 — (CPC 09) — Value Added Statement.
- CVM Resolution nº 562/08 — (CPC 10) — Payments Linked to Shares.
- CVM Resolution nº 563/08 — (CPC 11) — Insurance Agreements.
- CVM Resolution nº 564/08 — (CPC 12) — Adjustment to Present Value.
- CVM Resolution nº 565/08 — (CPC 13) — Initial Adoption of Law nº 11,638/07.
- CVM Resolution nº 566/08 — (CPC 14) — Financial Instruments: Recognition, Measurement and Disclosure.
- CVM Instruction nº 475/08 — Addresses the presentation of information on financial instruments.

Consolidated Financial Statements

The Company and its subsidiaries follow uniform accounting practices.

The consolidation was prepared in accordance with CVM Instruction n° 247/96 and includes the Company and the other companies mentioned in Note 1.

Among the principal consolidation procedures were:

- Eliminating the balances of the inter-company asset and liability accounts, as well as the revenues and expenses from transactions between the consolidated companies.
- Eliminating the balances of investment accounts and the corresponding stakes in the share capital, reserves and accumulated results, between the consolidated companies.
- Separation of the portions of shareholders' equity and results belonging to minority shareholders, indicated in specific items.

A reconciliation of the net income allocation to the Parent Company and to the Consolidated accounts is shown below:

	NET INCOME	
	2008	2007
PARENT COMPANY	**(45,681)**	**10,511**
Items recorded under Shareholders' Equity of Subsidiaries	—	—
Prescribed Dividends	(19,314)	(6,842)
Equity securities — Stock Options	(3,344)	—
Gain on Treasury Stock	(710)	—
Interest Capitalized in indirect subsidiary Brasil Telecom S.A.	—	582
CONSOLIDATED	**(69,049)**	**4,251**

Information by Business Segment

In Note 39, the Company presents supplementary information per business segment. A business segment is an identifiable component of the Company and its subsidiaries that is devoted to providing determinate services or supplying certain products and services, that is subject to risk and remuneration that differs from the other segments.

Initial adoption of Law nº 11,638/07

As a result of the new regulations mentioned previously, the Company explicitly declares its initial adoption of full compliance with Law nº 11,638/07, the ensuing CVM regulations, and MP nº 449/08 on the transition date of January 1, 2007, taking as the starting point the financial statements closed on December 31, 2006. According to article 186, paragraph 1, of Law nº 6,404/76, the initial adjustments regarding the adoption of Law nº 11,638/07 and MP nº 449/08, in relation to the transition date, are to be recorded under retained earnings.

Utilizing the option provided under CVM Resolution nº 565/08, which approved the ruling on the initial adoption of said law and the RTT, the Company and its subsidiaries show in their financial statements, for comparative purposes, the amounts for earlier periods adjusted as if the new accounting practices had always been in use.

Significant Choices made by the Company in regard to the Initial Adoption of Law nº 11.638/07 and MP nº 449/08 (Consolidated)

Financial Instruments

The classification of financial instruments must be defined at the moment of recording. The initial application of the Law allows the classification of the financial instruments on the transition date. The indirect subsidiary BTP applied the rules on classification and measurement, set out in CPC 14 ("Financial Instruments — Recognition, Measurement and Disclosure"), on the transition date.

Financial Leases

On the transition date, BTP incorporated its leased assets under property, plant and equipment, at the lower of the fair value of the assets and the present value of the minimum payment under the commercial leasing contracts, adjusted for accumulated depreciation up to the transition date. Any difference ascertained was recorded on the transition date, net of fiscal effects, against retained earnings.

Deferred Assets — Pre-Operational Expenses and Spending on Restructuring

Law nº 11,638/07 restricts the recording of spending under deferred assets, and MP nº 449/08 extinguished this account group. So, BTP decided to write off its pre-operational spending and other deferred expenses that were not reclassified to another asset group (intangible assets) on the transition date, recording the amount against retained earnings/accumulated losses, net of fiscal effects.

Stock Options

Brasil Telecom S.A. makes use of payments linked to shares (stock options), that are settled by means of equity transactions or in cash. On the transition date, the impact of the initial adoption on all the stock options granted by BTP were recorded against retained earnings, in accordance with the provisions of CPC 10 – Remuneration Linked To Shares.

Taxation Effects of the Initial Application of Law nº 11,638/07 and MP nº 449/08

The taxation impact arising from the initial adoption of said law and provisional measure was recorded according to the existing regulations, notably in the posting of Corporate Income Tax and Social Contribution. The adjustments made in regard to the initial adoption of Law nº 11,638/07 include the effects of deferred income tax and social contribution, when applicable.

Effects of the Initial Adoption of Law nº 11,638/07 and MP nº 449/08

Reconciliation of the Shareholders' Equity on the Transition Date — January 1, 2007

		PARENT COMPANY
	Item	**January 1, 2007**
Reported Shareholders' Equity (Law nº 6,404/76)		**1,009,876**
Equity Adjustment re subsidiaries, on adjustments for Law nº 11,638/07	c	(9,292)
Adjusted Shareholders' Equity (Law nº 11,638/07)		**1,000,584**

		CONSOLIDATED
	Item	**January 1, 2007**
Reported Shareholders' Equity (Law nº 6,404/76)		**1,009,876**
Financial Leasing	d	(916)
Fair Value of Financial Instruments	g	716
Deferred Asset Write-Off	e	(20,724)
Income Tax and Social Contribution on adjustments, net	b	7,115
Effect of Adjustments on Minority Shareholders	c	4,518
Adjusted Shareholders' Equity (Law nº 11,638/07)		**1,000,584**

There follows the reconciliation of the balance sheets and income statements disclosed on December 31, 2007, adjusted in accordance with the provisions of Law nº 11,638/07, for the purpose of allowing a comparison to be made with the figures for the financial year ended on December 31, 2008.

Balance Sheet

ASSETS	Item	PARENT COMPANY 2007 Reported (Law nº 6,404/76)	Adjustments according to Law nº 11,638/07	Adjusted (Law nº 11,638/07
Current		**4,975**	**—**	**4,975**
Cash and Cash Equivalents		3,763	—	3,763
Dividends/IOC Receivable		140	—	140
Deferred and Recoverable Taxes		1,072	—	1,072
Non-Current		**1,015,064**	**(8,934)**	**1,006,130**
Judicial Deposits		138	—	138
Investments	c	1,012,882	(8,934)	1,003,948
Other Investments		2,044		2,044
Total Assets		**1,020,039**	**(8,934)**	**1,011,105**

LIABILITIES	Item	PARENT COMPANY 2007 Reported (Law nº 6,404/76)	Adjustments according to Law nº 11,638/07	Adjusted (Law nº 11,638/07
Current		**10**	**—**	**10**
Payroll, Taxes and Social Benefits		5	—	5
Accounts Payable and Provisions for Expenses		1	—	1
Indirect Taxes		4	—	4
Non-Current		**74,018**		**74,018**
Dividends/IOC and Profit Sharing		74,018	—	74,018
Shareholders' Equity		**946,011**	**(8,934)**	**937,077**
Capital Stock		697,335	—	697,335
Capital Reserve		325,982	—	325,982
Accumulated Losses		(77,306)	(8,934)	(86,240)
Total		**1,020,039**	**(8,934)**	**1,011,105**

Reconciliation of Shareholders' Equity

	Item	PARENT COMPANY 2007
Reported Shareholders' Equity (Law nº 6,404/76)		**946,011**
Equity Adjustment re subsidiaries, on adjustments for Law nº 11,638/07	c	(8,934)
Adjusted Shareholders' Equity (Law nº 11,638/07)		**937,077**

ASSETS	Item	CONSOLIDATED 2007 Reported (Law nº 6,404/76)	Adjustments according to Law nº 11,638/07	Adjusted (Law nº 11,638/07
Current		**7,564,611**	**21,156**	**7,585,767**
Cash and Cash Equivalents	a	3,473,034	(2,634,542)	838,492
Short-Term Financial Investments	a	—	3.163,487	3,163,487
Government Securities	a	53,556	(53,556)	—
Temporary Investments	a	475,389	(475,389)	—
Accounts Receivable		2,189,701	—	2,189,701
Inventory		32,711	—	32,711
Loans and Financing		1,797	—	1,797
Deferred and Recoverable Taxes	b	819,569	30,115	849,684
Judicial Deposits		329,396	—	329,396
Other Assets	g	189,458	(8,959)	180,499
Non-Current		**10,771,827**	**(67,056)**	**10,704,771**
Loans and Financing		6,176	—	6,176
Derivatives	g	—	6,218	6,218
Deferred and Recoverable Taxes	b	1,827,712	1,270	1,828,982
Fixed/Variable Income Securities	g	3,709	(3,709)	—
Judicial Deposits		1,069,265	—	1,069,265
Other Assets	g	94,856	(17,180)	77,676
Premiums on the Acquisition of Subsidiaries	c	900,470	(900,470)	—
Other Investments	c	44,920	—	44,920
Property, Plant and Equipment	d	5,664,196	27,016	5,691,212
Intangible Assets	c, e	1,049,570	930,752	1,980,322
Deferred Assets	e	110,953	(110,953)	—
Total Assets		**18,336,438**	**(45,900)**	**18,290,538**

LIABILITIES	Item	CONSOLIDATED 2007 Reported (Law nº 6,404/76)	Adjustments according to Law nº 11,638/07	Adjusted (Law nº 11,638/07
Current		**5,603,430**	**29,429**	**5,632,859**
Payroll, Taxes and Social Benefits	f	90,550	13,179	103,729
Accounts Payable and Provisions for Expenses		1,637,225	—	1,637,225
Indirect Taxes		748,857	—	748,857
Income Taxes	b	76,268	79	76,347
Dividends/IOC and Profit Sharing		971,027	—	971,027
Loans and Financing	d, g	1,495,193	(102,581)	1,392,612
Derivatives	g	—	118,752	118,752
Authorizations		78,844	—	78,844
Provisions for Contingencies		197,472	—	197,472
Pension Fund Provisions		101,467	—	101,467
Advance Payments from Customers		62,957	—	62,957
Other Liabilities		143,570	—	143,570
Non-Current (Long Term)		**5,695,707**	**3,075**	**5,698,782**
Accounts Payable and Provisions for Expenses		13,456	—	13,456
Indirect Taxes		104,243	—	104,243
Income Taxes	b	66,860	17	66,877
Dividends/IOC and Profit Sharing		74,018	—	74,018
Loans and Financing	d, g	3,886,628	(283,995)	3,602,633
Derivatives	g	—	287,762	287,762
Authorizations		174,632	—	174,632
Provisions for Contingencies		700,239	—	700,239
Pension Fund Provisions		586,278	—	586,278
Advance Payments from Customers		72,133	—	72,133
Other Liabilities	g	17,220	(709)	16,511
Minority Interest	c	**6,083,316**	**(61,494)**	**6,021,822**
Shareholders' Equity		**946,011**	**(8,936)**	**937,075**
Capital Stock		697,335	—	697,335
Capital Reserves		325,982	—	325,982
Accumulated Losses	c	(77,306)	(8,936)	(86,242)
				—
Capitalizable Resources	g	**7,974**	**(7,974)**	**—**
Total		**18,336,438**	**(45,900)**	**18,290,538**

Reconciliation of Shareholders' Equity

	Item	CONSOLIDATED 2007
Reported Shareholders' Equity (Law nº 6,404/76)		**946,011**
Financial Leasing	d	(1,537)
Remuneration Linked to Shares	f	(2,485)
Fair Value of Financial Instruments	g	53
Deferred Asset Write-Off	e	(15,212)
Income Tax and Social Contribution on adjustments, net	b	5,900
Effect of Adjustments on Minority Shareholders	c	4,347
Adjusted Shareholders' Equity (Law nº 11,638/07)		**937,077**

Statement of Income

	Item	PARENT COMPANY 2007 Reported (Law nº 6,404/76)	Adjustments according to Law nº 11,638/07	Adjusted (Law nº 11,638/07
Gross Operating Revenue		**—**	**—**	**—**
Deductions from Gross Revenue		**—**	**—**	**—**
Net Operating Revenue		**—**	**—**	**—**
Cost of Goods Sold and Services Rendered		—	—	—
Gross Profit		**—**	**—**	**—**
Operating Income (Expenses)		**(590)**	**0**	**(590)**
Commercialization Expenses		—	—	—
General and Administrative Expenses		(573)	—	(573)
Other Operating Expenses, Net		(17)		(17)
Operating Profit (Loss) before Net Financial Result and Equity Adjustment		**(590)**	**—**	**(590)**
Financial Income (Expenses), Net		406	—	406
Equity Adjustment	c	10,337	358	10,695
Operating Profit		**10,153**	**358**	**10,511**
Other Non-Operating Income (Expenses), Net		**—**	**—**	**—**
Pre-Tax Profit		**10,153**	**358**	**10,511**
Income Tax and Social Contribution		—	—	—
After Tax Profit, Prior to Reversal of IOC		**10,153**	**358**	**10,511**
Reversal of Interest on Capital		—	—	—
Net Profit for the year		**10,153**	**358**	**10,511**
Shares Outstanding at the Balance Sheet date		**1,692,609**		**1,692,609**
Net Profit per Share (R$)		**0.006**		**0.006**

Reconciliation of Net Income

	Item	PARENT COMPANY 2007
Reported Net Income (Law nº 6,404/76)		**10,153**
Equity Adjustment re subsidiaries, on adjustments for Law nº 11,638/07	c	358
Adjusted Net Income (Law nº 11,638/07)		**10,511**

	Item	CONSOLIDATED 2007 Reported (Law nº 6,404/76)	Adjustments according to Law nº 11,638/07	Adjusted (Law nº 11,638/07
Gross Operating Revenue		**15,997,388**	**—**	**15,997,388**
Deductions from Gross Revenue		**(4,938,842)**	**—**	**(4,938,842)**
Net Operating Revenue		**11,058,546**	**—**	**11,058,546**
Cost of Goods Sold and Services Rendered		(6,382,201)	—	(6,382,201)
Gross Profit		**4,676,345**	**—**	**4,676,345**
Operating Income (Expenses)		**(3,418,289)**	**18,385**	**(3,399,904)**
Commercialization Expenses		(1,485,352)	—	(1,485,352)
General and Administrative Expenses	d, e, f	(1,398,103)	23,016	(1,375,087)
Other Operating Expenses, Net	d, h	(534,834)	(4,631)	(539,465)
Operating Profit (Loss) before Net Financial Result and Equity Adjustment		**1,258,056**	**18,385**	**1,276,441**
Financial Income (Expenses), Net	d, g	(431,415)	(12,119)	(443,534)
Operating Profit		**826,641**	**6,266**	**832,907**
Other Non-Operating Income (Expenses), Net	h	**(2,974)**	**2,974**	**—**
Profit before Taxes and Profit Sharing		**823,667**	**9,240**	**832,907**
Income Tax and Social Contribution	b	(373,828)	(6,437)	(380,265)
After Tax Profit, Prior to Minority Interest		**449,839**	**2,803**	**452,642**
Minority Interest	c	(896,900)	(2,445)	(899,345)
Profit before Reversal of IOC		**(447,060)**	**358**	**(446,703)**
Reversal of Interest on Capital		450,954	—	450,954
Net Profit for the year		**3,894**	**358**	**4,251**

Reconciliation of Net Income

	Item	CONSOLIDATED 2007
Reported Net Income (Law nº 6,404/76)		**3,894**
Financial Leasing	d	(621)
Remuneration Linked to Shares	f	(2,485)
Fair Value of Financial Instruments	g	(663)
Deferred Asset Write-Off	e	5,511
Income Tax and Social Contribution on adjustments, net	b	(1,214)
Effect of Adjustments on Minority Shareholders	c	(171)
Adjusted Net Income (Law nº 11,638/07)		**4,251**

Description of the Adjustments made in Relation to the Initial Adoption of Law nº 11,638/07 and MP nº 449/08 – Transition Date: January 1, 2007.

a) Cash Equivalents and Short-Term Investments

Pursuant to CPC 03 – Cash Flow Statement, the indirect subsidiary BTP and its subsidiaries classify under Cash Equivalents their highly liquid short-term investments that are readily convertible into a known quantity of cash and are subject to an insignificant risk of a change in value. Short-term investments are temporary investments made over a short period of time, in the form of highly liquid securities.

The reconciliation reflects the difference in classification, whereby all highly liquid investments were considered to be cash equivalents.

b) Deferred Taxes and Taxes on Income

Recording of the deferred income tax and social contribution took into consideration the effects of the adjustments in relation to the initial adoption of Law nº 11,638/07.

c) Investments in Subsidiaries and Premiums on the Acquisition of Subsidiaries

The reconciliation considers the impacts of equity adjustment and minority interests on the adjustments in relation to the initial adoption of Law nº 11,638/07, which are recognized in the financial statements.

Premiums classified as investments with a view to future earnings have been reclassified under intangible assets.

d) Financial Leasing

Pursuant to CPC 06 — Commercial Leasing Transactions, has recorded the assets linked to commercial leasing contracts, the control, risks and benefits of which are transferred to the entity. Hence, the financial leasing contracts are recorded as assets and liabilities at the transition date, thus generating the cost of depreciation on depreciable assets and financial expenses on the leasing liabilities.

e) Deferred Assets

Pursuant to CPC 13 — Initial Adoption of Law nº 11,638/07 and MP nº 449/08, pre-operational expenses recorded under the assets of the indirect subsidiaries BrT Celular and BrT Call Center were written off on the transition date, by recording the amount against retained earnings/accumulated losses. Furthermore, the amortization recorded as an expense in the income statement was reversed in the financial year ended on December 31, 2007.

Rights relating to the sustaining of the activities of the Company's indirect subsidiaries were transferred to intangible assets.

f) Stock Options

Pursuant to CPC 10 — Remuneration Linked To Shares, Brasil Telecom S.A. has recognized the transactions involving payments linked to shares (stock options) that have been granted to employees. The options that are settled by the handing over of equity instruments are recognized under shareholders' equity, while those that are settled in cash are recorded under liabilities. The calculated expense, based on the period of acquisition of such rights, is recognized as the services are provided.

g) Financial Instruments

Pursuant to CPC 14 — Financial Instruments: Recognition, Measurement and Disclosure, Brasil Telecom S.A. has recognized in its financial statements the 'fair value' of its swap contracts, based on information regarding future interest rates deriving from the future cash flows associated with each contractual instrument, discounted at market rates. Moreover, the derivatives have been reclassified into their specific groups. The asset-side derivatives were originally classified as other assets (US dollar options), while the liability-side derivatives were shown under loans and financing (swaps) and other liabilities (US dollar options).

Financial charges incurred in securing loans and financing are absorbed within the value of each debt instrument. These charges were presented under other assets and have been reclassified under liabilities, as loans and financing.

Consideration is being given to the reclassification of fixed/variable income securities under other assets and of capitalizable resources under other liabilities.

h) Non-Operating Income (Expenses), Net

MP nº 449/08 eliminated the separation of net non-operating income (expenses) in the statement of income for the financial year. According to CPC Guideline nº 02 ("OCPC 02"), endorsed by CVM/SNC/SEP Circular Letter nº 01/09, the income and expenses previously presented under this title shall be shown under operating results.

Other Information on the Financial Statements

The notes to the financial statements are shown in thousands of reais, unless otherwise specified.

The amounts of the judicial deposits linked to provisions for legal contingencies are shown as deductions from the relevant liabilities.

The accounting estimates were based on both objective and subjective factors, the management's assessment being the final arbiter in determining the appropriate value to be recorded in the financial statements. Significant items that were subject to these estimates include the residual value of the property, plant and equipment, the provision for doubtful debts, inventory, deferred income tax and social contribution, the provision for contingencies, the value of financial instruments, and the assets and liabilities relating to employee benefits. The settlement of transactions in which these estimates were involved may generate different amounts, due to the uncertainties inherent in the calculation process. The managements of the indirect subsidiaries revise their estimates and premises at least once a quarter.

3. SUMMARY OF THE MAIN ACCOUNTING PRACTICES

The following criteria refer to the practices adopted by the Company and its subsidiaries.

a. ***Cash and Cash Equivalents:*** Cash represents the balances of monies held as petty cash and in available bank accounts. Cash Equivalents represents short-term financial investments, with maturity in up to 90 days, in securities that are highly liquid, promptly convertible into cash and subject to insignificant risk of change in value, shown at cost plus any earnings accrued up to the balance sheet date, which is not to exceed their market value.

b. ***Short-Term Financial Investments:*** Short-term investments are classified by the indirect subsidiaries, according to purpose, as securities: (i) held for trading; (ii) held to maturity; and (iii) disposable.

Investments held for trading purposes are appraised at 'fair value', with the impact recognized under income. Investments held to maturity are recorded at cost plus the accrued earnings, less a provision for adjustment to recovery value, when applicable. Investments that are available for sale are appraised at 'fair value', with the impact recognized in the asset appraisal adjustment account, when applicable.

c. ***Accounts Receivable:*** The accounts receivable arising from the provision of telecommunications services are appraised according to the prevailing tariff or service rate on the date that the service was provided, which is not to differ from the fair value. Accounts receivable also includes the value of services provided to customers that had not been billed at the balance sheet dates. Accounts receivable in relation to the sale of mobile handsets and accessories are recorded at the sale price at the moment that the good was delivered and accepted by the customer. A provision for reduction to recovery value is made when there is tangible evidence that BTP will not be able to collect all the amounts due under the original terms of its accounts receivable. Financial difficulties experienced by the debtor, the likelihood of insolvency and other factors indicating impairment are taken into

consideration in individual assessments and the analysis of asset groups of similar risk. The criterion adopted for making a provision for doubtful debts considers the calculation of percentage losses at each level of overdue accounts. From these loss percentages, an estimate is made of future losses on the existing balance of the accounts receivable. The provisions for doubtful debts, losses on accounts receivable and the recovery of losses previously written off are recognized in the income for the period as commercialization expenses.

d. ***Inventory:*** This is shown at the average acquisition cost, which is not to exceed the replacement cost. Stocks are classified according to purpose, as network expansion, plant maintenance and merchandize for sale, largely comprising mobile handsets, accessories and payment cards. Stocks for network expansion are classified under property, plant and equipment (work in progress), stocks for plant maintenance are classified under current and non-current assets, according to the period in which they are to be used, stocks of sales merchandize are classified under current assets. Provisions for losses are recorded for stocks that are considered obsolete, while adjustments are recorded for mobile handsets and accessories, in the event that the acquisition price was higher than the sale price, to bring the value into line with the net realized amount.

e. ***Investments:*** Investments in subsidiaries were appraised by the equity adjustment method. Other investments are recorded at cost, less a provision for losses, when applicable. Investments resulting from tax incentives are recognized at the moment the investment is made, and the outcome is represented by shares in invested companies or investment fund quotas. During the period between the making of the investment and receiving the corresponding shares or quotas, the amount is recorded under long term assets. These investments are appraised periodically and should the market value be lower than the original cost, a provision will be made for probable losses.

f. ***Property, Plant and Equipment:*** Fixed assets are shown at their acquisition or construction cost, less accumulated depreciation. The historical costs includes spending that is directly attributable to the acquisition of the asset. Financial charges arising from liabilities incurred in the financing of fixed assets and work under construction are capitalized.

Subsequent costs are included in the book value of the asset or are recognized as a separate asset, as appropriate, only when these assets generate future benefits economic that can be reliably measured. The residual balance of the replaced asset is written off. Spending on repairs and maintenance is recorded against income in the period in which it occurs.

Depreciation is calculated by the straight-line method, according to the expected economically useful life of each item, which is periodically reviewed by the subsidiaries. The cost of land acquisitions is not depreciated.

The subsidiaries are alert to any indications that the assets may have undergone a depreciation in value. No provisions have been recorded for a reduction in the realizable value of the property, plant and equipment.

g. ***Intangible Assets:*** These largely refer to regulatory licenses, the right to software use and premiums in regard to the acquisition of investments. Intangible assets are shown at their acquisition cost, less accumulated amortization and a provision for adjustment to recovery value, when applicable. The recorded premiums were calculated on the basis of the expected generation of future economic benefits and the amortization is linked to the amount in question and the period of time involved, for terms which vary between 5 and 27 years. Regulatory licenses, obtained from the regulatory body, are amortized over the period that they are in force. The amortization of software usage rights is calculated by the straight-line method, based on the expected generation of future economic benefits and not exceeding five years. In the event that a license or usage right is no longer generating economic benefit, it is written off against income.

h. ***Reduction in the Recovery Value of Long Term Assets:*** Refers to the appraisal, conducted annually or whenever events or changing circumstances indicate that the book value of an asset or group of assets is no longer realizable. Long term assets may be defined as those with an indefinite useful life and those subject to

depreciation and amortization (property, plant and equipment and intangible assets). A loss in recovery value is recognized at the amount by which the book value of the asset exceeds its recovery value. The recovery value is the higher of the fair value of the asset less selling cost or its useful value. For the purpose of assessing the recovery value, the assets are grouped at the lowest level at which there are cash generating units, and forecasts are made based on the discounted cash flows, grounded in the expectations for BTP's operations in its various business segments. Said forecasts back the recovery of the assets.

i. ***Commercial Leasing:*** Commercial leasing is classified as financial when there occurs a transfer of virtually all the risks and benefits inherent to the property.

Financial leasing is recognized in the financial statements as both an asset and a liability, of equal value, based on the fair value of the asset or on the present value of the minimum payments, determined at the start of the lease. The initial costs directly attributable to the commercial lease are added to the amount recognized for the asset.

j. ***Financial Assets and Liabilities at Fair Value:*** Financial assets recorded in the books at fair value against net income are first recognized at fair value, and the cost of the transaction is recorded in the income statement. The recognition of the financial asset is reversed when the right to receive cash flows from the investment has expired or has been transferred.

Gains and losses resulting from changes in the fair value of the category "financial assets at fair value against net income" are shown in the income statement under "financial income (expenses), net" for the period in which they arise.

The market values of the financial assets are based on the current offer prices. If there is no market for a financial asset, the Company and its subsidiaries determine the fair value using appraisal techniques. These include the use of interest free transactions, reference to similar instruments, discounted cash flow analysis, and option pricing models making maximum use of market inflows and minimum use of inflows specific to the entity.

k. ***Impairment of Financial Assets:*** The Company and its subsidiaries assess, on the balance sheet date, whether there is tangible evidence of impairment of a financial asset or group of financial assets. A financial asset or group of financial assets is considered to be impaired when there is tangible evidence of a reduction in its recovery value, such evidence being the result of one or more events occurring after the initial recognition of the asset, and when there is an impact on the estimated future cash flows.

l. ***Derivatives at Fair Value against Net Income:*** Derivatives are initially recognized at market value on the date on which the derivative contract is signed, and they are subsequently measured at their fair value. Changes in the fair value of any derivative are recorded directly in the net income.

m. ***Income Tax and Social Contribution Levied on Income or Deferred:*** Income tax and social contribution are recorded on the accrual basis. Such taxes that are attributable to timing differences, tax losses or a negative social contribution calculation base are recorded under assets or liabilities, as the case may be, only when it is expected that they will be realized or charged in the future. The Company's direct and indirect subsidiaries assess and reduce their deferred fiscal assets whenever they ascertain the probability of future taxable income being insufficient for the full or partial utilization of such deferred taxes.

Deferred income tax and social contribution are fully recognized on timing differences between assets and liabilities recorded for tax purposes, and the corresponding amounts are recorded in the consolidated financial statements. However, deferred income tax and social contribution are not recognized when they are generated on the initial recording of assets and liabilities that do not affect the tax base, except in combined business transactions.

The deferred income tax and social contribution are calculated at the tax rates prevailing on the balance sheet date and applicable upon the realization of the corresponding assets or settlement of the corresponding liabilities.

n. ***Loans and Financing:*** The value of loans and financing is corrected in line with the relevant monetary or exchange variations, plus the interest incurred up to the balance sheet dates. The recorded transaction costs incurred are measured at amortized cost and recognized under net income using the effective interest rate method.

o. ***Provisions for Contingencies:*** The provisions for contingencies are made in the light of the assessment of contingent risk and calculated on the basis of economic fundamentals legal opinions regarding the known lawsuits and other contingencies on the balance sheet date. Such provisions are recognized when there is a legal or constructive obligation resulting from past events, a disbursement of resources will probably be required to settle the obligation and the amount of the provision can be reliably estimated. The provisions are calculated at the fair value of the expected cost of settling the obligation. The basis and nature of the provisions are described in Note 8.

p. ***Recognition of Revenues:*** The revenues largely correspond to payments received or receivable in regard to the selling of services in the normal course of business of the subsidiaries. Revenue is shown at gross value, less aggregate taxes, returns and discounts.

Revenue is recognized when the value can be reliably quantified, it is likely that the future economic benefits will be transferred to the subsidiaries, the costs incurred in the transaction can be measured, the risk and benefits have been substantially transferred to the buyer and the specific criteria for each of the subsidiaries' activities have been satisfied.

The revenue from services is recognized upon the rendering of same. Local and long distance calls are billed by means of a process of measurement that is in compliance with the prevailing legislation. Services charged at a fixed monthly rate are calculated and recorded using the straight line method. Pre-paid services are recorded as advances to customers and recognized in the revenue as the services are utilized by those customers.

Revenue from the sale of public phone cards, mobile handsets and accessories are recorded at the moment these are delivered and accepted by the customer. Discounts and rebates in relation to revenues from services provided and the sale of handsets and accessories are taken into consideration in the recognition of the corresponding revenues. Revenues from transactions involving multiple elements are identified in each of the components and the recognition criteria are applied individually. Revenue is not recognized if there is any reasonable doubt as to its realization.

q. ***Recognition of Expenses:*** Expenses are recorded on the accrual basis, in line with the realization of corresponding revenues. Pre-paid expenses referring to future financial years are deferred.

r. ***Net Financial Income (Expenses):*** Financial income is recorded on the accrual basis and represent interest effectively earned on the settlement of overdue accounts receivable, the earnings on financial investments and derivative gains. Financial expenses represent interest and other charges effectively incurred in relation to loans, financing, derivative contracts, the reversal of adjustments to present value and other financial transactions. They also include the recognition of interest on assets and liabilities recorded at present value.

Interest on capital, when it is credited, is also a financial expense, but for presentation purposes the recorded amounts are reversed against net income and reclassified, under shareholders' equity, as a deduction from retained earnings.

s. ***Employee Benefits:*** Offered by the indirect subsidiaries, they are as follows:

(i) ***Supplementary Pension:*** The private pension schemes and other sponsored retirement benefits are managed by three foundations. The contributions are determined on the basis of actuarial calculations, when applicable, and are recorded against income, on the accrual basis.

The sponsored schemes are defined benefit (closed to new participants) and defined contribution plans. The latter kind is a pension plan under which the sponsor pays fixed contributions into a fund run by a separate entity. The sponsor has no legal or constructive obligation to pay additional contributions, in the event that the fund does not have sufficient resources to pay all the employees the benefits due in relation to the services provided up to that time. The contributions are recognized as expenses in relation to employee benefits when they incurred.

The liability recognized in the balance sheet, in regard to defined benefit pension plans that are in deficit, corresponds to the present value of the defined benefits at the balance sheet date, less the fair value of the plans assets. The defined benefit is calculated annually by independent actuaries, who utilize the projected unit credit method. The present value of the defined benefit is determined by descounting the estimated future cash disbursements, using the projected inflation rate plus long term interest estimated at 6% p.a. Supplementary information on the private pension schemes is provided in Note 7.

(ii) ***Stock Option Scheme:*** Brasil Telecom S.A. offers the employees an option scheme for the purchasing of stock, which are settled with the transfer of shares. The fair value of the services rendered by the employees in exchange for the assurance of these options is determined in regard to the fair value of the options, as at the concession date.

Brasil Telecom S.A. also offers the employees options to purchase BTP stock. These are considered as options for settlement in cash by Brasil Telecom S.A. The fair value of the options granted is assessed on the balance sheet date, and the variations are recognized in the income of Brasil Telecom S.A.

The fair value of the services rendered by the employees in exchange for the assurance of options is recognized as an expense during the period of acquiring the option right. Brasil Telecom S.A reviews its estimate of the number of options that are expected to be acquired and recognizes the impact of this review under income. The options settled in shares are recorded under expenses, against an increase in shareholders' equity. The options settled in cash are recorded against the liability.

(iii) ***Profit Sharing Scheme:*** A provision covering the employee profit-sharing scheme is made on the accrual basis, and is recorded as an expense. Determination of the amount, which is paid in the year following the recording of the provision, takes into consideration the program of targets defined in the collective labor agreement negotiated with the relevant labor union, in accordance with Law nº 10,101/00 and the Company's by-laws.

t. ***Earnings per Share:*** Calculation of the earnings per share ratio is based on the number of shares in circulation on the balance sheet date. The shares in circulation represent the total number of shares issued, less any treasury stock.

4. TRANSACTIONS WITH RELATED PARTIES

Transactions with related parties refers to Company transactions with Solpart and those between the Company's subsidiaries. All inter-company transactions, balances, revenues and expenses are fully eliminated in the consolidation.

Management

Remuneration

The remuneration of the management, including the members of the Board of Directors and executive officers, who are responsible for the planning, administration and control of the Company's activities and those of its subsidiaries, is shown below:

	PARENT COMPANY		CONSOLIDATED	
	2008	2007	2008	2007
Salaries and other short-term Benefits	54	62	52,260	26,567
Post-Employment Benefits	—	—	184	172
Contractual Rescission Benefits	—	—	6,888	1,953
Remuneration Linked to Shares	—	—	16,743	13,179
Total	**54**	**62**	**76,075**	**41,871**

The remuneration of management attributable to BTP was recorded on a cost-sharing basis.

Transactions with the direct subsidiary Solpart

Dividends/Interest on Capital ("IOC"): from its 2008 provision for dividends/IOC, the direct subsidiary Solpart allocated the sum of R$42,545 to the Company, representing the minimum obligatory dividend and supplementary dividends on the profit for the 2008 financial year.

Transactions with the indirect subsidiary BTP

Dividends/Interest on Capital ("IOC"): in 2008, Invitel had an equity stake in BTP valued at acquisition cost, represented by 76,000,000 common shares. From its 2008 provision for dividends/IOC, BTP allocated the sum of R$60 (Dec. 31, 2007 — R$71) to Invitel, representing IOC. The asset balance of IOC receivable, net of income tax withheld at source, is R$318 (Dec. 31, 2007 — R$60 in IOC and R$80 in dividends). Of the IOC receivable, R$267 was ceded by Invitel, due to the Split-Off of Argolis Holdings, with the ceded portion reverting to the Company.

BTP transactions with its subsidiaries

There follows a presentation of the principal transactions between BTP and the related parties mentioned in Note 1. These transactions were carried out at prices and on terms agreed between the parties.

Brasil Telecom S.A.

Guarantees and Sureties: (i) BTP provides guarantees of loans and financing owing by Brasil Telecom S.A. to its creditor financial institutions. In 2008, BTP earned the sum of R$9,157 (R$3,401 in 2007) on the guarantees it provided; and (ii) BTP provided a surety to Brasil Telecom S.A**.** in relation to insurance policies in guarantee of contractual obligations, totalling R$112,020 (R$97,457 in 2007). In 2008, in remuneration of this surety, BTP recorded operating income of R$129 (R$117 in 2007).

Amounts Payable: resulting from abovementioned transactions and also in relation to the sharing of resources. The balance payable is R$1,636.

5. RISK ANALYSIS

Management of Financial Risk

The activities of BTP and its subsidiaries expose it to a variety of financial risks, such as: market risk (including risk of changes to the currency, fair value interest rate risk, risk to interest rates on cash flow and price risk), credit risk and liquidity risk. The global risk management program focuses on the unpredictability of the financial markets and seeks to minimize potential adverse effects on financial performance. Brasil Telecom S.A. uses derivatives to cover certain risk exposure.

The BTP treasury manages risk according to policies approved by the Company's management. The managers of the treasury identify, evaluate and cover financial risks, together with the other BTP units and their subsidiaries. The management supplies written principles for the management of global risk, as well as the policies encompassing specific areas, such as exchange rate risk, interest rate risk, credit risk, use of derivative and non-derivative financial instruments, and investments with immediate liquidity.

According to their different types, financial instruments can involve known or unknown risks, and it is important that, by using best judgment, the potential of these risks is evaluated. Thus, there may be risks with guarantees or without guarantees, depending upon the circumstances or legal aspects.

a. Fair Value of Financial Assets and Liabilities

The Company's indirectly controlled subsidiaries conducted an evaluation of their accounting assets and liabilities compared with market values or their effective realization (fair) values, using available information and evaluation methodologies appropriate to each situation. The interpretation of the market data regarding the choice of methodologies requires considerable judgment and the establishment of estimates in order to reach a value that is considered to be adequate for each situation. Consequently, the estimates presented may not necessarily indicate the amounts that could be obtained in the current market. The use of different hypotheses for assessing fair value can have a material effect on the amounts obtained.

The method used for the calculation of the fair value of Swap derivatives was future cash flows associated with each instrument under contract, discounting market fees in effect on the balance sheet date. The method used for the calculation of the market value of the derivatives regarding dollar call options adopted for accounting recognition of the premium was Black&Scholes, adapted by Garman-Kohlhagen to take into consideration specific characteristics of the currency exchange options.

For shares that are traded on active markets, the fair value is the equivalent of the value of the last price quotation available on the balance sheet date multiplied by the number of shares in circulation. For contracts in which the current contractual terms are similar to the original terms or that do not present parameters for a price quotation or contract, the fair values are equal to the book values.

The selection of the classes of assets and liabilities for this note occurred as a result of their materiality and are presented as follows:

	CONSOLIDATED			
	2008		2007	
	Accounting Value	Fair Value	Accounting Value	Fair Value
Assets				
Cash and Cash Equivalents	2,760,840	2,760,840	838,492	838,492
Financial Investments	775,502	775,502	3,163,487	3,163,487
Accounts Receivable	2,210,090	2,210,090	2,189,701	2,189,701
Loans and Financing	6,868	6,868	7,973	7,973
Derivatives	29,179	29,179	6,218	6,218
Other Assets	234,440	234,440	210,920	210,920
Liabilities				
Accounts Payable and Provisions for Expenses	2,072,286	2,072,286	1,650,681	1,650,681
Loans and Financing	4,536,887	4,536,887	3,911,326	3,959,644
Debentures	1,091,906	1,058,712	1,088,956	1,088,956
Derivatives	222,073	222,073	406,514	406,514
Dividends/Interest on Capital	473,607	473,607	1,045,045	1,045,045
Other Liabilities	969,438	969,438	413,557	413,557

b. Financial Instruments by Category

The accounting balances of financial instruments by category are presented as follows:

	CONSOLIDATED		
	2008		
	Receivables, Loans and Liabilities at Amortized Cost	Market Value of Gains and Losses Recognized in Income	Total
Assets	—	2,760,840	2,760,840
Cash and Cash Equivalents	—	775,502	775,502
Financial Investments	2,210,090	—	2,210,090
Accounts Receivable	6,868	—	6,868
Loans and Financing	—	29,179	29,179
Derivatives	234,440	—	234,440
Total	**2,451,398**	**3,565,521**	**6,016,919**
Liabilities			
Accounts Payable and Provisions for Expenses	2,072,286	—	2,072,286
Loans and Financing	4,536,887	—	4,536,887
Debentures	1,091,906	—	1,091,906
Derivatives	—	222,073	222,073
Dividends/Interest on Capital	473,607	—	473,607
Other Liabilities	969,438	—	969,438
Total	**9,144,124**	**222,073**	**9,366,197**

	CONSOLIDATED		
	2007		
	Receivables, Loans and Liabilities at Amortized Cost	Market Value of Gains and Losses Recognized in Income	Total
Assets			
Cash and Cash Equivalents	—	838,492	838,492
Financial Investments	—	3,163,487	3,163,487
Accounts Receivable	2,189,701	—	2,189,701
Loans and Financing	7,973	—	7,973
Derivatives	—	6,218	6,218
Other Assets	210,920	—	210,920
Total	**2,408,594**	**4,008,197**	**6,416,791**
Liabilities			
Accounts Payable and Provisions for Expenses	1,650,681	—	1,650,681
Loans and Financing	3,911,326	—	3,911,326
Debentures	1,088,956	—	1,088,956
Derivatives	—	406,514	406,514
Dividends/Interest on Capital	1,045,045	—	1,045,045
Other Liabilities	413,557	—	413,557
Total	**8,109,565**	**406,514**	**8,516,079**

The Company and its subsidiaries do not have financial instruments classified as held to maturity as at the balance sheet date.

c. Management of Capital Risk

The objective of the Company regarding the management of its capital is to protect its continuity, guaranteeing returns to shareholders and alignment with its strategy.

The risk of the management of consolidated capital derives from the position of the Company and its subsidiaries of using operating cash flow to finance a significant portion of its investments. The administration of the capital structure is based on an annual budget approved by the Board of Directors, which establishes a net debt ratio (loans and financing plus derivatives, deducting cash and cash equivalents and financial investments)/ EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) lower than 1 (one), that for its part seeks to guarantee the financial capacity to meet the heavy investments that characterize the Brazilian telecommunications sector. In addition, the projects require capital investments that are approved by an investment committee, using the EVA (Economic Value Added) methodology.

The monitoring criteria can be changed, depending upon economic-financial conditions, seeking to optimize financial leveraging and debt management.

d. Credit Risk

The majority of the consolidated services rendered are linked to the Concession Contract and some of these services are subordinated to the establishment of tariffs by the regulatory agency. For its part, credit policy in the case of public telecommunications utilities is subordinated to legal regulations established by the conceding power. The risk exists as a result of the possibility of the occurrence of consolidated losses resulting from the difficulty of receiving values billed to clients. Consolidated payment delinquency during the fiscal period was 2.18% (2.18% in 2007), considering the total amount of losses of accounts receivable compared to net revenues. Through internal controls, BTP permanently monitors the level of its accounts receivable, which limits their risk

of delinquent accounts, proceeding to cut access to service (sainte traffic) if the outstanding account is overdue by more than 30 days. Exceptions are made in the case of telephone services that must be maintained due to security or national defense requirements.

Brasil Telecom S.A. operates through co-billing with regard to long distance calls, using its Service Selection Code (CSP) originated by subscribers of other fixed line and mobile telephone companies. The co-billing accounts receivable are issued, collected and settled by these other telephone companies based on operating agreements signed with them and comply with the discipline established by ANATEL. The co-billing rules for blocking access established by the regulatory agency are the same for both wireline and wireless telephony suppliers. Brasil Telecom S.A. separately controls these types of receivables and maintains a provision for losses that could occur due to the risks of not receiving these amounts.

Regarding wireless telephony, the credit risk in the sale of devices and the rendering of post-paid services is minimized through the adoption of a prior credit analysis. Furthermore, with regard to the post-paid service, whose client base at the close of the period was 17.5% of the total portfolio (20.1% as of December 31, 2007) Accounts Receivable also are monitored in order to limit payment delinquencies and to block service (sainte traffic) when an account is more then 15 days overdue.

e. Foreign Exchange Risk

Brasil Telecom S.A. has foreign currency denominated loans and financing contracts. The risk linked to these liabilities is based on the possibility that fluctuations of the exchange rates could increase their respective balances. Loans subject to this risk represents about 16.7% (16.0% as of December 31, 2007) of the Company's total loans and financing lines, not considering the exchange protection operations that have been contracted. To minimize this type of risk, Brasil Telecom S.A. has contracted exchange protection operations with financial institutions. Of the portion of the foreign debt, 60.5% (92.6% as of December 31, 2007) is covered by the protection operations through exchange swap and dollar option contracts as well as financial investments in foreign currencies. The positive or negative effects of the swap and dollar options that are not realized in the protection operations are recorded on the financial statements as a gain or a loss, according to the situation of each instrument.

The exposure to the accounting value and the market value of the exchange rate risk as of the date of the closing of the fiscal period was the following:

	CONSOLIDATED			
	2008		2007	
	Book Value	Fair Value	Book Value	Fair Value
Assets				
Derivatives	29,179	29,179	6,218	6,218
Total	**29,179**	**29,179**	**6,218**	**6,218**
Short-Term	29,179	29,179	—	—
Long-Term	—	—	6,218	6,218

	CONSOLIDATED			
	2008		2007	
	Book Value	Fair Value	Book Value	Fair Value
Liabilities				
Loans and Financing	779,932	763,571	622,114	655,533
Derivatives	222,073	222,073	406,514	406,514
Total	**1,002,005**	**985,644**	**1,028,628**	**1,062,047**
Short-Term	230,773	230,150	215,787	213,528
Long-Term	771,232	755,494	812,841	848,519

Derivatives

In compliance with investment policies approved by the Board of Directors in May 2007, Brasil Telecom S.A. is permitted to undertake non-leveraged derivative operations with first class financial institutions, designed to implement investment strategies and establish debt protection strategies. The limits for investing in derivative operations may not exceed 10% of all Brasil Telecom S.A. investments or the total foreign currency debt that is exposed exchange rate variations, whichever is greater. Undertaking these types of operations requires the prior approval of management, in compliance with formally established procedures.

Internal controls are maintained that assure timely monitoring of exposure to exchange rate risks. Because Brasil Telecom S.A. has derivative investments for debt protection, the management and evaluation of the results obtained through these operations exclusively take into account the reduction or elimination of the effects of exchange rate variations on its debt.

The amounts of the derivative financial instruments are summarized as follows:

		CONSOLIDATED					
						Accumulated effect Current Period	
		Reference Value (Notional)		Fair Value		Amount Receivable	Amount Payable
	Maturity	2008	2007	2008	2007	2008	2008
Swap Contracts							
Asset Position							
Foreign Currency— Yen(i)	Mar/09 to Mar/11	280,703	400,359	277,774	239,106	—	277,774
Liability Position							
Interest Rate — CDI(i)	Mar/09 to Mar/11	(280,703)	(400,359)	(499,428)	(636,936)	—	(499,428)
Net Value		**—**	**—**	**(221,654)**	**(397,830)**	**—**	**(221,654)**
Options Contracts							
Titular Position — Call							
Foreign Currency — Dollar(ii)	Feb/09	US$ 80,000	US$ 80,000	29,179	6,218	29,179	—
Issue Position — Put							
Foreign Currency — Dollar(ii)	Feb/09	US$ (64,000)	US$ (64,000)	(419)	(8,684)	—	(419)

(i) Swap of Yen for CDI (Plain Vanilla)

In 2004 Brasil Telcom S.A. contracted foreign exchange swaps (plain vanilla) to protect its cash flow with respect to its yen-denominated liabilities maturing at the end of March 2011. According to these contracts, Brasil Telecom S.A. has an active position in yen, with an added pre-fixed rate, and a passive position tied to a percentage of the daily interest rate (CDI), thus protecting against the risk of an exchange fluctuation of the yen versus the real, which effectively represented an exchange of the cost of the yen plus 1.92% p.a. for an average weighted fee of 95.91% of the CDI as of the close of the fiscal period. These contracts were signed with the following first class financial institutions: Citibank N.A. — Brazilian Branch, Citibank DTVM S.A., Banco Citibank S.A., Banco JP Morgan S.A. and Banco Santander Brasil S.A. The operations were duly registered with CETIP S.A. and there is no requirement for a guarantee margin in these contracts.

Keeping in view the fact that the flows of the active positions of the swap contracts will be fully offset by the passive flows of the yen-denominated debt, Brasil Telecom S.A. believes that the risk of being passive in the one-day interest rate (CDI) consists of a CDI rate increase.

(ii) U.S. Dollar Options

Brasil Telecom S.A. contracted U.S. dollar option operations, seeking partial protection of its foreign currency denominated debt cash flow (Notes issued in February 2004). These operations refer to the acquisition of purchase options fully financed by the issue of sales options, with the exercise price being identical in both of the operations. These operations were contracted from first class financial institutions: Banco Santander Brasil S.A., Banco JP Morgan S.A., Banco Citibank S.A., HSBC Bank Brasil S.A. – Banco Múltiplo and Banco Alfa de Investimentos S.A. The operations were duly registered with CETIP S.A. with maturities in February 2009. There is no requirement for a guarantee margin in the contracts.

As a result of its strategy for options operations, Brasil Telecom S.A. has a purchased position in dollars at an average price of R$1.9925 per unit of US$ (Unites States dollar). The notional amount is US$ 80,000 for the purchase options and US$ 64,000 for the sale options.

Exchange Rate Variation Sensitivity Analysis

As of the close of the fiscal period, Management estimated the probable scenario of the devaluation of the real against other currencies based on the closing dollar (sales PTAX) and the BM&F price quote for the dollar future maturing in January 2010. The probable rate was then devalued by 25% and 50%, serving as a parameter for possible and remote scenarios, respectively.

CONSOLIDATED					
Exchange Rate Scenarios					
Probable Scenario		Possible Scenario		Remote Scenario	
Reference Dollar	Devaluation	Reference Dollar	Devaluation	Reference Dollar	Devaluation
2.50	6.9%	3.12	33.6%	3.75	60.3%

As of December 31, 2008 the hypothetical evaluations of the real against other currencies would bring about the following impact:

CONSOLIDATED				
Impacts on the Exchange Rate Scenarios				
		Scenario		
Operation	Risk	Probable	Possible	Remote
Cash and Cash Equivalents	Decline of the Dollar	8,129	39,671	71,212
Dollar -Denominated Debt	Appreciation of the Dollar	(35,089)	(171,233)	(307,378)
Dollar options	Decline of the Dollar	12,907	62,633	112,307
Net Effect of the Devaluation of the Real		(22,182)	(108,600)	(195,071)
Yen-Denominated Debt	Appreciation of the Yen	(19,421)	(94,774)	(170,127)
Swaps (Active Position — Yen)	Decline of the Yen	19,130	93,356	167,582
Net Effect of the Devaluation of the Real		(291)	(1,418)	(2,545)
Debt in Basket of Currencies	Appreciation of the Basket of Currencies	(6,263)	(30,566)	(54,868)

f. Interest Rate Risk

Assets

Cash equivalents and local currency financial investments are maintained in financial investment funds (FIFs) managed exclusively for BTP along with its own private securities portfolio (post-fixed CDBs) issued by first class financial institutions.

The consolidated assets stem from a loan awarded the company that produces telephone lists, remunerated by the IGP-DI. Furthermore, the company maintains fixed income securities (CDBs) invested with Banco de Brasília S.A., related to the guarantee for a credit incentive awarded by the Government of the Federal District, through a program called the Promotion of Economic and Sustainable Development in the Federal District (PRO-DF), with the remuneration of these securities equivalent to between 94% to 97% of the SELIC.

The interest rate risk with regard to assets stems from the possibility that these rates could fluctuate.

These assets are represented on the balance sheet as follows:

	CONSOLIDATED	
	Book Value and Market Value	
	2008	2007
Assets		
Cash Equivalents	2,592,870	523,338
Financial Investments	775,502	3,163,487
Loans And Financing	6,868	7,973
Total	**3,375,240**	**3,694,798**
Short-Term	3,370,130	3,688,622
Long-Term	5,110	6,176

Liabilities

Brasil Telecom S.A. has local currency loans and financing based on the TJLP (Long Term Interest Rate), UMBNDES (the Brazilian Development Bank Monetary Unit), the CDI (Interbank Certificates of Deposit) and the IGP-DI (General Price Index — Internal Availability), and foreign currency financing based on the YEN LIBOR and LIBOR. It also has exposure to the CDI through its contracting of swap operations, designed to protect its yen-denominated liabilities, as cited in note 5. It has no derivative operations to protect liabilities against interest rate risk.

Additionally, Brasil Telecom S.A. issued public debentures, non-convertible or changeable into shares. This liability was contracted at a rate of interest based on the CDI.

The risk inherent to these liabilities is a result of the possibility that these rates will fluctuates. The market rates are continuously monitored in order to assess eventual contracting of instruments to protect against swings in these rates.

Interest Rate Variation Sensitivity

BTP believes that the most significant risk regarding interest rate variations is to its liabilities corrected by the CDI and the TJLP indexes. The risk is associated with the increase in these rates.

As of the date of the closing of the fiscal period, management estimated a probable scenario in the variation of the DI rates based on rates implicit in the quotations as of the closing of the DI futures contracts traded on the BM&F. Because there is no benchmark market for future TJLP rates, management estimated a probable scenario for the TJLP of 6.25% p.a., that is, the current TJLP in effect as of the date of the closing of the period. These rates were stressed by 25% and 50%, serving as a parameter for the possible and remote scenarios, respectively. The following table presents a summary of the scenarios that were estimated by management:

Interest Rate Scenarios(1)	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Probable Scenario									
DI Rate (p.a.)	12.16%	12.23%	12.48%	13.32%	12.61%	—	—	—	—
TJLP (p.a.)	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%	6.25%
Possible Scenario									
DI Rate (p.a.)	15.20%	15.29%	15.60%	16.64%	15.76%	—	—	—	—
TJLP (p.a.)	7.81%	7.81%	7.81%	7.81%	7.81%	7.81%	7.81%	7.81%	7.81%
Remote Scenario									
DI Rate (p.a.)	18.24%	18.34%	18.72%	19.97%	18.92%	—	—	—	—
TJLP (p.a.)	9.38%	9.38%	9.38%	9.38%	9.38%	9.38%	9.38%	9.38%	9.38%

(1) Rates expressed from the year of the referenced period.

Based on the interest curves forecast for each scenario, management estimated future values for payment of interest on liabilities corrected by the CDI and TJLP. The following table demonstrates the nominal total of the future flows of interest payments in each year, as well as the difference between interest paid in the possible and remote scenarios compared to the probable scenario, which represents the impact of the theoretical increase on the estimated interest rates in the possible and remote scenarios. It should be emphasized that this sensitivity analysis takes into consideration flows of payments on different future dates. Thus, the global total of the amounts in each scenario is not equivalent to fair value, or even the present value of the liabilities. The fair value of these liabilities, maintaining the BTP credit risk unaltered, would not be impacted in the case of interest rate variations, keeping in mind that the rates that are used to obtain the future values would be the same ones that would bring the flows to present value.

Impacts - Interest Rate Scenarios	2009	2010	2011	2012	2013	2014	2015	2016	2017
Probable Scenario									
Debt in CDI	133,458	131,613	113,952	72,766	23,460	—	—	—	—
Swap (liability position only in CDI)	216,997	234,108	124,232	—	—	—	—	—	—
Liability in TJLP	254,882	184,201	129,250	89,684	49,651	15,199	7,993	4,530	1,097
Possible Scenario									
Debt in CDI	162,744	163,421	141,474	90,321	29,127	—	—	—	—
Impact versus Probable Scenario	*29,286*	*31,809*	*27,522*	*17,556*	*5,667*	—	—	—	—
Swap (liability position only in CDI)	219,850	243,487	131,835	—	—	—	—	—	—
Impact versus Probable Scenario	*2,853*	*9,379*	*7,602*	—	—	—	—	—	—
Liability in TJLP	256,739	188,279	134,066	94,402	53,021	16,463	8,796	5,058	1,240
Impact versus Probable Scenario	*1,857*	*4,078*	*4,816*	*4,718*	*3,370*	*1,264*	*803*	*527*	*143*
Remote Scenario									
Debt in CDI	191,626	194,827	168,641	107,644	34,722	—	—	—	—
Impact versus Probable Scenario	*58,167*	*63,214*	*54,689*	*34,878*	*11,262*	—	—	—	—
Swap (liability position only in CDI)	222,672	252,994	139,684	—	—	—	—	—	—
Impact versus Probable Scenario	*5,675*	*18,886*	*15,452*	—	—	—	—	—	—
Liability in TJLP	258,586	192,391	138,991	99,297	56,567	17,812	9,666	5,637	1,399
Impact versus Probable Scenario	*3,704*	*8,190*	*9,741*	*9,613*	*6,916*	*2,613*	*1,673*	*1,107*	*302*

g. Risk of Not Linking Monetary Correction Indexes of Loans and Financing to Accounts Receivable

The indexes for loans and financing contracted by Brasil Telecom S.A. are not correlated to the accounts receivable amounts. Therefore, there is a risk, because the telephone tariff adjustments do not necessarily accompany the increases in interest rates that affect Brasil Telecom S.A.'s debts.

h. Risks Related to Investments of the Solpart Subsidiary

The main investments of Solpart, which is traded at the stock exchange, refers to BTP, whose market value is demonstrated as follows:

	2008		2007	
	Book Value	Market Value	Book Value	Market Value
Investments	**1,489,094**	**4,058,631**	**1,401,466**	**3,178,561**
Stakes in Subsidiaries	**1,489,094**	**4,058,631**	**1,401,466**	**3,178,561**
Traded on the Stock Market	1,489,094	4,058,631	1,401,466	3,178,561

i. Cash Equivalents and Financial Investment Risks

Cash and cash equivalents and financial investments in local currency are maintained in financial investment funds (FIFs) and own portfolio investments are in private securities (post-fixed CDBs) issued by first class financial institutions. The FIF portfolios mainly are constituted of federal public securities (post-fixed). The funds are able to conduct non-leveraged derivative operations, designed to protect their portfolios and to comply with the objectives established for their respective investment policies. The exposure to market risks is monitored on a daily basis using the VaR (Value at Risk) methodology, which expresses the quantification of the risk of losses in these investments. With regard to foreign currency amounts, these are represented by overnight operations linked to securities issued by overseas financial institutions, with low credit risk.

The investments in CDBs and overnight operations are subject to the credit risk of the financial institutions and the foreign currency investments are subject to the exchange rate risk.

The balances for cash and cash equivalents and financial investments are presented in notes 17 and 18, respectively.

j. Liquidity Risk

Cash flows generated from operations and external financing are used to pay for the costs of capital expenditures for the expansion and modernization of the network, for dividend payouts, to pay off debt in advance and to invest in new businesses.

k. Risk of Advance Payment of Loans and Financing

The liabilities stemming from consolidated lines of financing, cited in note 34, regarding Brazilian Development Bank contracts, public debentures with the majority referring to financial institutions, contain clauses for advance payment of the liabilities in the event that the targets of certain indicators are not met, such as interest rate coverage and degrees of leverage (financial covenants), such as under the hypothesis of a change in ownership control of BTP.

For the financing contracts maintained with the Brazilian Development Bank, Brasil Telecom S.A. must comply with a set of financial indicators and, in the case of failure to comply with some of these indexes, the Bank may request temporary blocking of transient amounts in the collection accounts linked to the contracts.

All of the targets called for in the contracts have been fully met; therefore, Brasil Telecom S.A. is not subject to any sanctions or penalties foreseen in the contractual clauses that were signed.

l. Contingency Risks

The contingency risks are evaluated according to liability hypotheses ranging from probable, possible to remote. Contingencies considered as being probable risks are recorded as liabilities. The details of these risks are presented in note 8.

m. Regulatory Risk

The regulatory risks are with regard to the STFC activity, which represents the largest segment in which Brasil Telecom S.A. is active.

Concession Contracts

Local and domestic long-distance concession contracts are in effect that Brasil Telecom S.A. signed with ANATEL, encompassing the period from January 1, 2006 through December 31, 2025. These concession contracts, which are to be reviewed every five years, in general contain high levels of intervention in business management and a number of conditions regarding defense of consumer interests, as perceived by the regulatory agency. Among other points the following are particularly notable:

(i) The tax burden the concession incurs, defined as 2% of net taxable revenues calculated every two years, began during the fiscal year of 2006, with the first payment occurring on April 30, 2007. Successive payments will take place until the end of the concession. This calculation method, in terms of accrual, corresponds to 1% of each fiscal year;

(ii) The definition of new universalization targets, especially Special Class Individual Access (AICE), for mandatory supply of service and installation of the network infrastructure for connection to the high-capacity access network;

(iii) The possibility of the Regulatory Agency imposing alternative mandatory supply of service plans;

(iv) The introduction of the right of the Regulatory Agency to intervene and change concession contracts with third parties;

(v) The inclusion of the assets of the parent company, subsidiary, affiliates and third parties that are indispensable to the concession, such as reversible goods; and

(vi) The creation of a User's Council for each concession.

The interconnection tariffs are defined as being a percentage of the local public and national long-distance tariff until the effective establishment of the cost model for service/mode, which should occur as of 2009, according to the models defined by the Accounting Separation and Allocation Regulation (Resolution 396/05).

Approval of the New General Licensing Plan

On June 17, 2008, ANATEL published Public Hearing 23 on the Review Proposal of the General Licensing Plan ("PGO") of the Public Services Regime. BTP was allowed to make a statement regarding the content of the proposal until August 1, 2008, the date in which the aforementioned public consultation process expired.

On October 16, 2008, ANATEL's Managing Council approved the final text of the General Licensing Plan ("PGO"), which, among others, adopted the following main lines of action:

(i) Maintenance of the current PGO regions;

(ii) Elimination of restrictions to the actions of a Group that holds concessions in more than one PGO region;

(iii) Prohibition of holding more than one concession of the same STFC type in the same PGO region or in part of it by the same Group;

(iv) Mandatory activities in the other PGO regions for Groups that control concessions in more than one Region, making the General Competition Targets Plan (PGMC) available along with the obligation of satisfying the other conditions imposed by the Agency designed to assure competition, inhibit economic concentration and not place at risk the execution of the concession contracts; and

(v) Maintenance of the concept of regional proximity.

It also approved the General Plan for Updating Telecommunications Regulations (PGR), which lays out the regulatory targets for expanding competition.

The PGO Review Proposal was approved by the ANATEL Consulting Council and sent to the Ministry of Communication ("MC"). For its part, after analyzing the document the MC sent the content of the Proposal to the office of the Presidential Chief of Staff, which prepared Decree 6.654 dated November 20, 2008, published by the Diário Oficial da União — D.O.U (government official gazette) on November 21, 2008.

With the publication of Decree 6.654, which approved the new PGO, the acquisition of control of a commutated wireline telephone service concession company by another concession holder of the same service type acting in a different Region was permitted, although subject to prior approval by ANATEL.

On December 19, 2008 ANATEL issued Act 7.828, through which its Managing Council agreed to prior approval of subsequent company ownership actions with regard to the merger of the companies or the capital stock of Invitel, Solpart and Brasil Telecom Participações S.A. by Telemar Norte Leste S.A. According to a Material Fact published by Telemar Norte Leste S.A. on April 25, 2008, this corporate restructuring will comprise, among other acts, under the terms of art. 230 of the Brazilian Publicly-Traded Company Law, the merger of BTP into Brasil Telecom S.A. followed by the incorporation of shares, under the terms of art. 252 of the Brazilian Publicly-Traded Companies, of Brasil Telecom S.A. by a subsidiary of Telemar, with its subsequent merger, under the terms of art. 230 of the Brazilian Law of Publicly-Traded Companies, with Telemar.

As a full party to the Act in question, Telemar and the collective interest telecommunications service suppliers pertaining to its economic group, taking into consideration the continuous acceptance of the Act, must fully satisfy the conditions imposed by ANATEL, within the terms and deadlines foreseen in the Act's annexes. Among these conditions, the following are noteworthy:

- Increase in the number of municipal sites connected through fiber optic cable in the PGO's Regions I and II, by 2010, by 100 (one hundred) municipal sites connected to the telecommunications infrastructure, beyond the connections existing on October 31, 2008, and by December 31, 2015 to connect via optical fiber cable 200 (two hundred) municipal sites to the telecommunications infrastructure, beyond the already established, obeying the quantitative average inclusion number of 40 municipal sites per year.
- Offer on a commercial basis provision of Broadband Internet access in all of the municipal sites in Regions I and II of the PGO that will be able to count on the backhaul facility, in compliance with Decree 6.424, of April 7, 2008, at an access speed of at least 150 kbps.
- Implement and make available commutated access to the Internet in the local STFC mode, in 56% (fifty-six percent) of the 2,995 (two thousand, nine hundred ninety-five) municipalities in the PGO's Region I, respecting the conditions and deadline, of December 31, 2011.
- Offer, with regard to all of the services supplied in Region I of the PGA-SMP, the same conditions in Region II of the PGA-SMP, by December 31, 2009.
- Realize, in the next 10 (ten) years, investments in research and development (R&D) in annual amounts corresponding to up to 100% (one hundred percent) of the total amount collected for the Fund for the Development of Telecommunications Technology (FUNTTEL), respecting the minimum commitment of 50% (fifty percent), condition to the liberation of proportional matching funds on the part of the government.

- Maintain or reduce the percentage through the use of the Industrial Use of Dedicated Lines (EILD) with regard to EILD requests in Region II, presented by Brasil Telecom S.A., prior to the realization of the aforementioned operation.
- Maintain a consolidated number of jobs in the company and its subsidiaries, including Brasil Telecom S.A. and its subsidiaries, at least until April 25, 2011, using as a point of reference the number of jobs existing in these same companies on February 1, 2008.
- Conclude in a maximum deadline of 12 (twelve) months, in coordination with ANATEL, actions designed to resolve administrative procedures leading to non-compliance with universalization and service quality liabilities currently being investigated by the Agency, designed to improve consumer service.

The next step regarding Prior Approval refers to ANATEL's instruction to CADE, for the latter agency's analysis.

6. CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

The preparation of the accounting statements requires the use of certain estimates and future suppositions. The accounting estimates are based on objective and subjective factors, based on the judgment of management regarding a determination of the appropriate values to be posted to the accounting statements. The estimates and judgments are continuously assessed and are based on historic experience or other factors, including expectations of future events considered to be reasonable according to the circumstances.

The estimates are used for, but are not limited to: booking provisions for doubtful credits, the determination of the useful life of fixed assets and intangible assets, the reduction of the recoverable amounts of goodwill and long-duration assets, the projection of tax income, establishing contingencies, the determination of the valuation of assets and liabilities related to employee benefits, and the determination of the fair value of derivatives and other financial instruments. The settlement of the transactions involving these estimates could result in diverging amounts due to the uncertainties that are inherent in the process for determining them.

The resulting accounting estimates rarely will equal the real results, by definition. The estimates and suppositions that have significant risk of leading to material adjustments of the accounting balances of the assets and the liabilities in the next fiscal years are listed below.

a. Allowance for doubtful accounts

Allowances are recorded for accounts receivable in which recovery is considered doubtful. The estimates are based on historic collection history and a review of the current situation of all accounts receivable. This estimate takes into account the calculation of the percentages of losses incurred in each accounts receivable due date bracket, applicable to the different risk categories. Additional provisions may be necessary in the event the amount of our estimated provision for the receivables is different than the amounts not collected, due to deterioration in the financial condition of our clients or other factors.

b. Depreciation of Fixed Assets

Depreciation of fixed assets is calculated by the straight-line method, based on the estimated useful life of each asset. The main rates of depreciation are demonstrated in note 27. Due to the complex nature of consolidated fixed assets, the useful life estimates require a considerable amount of judgment and are inherently uncertain, due to the technologies and practices of the market, which change quickly, and which can cause the speeded-up obsolescence of the assets. If the useful life estimates are substantially changed and the market conditions determine a possible obsolescence of plants and machinery, the depreciation expenses and write off for obsolescence and, consequently, the net accounting balance of the fixed assets may be materially different.

c. Estimated Impairment of Goodwill

Annual tests are conducted to check on whether the goodwill suffered any reduction to its recoverable value. The recoverable values of the cash generation units are determined based on the calculations of the amount in use or the sales value. These calculations require the use of estimates.

The determination of fair value and the future discounted operating cash flows require that certain suppositions and estimates regarding projected incoming and outgoing cash flows related to revenues, costs and future expenses be established. Such suppositions and estimates can be influenced by different external and internal factors, such as economic trends and interest rates, changes in business strategies and changes in the type of services and products supply to the market. The use of different suppositions and estimates could significantly change the Accounting Statements. Taking into consideration all the assets and liabilities of the operation as a single cash generating unit and undertaking an evaluation regarding this unit of report, including suppositions and estimates considered as being appropriate, did not result in the obligation of recognizing any loss in terms of the reduction in the recoverable value of the goodwill.

d. Tax evaluation

The Company and its subsidiaries recognize and settle taxes on income based on the results of operations, calculated according to corporate law, complying with the fiscal bases used for the calculation of the taxes. The Company and its subsidiaries recognize deferred tax assets and liabilities based on these differences that exist between the accounting balances of the financial statements and the tax bases calculated according to the tax legislation.

Deferred tax assets are reviewed regularly regarding their recoverability and a provision is recognized to reduce the recoverable amount if it is probable that these assets will not be realized, based on historic taxable income, the projection of future taxable income and the time estimated for the reversal of the existing temporary differences. In order to determine future taxable income, future taxable revenues are estimated along with deductible expenses, which are subject to different external and internal factors, such as economic trends, industry trends, changes in the tax legislation, changes in business strategies and changes in the type of services offered the market.

e. Contingencies

The contingencies are recognized by the amounts of probable losses based upon the evaluation of management and in-company and outside legal counsel regarding the material contingents known as of the date of the balance sheet. The **Company and its subsidiaries** continuously evaluate the provisions for contingencies. Significant changes in the pertinent facts, circumstances and events, such as legal decisions, can affect the estimates and have an important impact on the accounting statements.

7. EMPLOYEE BENEFITS

The benefits described in this note are offered to the employees of indirect subsidiaries, with regard to supplemental pensions. For the effects of supplemental pensions (“Pension Funds”) cited in this note, they also could be denominated “Sponsor” or “Sponsors.”

a. Pension Funds

These consist of sponsored supplemental pension benefit plans related to the retirement of the employees and the assisted participants and, for the case of the latter group, medical assistance in some cases. These plans are managed by the following foundations: (i) Fundação 14 de Previdência Privada (“Fundação 14”); (ii) Fundação BrTPREV (“FBrTPREV”), set up by the former CRT, a company that was merged into Brasil Telecom S.A. on December 28, 2000; and (iii) Fundação SISTEL de Seguridade Social (“SISTEL”), which was originally established by the companies of the former Telebrás System.

The By-Laws require that the supplemental pension policy be approved, with the solidarity attributed to the defined benefit plans being linked to the agreements signed with the foundations, with the approval of the Supplemental Social Security Department (SPC) regarding specific plans.

Independent actuaries evaluate the sponsored plans on the date of the closing of the fiscal year. For fiscal years 2008 and 2007, Mercer Human Resource Consulting Ltda. conducted the actuarial evaluations.

For the defined benefit plans identified in this explanatory note, the immediate recognition of actuarial gains and losses was adopted, with full liability being constituted for the plans that are in deficit, according to the rules of CVM Decision 371/00. For plans that present positive actuarial situations, assets are constituted in the cases where there is explicit authorization for compensation through future company contributions.

Provisions for Pension Funds

These refer to recognition of actuarial deficits of defined benefit plans, as demonstrated below:

	CONSOLIDATED	
	2008	2007
FBrTPREV — Planos BrTPREV, Alternativo and Fundador	753,287	685,668
PAMEC Plan	2,504	2,077
Total	**755,791**	**687,745**
Short-Term	148,391	101,467
Long-Term	607,400	586.278

Asset Recognized for the Compensation of Future Company Contributions

Brasil Telecom S.A. recognized an asset referring to surpluses from sponsor contributions and part of the surplus attributed to it from the TCSPREV plan, managed by Fundação 14. The recognized asset is to be used for compensation of future company contributions.

The balance of this asset, recorded under other assets, is presented below:

	CONSOLIDATED	
	2008	2007
Plano TCSPREV	123,938	74,476
Total	**123,938**	**74,476**
Short-Term	15,874	18,743
Long-Term	108,064	55.733

Characteristics of the supplemental sponsored pension plans

FUNDAÇÃO 14

Fundação 14 de Previdência Privada was created in 2004 and as of March 10, 2005 was given the task of managing and operating the TCSPREV plan. On that date, it signed a management agreement with SISTEL to render management and operational services for the TCSPREV and PAMEC-BrT plans until September 30, 2006. As of that date, Fundação 14 took over the services of administration and operation of its plans. As of the base date of October 31, 2007, Fundação 14 ended its management of the PAMEC-BrT assistance plan because it was an organization that was established to manage private pension plans. In the month of November 2007, the equity of the PAMEC-BrT was transferred to BTP, which, besides its attribution as the sponsor, also began to manage the aforementioned plan.

Plans

TCSPREV (Defined Contribution, Paid-Up Benefit, Defined Benefit)

A defined and paid-up benefit plan launched on February 28, 2000. The merger of all of SISTEL's sponsored pension plans occurred on December 31, 2001, with the exceptional and temporary approval of the Supplemental Social Security Department (SPC) of the document that had been sent to it, in view of the need for adjustments to the regulations. Thus, TCSPREV is constituted of defined contribution, paid-up benefits and defined benefits groups. The plans that make up TCSPREV were the PBS-TCS, PBT-BrT, BrT Management Agreement and the Atypical Contractual Relation Accord, with the conditions established in the original plans being maintained.

On September 18, 2008 SPC/MPS Notice 2.521 of September 17, 2008 was published in the D.O.U. (government official gazette) that approved the plans' new regulations, fully recognizing what had been approved on an exceptional and temporary basis on December 31, 2001. The new regulations also included adjustments necessary for satisfying currently required aspects under the supplemental pension legislation.

In March 2003 the TCSPREV Plan no longer was offered to the sponsors' newly hired employees. Nevertheless, with regard to the defined contribution group, this plan once again began to be offered as of March 2005. The TCSPREV currently covers approximately 66.7% of the workforce.

The contributions to this plan, by group of participants, are determined based on actuarial studies prepared by independent actuaries according to existing rules in Brazil, in compliance with the capitalization regimen for the determination of cost defrayal. Currently, only for the PBS-TCS (defined benefit) and TCSPREV (defined contribution) internal groups are there contributions by both participants and sponsors. In the TCSPREV group, the amounts contributed are credited to the individual accounts of each participant, in equal amounts by the employee and the sponsor, whose basic contribution percentages vary from 3% to 8% of the participation salary, according to the age of the participant, and is limited to R$21,104.40 for the year of 2008. Optionally, a participant can pay in additional amounts, although without matching funds from the sponsor. In the PBS-TCS group, the sponsor's contribution corresponds to 12% of the payroll of the group participants, whereas the contribution from the employee varies according to age, time of service and salary, who also can pay in an extra amount ("jóia") depending upon the age when the participant entered the plan. The sponsors are responsible for defraying all of the administrative and risk benefit costs.

FUNDAÇÃO SISTEL DE SEGURIDADE SOCIAL

The supplemental pension plan – PBS-A, which remains under the administration of SISTEL, stems from a period before the Telebrás break-up and is for assisted participants who were members of the plan as of January 2000. The PAMA/PAMA-PCE assistance plan also continues to be managed by SISTEL, made up of assisted participants of the PBS-A plan, of the PBS's plans segregated by sponsor in January 2000 and the Internal Group of the PBS-TCS, merged into the TCSPREV plan in December 2001.

Plans

PBS-A (Defined Benefit)

Maintained in solidarity together with other sponsors linked to telecommunications services, destined for participants assisted on January 31, 2000.

The contributions to the PBS-A are conditioned to the calculation of the accumulated deficit. On December 31, 2008, date of the actuarial evaluation, this plan presented a surplus situation.

PAMA — Medical Plan for Retirees / PCE — Special Coverage Plan (Defined Contribution)

Maintained in solidarity together with other sponsors linked to telecommunications services, destined for participants assisted on January 31, 2000, for assisted members of the PBS-TCS Group, merged on December 12, 2001 with TCSPREV (the plan that is currently managed by Fundação 14) and the assisted members of the PBS's defined benefit plans sponsored by other companies, with SISTEL and other foundations. According to legal and actuarial evaluation, the Sponsor's responsibility is exclusively limited to future contributions. For the March through July 2004, December 2005 to April 2006 and June to September 2008 periods optional migration to change over to new coverage conditions (PCE) was encouraged involving retirees and pensioners who were users of PAMA. The participants' acceptance of migration results in their making contributions to PAMA/PCE.

The contributions to this plan correspond to 1.5% of the payroll salary of the active participants linked to the PBS plans, segregated and sponsored by the different sponsoring companies. In the case of Brasil Telecom, the PBS-TCS was merged into the TCSPREV plan on December 31, 2001, with the setting up of an internal group. For the use of the PAMA resources, the participants share a portion of the individual costs used through the plan. The retirees and pensioners who migrated also make contributions to the PAMA/PCE. For the sponsors, the option of the participants in migrating to the PAMA/PCE does not change the company's aforementioned contribution of 1.5%.

FUNDAÇÃO BrTPREV

This is an administrator that originated in the sponsored plans of the former CRT, a company that was merged into BTP at the end of 2000. The main purpose of the sponsorship of FBrTPREV is to continue to offer the participants supplemental retirement, pension and other services that are assured by the official government Social Security scheme.

Plans

BrTPREV

A defined contribution and paid-up benefits plan launched in 2002 designed to provide supplemental benefits beyond what is offered by the official Social Security plan and that initially was available only to employees affiliated with the Rio Grande do Sul branch. This plan also began to be offered to new employees of Brasil Telecom S.A. and its subsidiaries during the March 2003 to February 2005 period, at which point the offer was suspended, becoming a plan closed to new participants. BrTPREV currently covers approximately 20.5% of the workforce.

The contributions to this plan are determined based on actuarial studies prepared by independent actuaries according to existing rules in Brazil, in conformance with the capitalization regimen for determination of cost defrayal. The amounts contributed are credited to the individual accounts of each participant, in equal amounts by the employee and the sponsor, whose basic contribution percentages vary from 3% to 8% of the participation salary, according to the age of the participant, and is limited to R$21,831.00 for the year of 2008. Optionally, a participant can pay in additional amounts, although without matching funds from the sponsor. The sponsor is responsible for defraying all of the administrative and risk benefit costs.

Fundador — Brasil Telecom e Alternativo — Brasil Telecom

Defined benefit plans designed to provide supplemental benefits beyond what is offered by the official Social Security plan, closed to new participants. Currently, these plans cover approximately 0.15% of the workforce.

The normal contribution of the sponsor for this plan is a matching amount of the normal contribution of the participant, whose rates are variable according to age, time of service and salary. In the Alternative Plan – Brasil Telecom, the contributions are limited to three times the ceiling of the INSS benefit and the participant also makes an entry payment ("jóia"), depending upon the age he/she joined the plan.

Actuarial Deficiency of the Plans

The mathematical reserve for amortization, referring to the current value of the supplementary contribution, in view of the actuarial deficiency of the plans managed by FBrTPREV, had a maximum deadline of 20 years to be liquidated, established as from January 2002, according to Official Notification 66/SPC/GAB/COA, dated January 25, 2002, issued by the Supplementary Social Security Department. Of this maximum deadline, 13 years still remain for a final settlement.

ASSISTANCE PLAN MANAGED BY BTP

PAMEC-BrT — Supplemental Medical Assistance Plan (Defined Benefit)

Designed to offer medical assistance to retirees and pensioners connected to the PBT-BrT Group – the pension plan that is managed by Fundação 14.

The PAMEC-BrT contributions were fully paid up in a lump sum in July 1998. However, because this plan began to be managed by the BTP, after the transfer of the administration by Fundação 14 in November 2007, there was no equity constituted to cover current expenses, and the actuarial obligation was entirely recognized as part of BTP's liabilities.

Situation of the Sponsored Plans, Reevaluated on the Date of the Closing of the Fiscal Year

The data regarding private sponsored pension plans that maintain defined-benefit liabilities are as follows:

	FBrTPREV — BrTPREV, Alternativo and Fundador		Fundação 14 — TCSPREV	
	2008	2007	2008	2007
RECONCILIATION OF THE ASSETS AND LIABILITIES				
Actuarial Liabilities and Paid-Out Benefits	1,529,300	1,377,917	271,700	248,428
Actuarial Liabilities and Benefits To Concede	79,779	121,125	140,493	216,011
(=) Total Fair Value of the Actuarial Liabilities	**1,609,079**	**1,499,042**	**412,193**	**464,439**
Fair Value of the Plan's Assets	**(855,792)**	**(813,374)**	**(822,778)**	**(791,362)**
(=) Net Actuarial Liabilities/(Assets)	**753,287**	**685,668**	**(410,585)**	**(326,923)**
Non-Registered Amount Due to Defined Benefit Limit	—	—	286,647	252,447
(=) Recognized Net Actuarial Liabilities/(Assets)(1)	**753,287**	**685,668**	**(123,938)**	**(74,476)**

(1) BTP determines the amount available for deduction from future contributions according to applicable legal conditions and the regulation of benefit plans. The amount of the assets linked to the TCSPREV Plan recorded on BTP's accounting statements, in the amount of R$123,938 (R$74,476 as of December 31, 2007), does not exceed the present value of the future contributions.

TURNOVER OF NET LIQUID ACTUARIAL LIABILITIES/ (ASSETS)

Present Value of Actuarial Liabilities at Beginning of Fiscal Year	**1,499,042**	**1,405,601**	**464,439**	**420,206**
Interest Cost	154,905	152,349	48,577	46,226
Current Service Cost	6,110	5,017	3,894	3,424
Net Benefits Paid Out	(119,343)	(113,102)	(22,787)	(19,887)
Actuarial (Gain) or Loss on Actuarial Liabilities	68,365	49,177	(81,930)	14,470
Present Value of Actuarial Liabilities at End of Fiscal Year	**1,609,079**	**1,499,042**	**412,193**	**464,439**
Fair Value of Plan's Assets at Beginning of Fiscal Year	**813,374**	**757,034**	**791,362**	**717,764**
Effective Earnings on the Assets of the Plan	61,415	53,544	53,716	92,228
Normal Contributions Paid Into the Plan	2,838	3,081	487	1,257
Sponsor	2,655	3,081	16	772
Participants	183	—	471	485
Amortizing Contributions Received from the Sponsor	97,508	112,817	—	—
Benefits Paid Out	(119,343)	(113,102)	(22,787)	(19,887)
Fair Value of Plan's Assets at the End of Fiscal Year	**855,792**	**813,374**	**822,778**	**791,362**
(=) Net Actuarial Liabilities/(Assets)	**753,287**	**685,668**	**(410,585)**	**(326,923)**
Non-Registered Amount due to Defined Benefit Limit	—	—	286,647	252,447
(=) Recognized Net Actuarial Liabilities/(Assets)	**753,287**	**685,668**	**(123,938)**	**(74,476)**

	FBrTPREV — BrTPREV, Alternativo e Fundador		Fundação 14 — TCSPREV	
	2008	2007	2008	2007
EXPENSES RECOGNIZED IN BRASIL TELECOM's EARNINGS STATEMENT(1)				
Current Service Cost	6,110	5,017	3,894	3,424
Participant Contributions	(183)	—	(471)	(485)
Interest Cost	154,905	152,349	—	—
Effective Earnings on the Assets of the Plan	(61,415)	(53,544)	—	—
Recognized Actuarial (Gains) Losses	68,365	49,177	—	—
Total Recognized Expenses	**167,782**	**152,999**	**3,423**	**2,939**

(1) With regard to the TCSPREV plan surplus, recorded under assets, BTP recognized revenues in the amount of R$67,096, of which R$61,104 was recorded in other operating revenues and R$5,992 as financial income. In 2007 the recognized revenues totaled R$83,392, of which R$81,209 was posted under other operating revenues and R$2,183 as financial income.

	FBrTPREV — BrTPREV, Alternativo e Fundador		Fundação 14 — TCSPREV	
	2008	2007	2008	2007
MAIN ACTUARIAL ASSUMPTIONS USED				
Actuarial liability discount rate (6% + Inflation)	10.77%	10.77%	10.77%	10.77%
Estimated rate of inflation	4.50%	4.50%	4.50%	4.50%
Nominal Estimated Pay Increase Rate	2.00%	2.00%	2.00%	2.00%
Estimated Nominal Benefit Increase Rate	4.50%	4.50%	4.50%	4.50%
Expected Total Earnings Rate on the Assets of the Plans	12.58%	10.70%	12.83%	10.53%
General Biometric Mortality Chart	AT83	UP94	AT83	UP94
Disabled Onset Biometric Chart	Mercer Disability		Mercer Disability	
Disabled Mortality Biometric Chart	IAPB-57		IAPB-57	
Turnover Rate	Null		Null	

ADDITIONAL INFORMATION — 2008

a) The assets and liabilities of the plans are positioned as of December 31, 2008.

b) The registration data used is from September 30, 2008, projected for December 31, 2008.

c) The total earnings rate expected on the assets of the plans was determined based on the results of the profitability projections of the segments of the assets that make up each plan's portfolio, taking into account the geometric average of the next five years.

	SISTEL — PBS-A		PAMEC	
	2008	2007	2008	2007
RECONCILIATION OF ASSETS AND LIABILITIES				
Actuarial Liabilities on Paid-Out Benefits	667,702	604,572	2,504	2,077
(=) Total Present Value of the Actuarial Liabilities	**667,702**	**604,572**	**2,504**	**2,077**
Fair Value of the Plan's Assets	**(1,005,682)**	**(1,006,475)**	**—**	**—**
(=) Net Actuarial Liabilities/(Assets)(1)	**(337,980)**	**(401,903)**	**2,504**	**2,077**
Non-Registered Amount Due to Defined Benefit Limit	337,980	401,903	—	—
(=) Recognized Actuarial Liabilities	**—**	**—**	**2,504**	**2,077**

(1) In the case of the net actuarial assets of the PBS-A Plan, there is no accounting recognition of the Sponsor. This plan is entirely comprised of assisted participants, and therefore future contributions do not exist that could be compensated for using the existing surplus.

TURNOVER OF NET LIQUID ACTUARIAL LIABILITIES/ (ASSETS)				
Present Value of Actuarial Liabilities at Beginning of Fiscal Year	**604,572**	**580,506**	**2,077**	**1,529**
Interest Cost	62,400	62,984	219	170
Current Service Cost	—	—	—	7
Net Benefits Paid Out	(57,620)	(50,072)	(110)	(52)
Actuarial (Gain) or Loss on Actuarial Liabilities	58,350	11,154	318	423
Present Value of Actuarial Liabilities at End of Fiscal Year	**667,702**	**604,572**	**2,504**	**2,077**
Fair Value of Plan's Assets at Beginning of Fiscal Year	**1,006,475**	**895,205**	**—**	**883**
Earnings (losses) on the Assets of the Plan	56,827	161,342	—	36
Sponsor's Contributions	—	—	110	—
Benefits Paid Out	(57,620)	(50,072)	(110)	(52)
Plan's Assets Transferred to the Sponsor	—	—	—	(867)
Fair Value of Plan's Assets at the End of Fiscal Year	**1,005,682**	**1,006,475**	**—**	**—**
(=) Net Actuarial Liabilities/(Assets)	**(337,980)**	**(401,903)**	**2,504**	**2,077**
Non-Registered Amount Due to Defined Benefit Limit	337,980	401,903	—	—
(=) Recognized Actuarial Liabilities	**—**	**—**	**2,504**	**2,077**

	SISTEL — PBS-A		PAMEC	
	2008	2007	2008	2007
EXPENSES RECOGNIZED IN BRASIL TELECOM'S EARNINGS STATEMENTS				
Current Service Cost	—	—	—	7
Interest Cost	—	—	219	170
Earnings (Losses) of Plan's Assets	—	—	—	(36)
Recognized Actuarial Losses (Gains)	—	—	318	423
Total Recognized Expenses	**—**	**—**	**537**	**564**

	SISTEL — PBS-A		PAMEC	
	2008	2007	2008	2007
MAIN ACTUARIAL ASSUMPTIONS USED				
Actuarial liability discount rate (6% + Inflation)	10,77%	10,77%	10,77%	10,77%
Estimated rate of inflation	4,50%	4,50%	4,50%	4,50%
Estimated Nominal Benefit Increase Rate	4,50%	4,50%	N/A	
Nominal Rate if Increase of Medical Costs	N/A		7,64%	7,64%
Expected Total Earnings Rate on the Assets of the Plans	11,30%	10,82%	N/A	
General Biometric Mortality Chart	AT83	UP94	AT83	UP94
Disabled Onset Biometric Chart	N/A		N/A	
Age at Beginning of Benefits	N/A		N/A	

N/A = Not Applicable.

ADDITIONAL INFORMATION — 2008

a) The assets and liabilities of the plans are positioned as of December 31, 2008.

b) The registration data used for the PBS-A and PAMEC are from September 30, 2008, with both projected for December 31, 2008.

c) The total earnings rate expected on the assets of the plans was determined based on the results of the profitability projections of the segments of the assets that make up each plan's portfolio, taking into account the geometric average of the next five years.

The investment strategy of the pension plans is described in their investment policies, which are approved annually by the deliberative council of the sponsored funds. Policy defines that the investment decisions must take into account: (i) preservation of the capital; (ii) diversification of the investments; (iii) risk tolerance according to conservative assumptions; (iv) expected rate of return in view of the actuarial liabilities; (v) compatibility between the investment liquidity and the cash flows of the plans, and (vi) reasonable administration costs. It also defines the volume brackets for the different types of investments permitted for the pension funds, which are: local fixed income, local variable income, loans to participants and real estate investments. In the fixed income portfolio, only low credit risk securities are permitted. Derivative instruments only are permitted as means of protection. Loans are restricted to certain credit limits. Tactical allocation is decided by an investment committee, composed of the executives of the pension plans, the investment manager and a member assigned by the deliberative council. The financial department handles execution.

The limits established for the different types of investments permitted to the pension funds are the following:

ASSET SEGMENT	FBrTPREV— BrTPREV, Alternativo and Fundador	Fundação 14 — TCSPREV	SISTEL — PBS-A
Fixed Income	90%	100%	95%
Variable Income	20%	20%	40%
Real Estate	8%	N/A	9%
Loans To Participants	3%	3%	3%

The allocation of the assets of the plans as of December 31, 2008 is demonstrated as follows:

ASSET SEGMENT	FBrTPREV — BrTPREV, Alternativo e Fundador	Fundação 14 — TCSPREV	SISTEL — PBS-A
Fixed Income	84.2%	85.3%	75.4%
Variable Income	11.7%	13.2%	18.7%
Real Estate	2.8%	1.5%	5.5%
Loans To Participants	1.3%	—	0.4%
Total	**100%**	**100%**	**100%**

b. Stock Option Plan for Employees

An Extraordinary General Meeting of Brasil Telecom S.A. shareholders, held on November 6, 2007 approved a new general plan for awarding share purchase options to employees of BTP and its subsidiaries, when the plans described below are in existence on the day of the closing of the fiscal year, according to their respective dates of approval.

Plan Approved on April 28, 2000

The rights acquired through previously approved share purchase option award instruments of this plan continue to be valid and effective, according to the agreements that have been signed, and new awards through this plan may not be established.

On the date of the closing of the fiscal year there were options in circulation that could be exercised as described in the following program:

Program B

The options guaranteed by this plan are characterized as options settled as shares.

The exercise price was established by the managing committee, based on the market price of the share on the take the option was awarded and will be corrected monetarily by the IGP-M between the date of the signature of the contracts and the date of the payment of the option that was exercised.

The turnover that has occurred in the balances of the options related to this plan are summarized as follows:

	2008		2007	
	Preferred Stock Options	Average Exercise Price R$	Preferred Stock Options	Average Exercise Price R$
Balance of Options Outstanding at the Beginning of the Fiscal Year	256,855	16.88	270,802	13.00
Options Exercised	(162,084)	17.01	—	—
Options Canceled	(15,259)	17.60	(13,947)	17.30
Balance of Options Outstanding at the End of the Fiscal Year	79,512	19.04	256,855	16.88
Balance of Options that Can Be Exercised at the end of the Fiscal Year	79,512	19.04	256,855	16.88

The 162,084 options exercised were settled through delivery of preferred shares held in treasury by Brasil Telecom S.A., at a total exercise price of R$1,012 and a market value totaling R$1,156.

The types and deadlines for the acquisition of the right to exercise options are presented as follows:

Award						
Concession		Lot	Exercise as of	Final Exercise Deadline	Updated Exercise Price (in Reais)	Options (In shares)
3rd	12/22/04	33%	12/22/05	12/31/11	19.04	26,504
		33%	12/22/06	12/31/11	19.04	26,504
		34%	12/22/07	12/31/11	19.04	26,504

The balance of the options compared to the total number of Brasil Telecom S.A. shares in circulation is 0.01% (0.05% on December 31, 2007).

Taking into consideration the hypothesis that the options will be fully exercised, the value of the premiums of the respective options for Brasil Telecom S.A., calculated through the Black&Scholes method on the date of their award, would be R$219 (R$1,761 on December 31, 2007).

The fair value of the options awarded estimated on the date of their award used the Black&Scholes option pricing model, with the following assumptions:

	12/21/04	12/19/03	12/17/02
Asset-Tangible Guarantee	13.64	13.64	13.64
Exercise price	17.30	15.89	15.69
Expected volatility	38.2%	44.8%	3.0%
Risk-Free Interest Rate	8.4%	8.6%	23.0%
Life Expectancy (in years)	2	3	3
Dividend Yield	3.10%	3.20%	5.10%
Fair value on the date of the award	2.76	5.56	4.09

Plan Approved on November 6, 2007

The new plan authorizes the award of options, permitting plan participants, under certain conditions, the opportunity to acquire or subscribe in the future to a pre-established amount of shares belonging to a basket of shares defined as a Performance Unit (UP), which encompass Brasil Telecom S.A.'s preferred shares and BTP's common and preferred shares. The amount corresponding to the number of UPs awarded may not exceed the maximum limit of 10% of the equity value of the shares of each type of Brasil Telecom S.A. share.

The shares deriving from the exercise of the options guarantee beneficiaries the same rights granted all other BTP and Brasil Telecom S.A. shareholders.

The management of this plan was attributed to the Board of Directors, which has full authority to establish the option programs, and can delegate such authority to a remuneration committee composed of up to three members of the board.

In a Meeting held on December 14, 2007, the Board of Directors of Brasil Telecom S.A. ratified the approval of the two programs related to the new share purchase option plan, which are effective as of July 1, 2007 and consist of the following:

Program 1

The award was established in the form of a single concession and does not permit the establishment of new concessions within a timeframe of up to four years. The price for the exercising of the UP was set by the Board of Directors, under the terms defined in the plan, and is subject to correction by the IGP-M, plus 6% p.a. and discounting the amounts paid as dividends or as IOC during the period.

Program 2

This program calls for the annual award of options, on July 1, 2007 and 2008. The price for exercising the UP was set by the Board of Directors, under the terms defined in the plan, with the discounting of the amounts paid as dividends or IOC during the period.

The acquisition of the right to exercise the options contained in programs 1 and 2 is in the manner and the deadlines as presented below:

Program	Award				Updated Exercise Price (in Reais)	Options (In UPs)
	Concession	Lot	Exercise as of	Final Exercise Deadline		
1	07/01/07	25%	07/01/08	06/30/11	32.22	704,331
		25%	07/01/09	06/30/12	32.22	704,331
		25%	07/01/10	06/30/13	32.22	704,331
		25%	07/01/11	06/30/14	32.22	704,331
2	07/01/07	25%	07/01/08	06/30/11	24.93	47,153
		25%	07/01/09	06/30/12	24.93	199,811
		25%	07/01/10	06/30/13	24.93	199,811
		25%	07/01/11	06/30/14	24.93	199,810
	07/01/08	25%	07/01/08	06/30/11	32.39	175,338
		25%	07/01/09	06/30/12	32.39	175,421
		25%	07/01/10	06/30/13	32.39	175,421
		25%	07/01/11	06/30/14	32.39	175,421

The deadlines established in Programs 1 and 2 may be anticipated as a result of the occurrence of special events or conditions established in the award contract, notably due to change in the direct or indirect ownership control of BTP and Brasil Telecom S.A. A minimum bonus is guaranteed in the hypothesis of a reduction of the market value of the shares on the date the options are exercised, under the conditions as defined in the agreement.

On July 15, 2008 the terms of the plan were modified, eliminating the mandatory requirement that BTP repurchase the shares comprising the basket of shares. Thus, the purchase options that involve Brasil Telecom S.A.'s shares began to be registered as options liquidated as shares and the purchase options that contained BTP shares continue to be recorded as options liquidated as cash.

The turnover that has occurred in the balances of the options is summarized as follows:

	2008		2007	
	Options (In UPs)	Average Exercise Price of the UPs R$	Options (In UPs)	Average Exercise Price of the UPs R$
Balance of Options Outstanding at the Beginning of the Fiscal Year	4,036,440	28.37	—	—
Options Awarded	724,955	32.39	4,036,440	26.70
Options Exercised	(171,971)	24.93	—	—
Options Canceled	(423,914)	27.81	—	—
Balance of Options Outstanding at the End of the Fiscal Year	4,165,510	31.12	4,036,440	28.37
Balance of Options that Can Be Exercised at the End of the Fiscal Year	751,484	31.12	—	—

During the fiscal year of total of 171,971 Program 2 options were exercised, liquidated through: (i) the delivery of preferred shares maintained in treasury by Brasil Telecom S.A., at the total exercise price of R$4,287

and a cost value of R$661; and (ii) the delivery of common and preferred BTP shares at a total exercise price of R$3,653 and a market value of R$4,321.

The balance of the options that comprise the basket of share options (UPs) compared to the equity value of the preferred shares issued by Brasil Telecom S.A represents 1.30% (0.79% on December 31, 2007) of the total, while BTP's common and preferred shares represent 5.65% and 3.26%, respectively (6.44% and 3.71% on December 31, 2007).

The fair value of the options awarded as estimated on the date of their concession was calculated using the "Binomial" options pricing model, using market price quotes:

Date of award: July 1, 2007

Program: 1

	Lot 1	Lot 2	Lot 3	Lot 4
Asset-Tangible Guarantee	31.06	31.06	31.06	31.06
Exercise price	32.22	32.22	32.22	32.22
Expected volatility	42.02%	42.02%	42.02%	42.02%
Risk-Free Interest Rate(1)	1.79%	2.05%	2.06%	2.15%
Life Expectancy	2.49	3.51	4.54	5.57
Dividend Yield	—	—	—	—
Fair value on the date of the award	8.16	9.89	11.32	12.61

(1) Takes into consideration the risk-free interest rate subtracted from the IGPM variation + 6% p.a.

Date of award: July 1, 2007

Program: 2

	Lot 1	Lot 2	Lot 3	Lot 4
Asset-Tangible Guarantee	31.06	31.06	31.06	31.06
Exercise price	24.93	24.93	24.93	24.93
Expected volatility	42.02%	42.02%	42.02%	42.02%
Risk-Free Interest Rate	12.29%	12.55%	12.56%	12.65%
Life Expectancy (in years)	2.49	3.51	4.54	5.57
Dividend Yield	—	—	—	—
Fair value on the date of the award	14.57	16.89	18.80	20.44

Date of award: July 1, 2008

Program: 2

	Lot 1	Lot 2	Lot 3	Lot 4
Asset-Tangible Guarantee	31.06	31.06	31.06	31.06
Exercise price	32.39	32.39	32.39	32.39
Expected volatility	42.02%	42.02%	42.02%	42.02%
Risk-Free Interest Rate	12.29%	12.55%	12.56%	12.65%
Life Expectancy (in years)	2.49	3.51	4.54	5.57
Dividend Yield	—	—	—	—
Fair value on the date of the award	11.27	13.98	16.22	18.17

The expense recognized by Brasil Telecom S.A. in the results for the fiscal year, encompassing all of the share purchase plans offered, was R$16,743 (R$13,179 in 2007). The balances of Brasil Telecom S.A.'s liabilities and net equity existing on the date of the closing of the fiscal year are represented by R$23,893 and R$5,803, respectively (R$13,179 and R$872 as of December 31, 2007.

c. Other Employee Benefits

Employees are offered other benefits, such as: medical/dental care, meals, group life insurance, workplace accident and sickness care, transportation assistance and others.

8. PROVISIONS FOR CONTINGENCIES

a. Contingency Liabilities

The Company and its subsidiaries perform a regular evaluation of its contingency risks, including a review of all lawsuits based on legal, economic, tax and accounting fundamentals. The evaluation of these risks is designed to rank them in order of the probability that they will occur (probable, possible or remote) taking into consideration the opinion of their legal counsel.

Provision is made for those contingencies whose risks are classified as probable. The risks classified as possible are also shown in this note. A discussion of these processes can be found under administrative and/or legal matters in all jurisdictions, from initial through superior courts.

In certain situations, either as a result of legal requirements or simply caution, an escrow deposit for legal contingencies is made to guarantee the continuity of lawsuits still under discussion. The escrow deposits for contingencies where the risk of possible loss is considered to be remote are shown in note 23.

It should be pointed out that in some cases, similar matters may be placed in different categories of risk, a fact that is justified by the facts and the procedural situation related to the case in question.

Labor

The contingencies provided for labor issues include an estimate by management, supported by the opinion of its legal counsel, of the losses related to lawsuits brought by employees and former employees and by service providers, related to labor issues.

Fiscal

The provisions for tax liabilities refer principally to questions related to the taxes due because of differences between the understanding of management, with the support of the opinion of its legal counsel and that of the tax authorities regarding the interpretation, application, legality and constitutionality of the tax legislation

Civil

The provisions for civil claims include an estimate of allusive issues and adjustments of contractual amounts, generated by economic plans of the Federal Government and other matters related to community telephony plans and activities of a consumer or individual indemnification (small claims).

Classification of the Degree of Risk

Contingencies for Probable Risk

The balances for contingencies classified as risk of probable loss, deposits for which are listed as liabilities in 2008 and 2007 were as follows;

	CONSOLIDATED	
Nature	**2008**	**2007**
Provisions	**1,453,036**	**1,193,554**
Labor	426,904	421,759
Tax	273,606	372,896
Civil	752,526	398,899
Associated Escrow Deposits	**(520,412)**	**(295,843)**
Labor	(213,028)	(220,679)
Tax	(21,753)	(22,046)
Civil	(285,631)	(53,118)
Total Provisions, Net of Escrow Deposits	**932,624**	**897,711**
Current	218,510	197,472
Long-Term	714,114	700,239

Labor

Changes in 2008:

	CONSOLIDATED
Balance at December 31, 2007	**421,759**
Variations in Results	**148,441**
Monetary Correction	48,730
Reevaluation of Contingency Risks	65,773
Provision for New Shares	33,938
Payments	**(143,296)**
Subtotal I (Provisions)	**426,904**
Associated Escrow Deposits as of December 31, 2007	**(220,679)**
Variations in Escrow Deposits	7,651
Subtotal II (Escrow Deposits)	**(213,028)**
Balance on December 31, 2008, Net of Escrow Deposits	**213,876**

The principal items that affect the provision for labor contingencies are as follows:

(i) Sundry Extras — refer to the demands for hazardous duty pay, based on law 7,369/85, and modified by Decree 93,412/86, by employees who work in environments that may be considered hazardous, such as high-voltage electrical installations, additional pay for unhealthy conditions and bonuses for transfer;

(ii) Salary Differences and Extras — refer principally to requests for salary increases as a result of supposedly noncompliance with contractual negotiations. The extra claims referred to the repercussions of salary increases supposedly due in other budget authorizations calculated based on the salary of the employee;

(iii) Job plan and Profit Sharing — refers to the request for the creation and application of salary planning and position control, promotions based on seniority and merit, allegedly not granted, and request for the application of rules that call for the payment of a percentage of the profits of Brasil Telecom S.A.;

(iv) Subsidiary Solidarity/Responsibility — refers to the request to hold Brasil Telecom S.A. responsible for alleged non-compliance of labor rights filed by employees of outsourced contractors;

(v) Overtime pay — refers to the request for salary and bonuses for labor allegedly performed outside normal working hours;

(vi) Reintegration — refers to the demand for the supposed failure to observe special conditions of the worker, which guarantees the right to employment except if fired for just motive;

(vii) Supplement to the FGTS Fine stemming from inflationary expurgations — refers to requests for supplementing losses incurred as a result of the FGTS Fine, generated by the restating of these accounts due to inflationary expurgations

Brasil Telecom S.A. brought a lawsuit against the Caixa Econômica Federal, to insure the replacement of all the amounts that were paid under this item;

(viii) Contractual Rescission — refer to the amounts due but supposedly not paid for contractual rescissions or their differences;

(ix) Salary Equalization — refers to requests for amounts supposedly owed but not paid in salary equalization for those who receive less pay for doing identical work, changes in job function or accumulation of job responsibilities;

(x) Indemnities — refer to demands for amounts supposedly due for losses from work-related accidents, vehicle rentals, work-related illnesses, moral damages and temporary stability; and

(xi) Supplemental retirement benefits — additional sums supposedly due for labor emoluments.

Fiscal

Changes in 2008:

	CONSOLIDATED
Provisions as of December 31, 2007	**372,896**
Variations in Results	**70,697**
Monetary Correction	24,916
Reevaluation of Contingency Risks	(38,556)
Provision for New Lawsuits	84,337
Payments	**(169,987)**
Subtotal I (Provisions)	**273,606**
Associated Escrow Deposits as of December 31, 2007	**(22,046)**
Variations in Escrow Deposits	293
Subtotal II (Escrow Deposits)	**(21,753)**
Balance as of December 31, 2008, Net of Escrow Deposits	**251,853**

The principal causes for provisions refer to:

(i) Federal Taxes — diverse and various activities require taxes in federal contributions based on qualified information alleged to be inappropriate by BTP or on differences with regard to the calculations and verification of these taxes; and

(ii) State Taxes — the requirement that ICMS be paid on operations that, in the opinion of BTP are not subject to taxation through this excise, and discussions regarding credits of ICMS collected by BTP, whose validity or legality is contested by the State Tax Officials.

Civil

Changes that took place in 2008:

	CONSOLIDATED
Provisions as of December 31, 2007	**398,899**
Variations in Results	**491,393**
Monetary Correction	64,774
Reevaluation of Contingency Risks	363,792
Provision for New Shares	62,827
Payments	**(137,766)**
Subtotal I (Provisions)	**752,526**
Associated Escrow Deposits At December 31, 2007	**(53,118)**
Variations in Escrow Deposits	(232,513)
Subtotal II (Escrow Deposits)	**(285,631)**
Balance as of December 31, 2008, Net of Escrow Deposits	**466,895**

The principal causes for provisions are as follows:

(i) Revision of contractual conditions — a legal action in which the company supplying equipment filed a lawsuit against Brasil Telecom S.A., requesting a revision of the contractual conditions because of the supervenience of the economic stabilization plan;

(ii) Financial Participation Contracts — the position of the TJ/RS has hardened regarding the incorrectness of the procedure previously adopted via the former CRT, a partnership incorporated by Brasil Telecom S.A. with regard to the processes related to the application of the rule issued by the Ministry of Communications. These processes are currently in various stages of review: Lower Court, in the Justice Tribunal and in the Superior Court;

(iii) Administrative Processes — ANATEL — related to the processes stemming from monitoring and control through the General Plan for Quality Targets (PGMQ), and the General Plan for Universalization of Goals (PGMU), and the failure to meet regulatory obligations. It includes demands against BTP, made by other telecommunications companies filed with ANATEL;

(iv) Client service centers — refers to public actions with regard to the closing of client service centers;

(v) Mandatory Free Telephone Books — LTOGs — lawsuits questioning the failure to deliver telephone books to businesses and private residences;

(vi) Consumer Issues — refer to civil responsibility lawsuits with regard to the telephone hookups, denial of service, billing, co-billing, blockages, ADSL, cancellations, supplementary services, deficiencies, supplemental plans, unblocking of services;

(vii) Indemnities — refer to the demands for indemnification because of rescission or failure to meet contractual obligations; and

(viii) Damages — refers to lawsuits for material damages, personal damages, work-related accidents, traffic accidents.

A reevaluation of the contingent risks is closely related to changes in these circumstances or the existence of new facts and decisions that suggest a re-evaluation of the processes that are in progress, distributed over various processes.

Contingencies for Possible Risk

The composition of contingencies whose degree of risk was considered possible and, therefore, not registered as an accounting item is as follows:

Nature	CONSOLIDATED 2008	2007
Labor	634,826	542,427
Tax	1,796,921	2,113,653
Civil	1,220,963	1,129,591
Total	**3,652,710**	**3,785,671**

Labor

Changes that occurred in 2008:

	CONSOLIDATED
Balance at December 31, 2007	**542,427**
Monetary Correction	78,583
Reevaluation of Contingency Risk	(178,048)
New Shares	191,864
Balance as of December 31, 2008	**634,826**

The principal items that make up possible losses from labor lawsuits are as follows:

(i) Sundry Extras — refer to the demands for hazardous duty pay, based on law 7.369/85, and modified by Decree 93.412/86, by employees who work in environments that may be considered hazardous, such as high-voltage electrical installations, additional pay for unhealthy conditions, and bonuses for transfer;

(ii) Salary Differences and Extras — refer principally to requests for salary increases as a result of supposedly unmet contractual negotiations. The extra claims refer to the repercussions of salary increases supposedly due in other budget authorizations calculated based on the salary of the employee;

(iii) Subsidiary/Solidarity Responsibility — refers to the request to hold Brasil Telecom S.A. responsible for alleged non-compliance of employee rights by outsourced contractors;

(iv) Overtime pay — refers to the request for salary and bonuses for labor allegedly performed outside normal working hours;

(v) Reintegration — refers to the demand for the supposed failure to observe special conditions of the worker, that guarantees the right to employment except if fired for just motive;

(vi) Supplement to the FGTS Fine stemming from inflationary expurgations — refers to requests for supplementing losses incurred as a result of the FGTS Fine, generated by the restating of these accounts due to inflationary expurgations;

(vii) Contractual Rescission — refers to the amounts due but supposedly not paid for contractual rescissions or their differences; and

(vii) Indemnities — refer to the demands for indemnification because of work-related accidents, traffic accidents, work-related illness, damages and temporary stability.

Fiscal

Changes that occurred in 2008:

	CONSOLIDATED
Balance at December 31, 2007	**2,113,653**
Monetary Correction	174,892
Reevaluation of Contingency Risk	(918,224)
Their Shares	426,600
Balance at December 31, 2008	**1,796,921**

The principal causes are represented by the following items:

(i) INSS taxes on the addition to the heading salary-for-contribution allegedly due by the company;

(ii) Actions brought by the Secretary of Federal Revenue from differences in the amounts of DCTF and DIPJ;

(iii) Public civil lawsuits questioning the alleged on-passing of PIS and COFINS to end consumers;

(iv) ICMS taxes on international telephone calls, whose responsibilities for collection of taxes rests with the other telephone company;

(v) ICMS — credit and the respective differential in rates for interstate acquisitions made by BTP;

(vi) ICMS — credit for taxes relating to canceled invoices;

(vii) IR- Source — regarding operations related to the protection for debt coverage;

(viii) FUST — effects of the changes in interpretation on the base for calculation by ANATEL; and

(ix) ISS — supposed incidence on auxiliary services for communication and discussion regarding the inclusion of services attended by the Municipalities on the List of Complementary Law 116/2003,

Civil

Changes that occurred in 2008:

	CONSOLIDATED
Balance as of December 31, 2007	**1,129,591**
Monetary Correction	169,427
Reevaluation of Contingency Risks	(304,947)
New Shares	226,892
Balance as of December 31, 2008	**1,220,963**

The principal causes are represented by the following items:

(i) Recovery for PCT community telephone lawsuits — the plaintiffs seek to obtain from Brasil Telecom S.A., retribution for lawsuits related to contracts stemming from the Community Telephone Program. These lawsuits are now being heard at various levels in the judicial system: Lower Court, in the Justice Tribunal and in the Superior Court;

(ii) Administrative Processes — ANATEL — related to the processes stemming from monitoring and control, whose main objectives refer to the PGMQ, and thePGMU, users rights, calling cards and LTOG, among others;

(iii) Consumer Issues — refer to civil responsibility activities having to do with service hookups, denial of service, billing, blockage, ADSL, cancellations, supplementary services, defects, alternative plans and unblocking;

(iv) Damages — refer to lawsuits for material damages, moral damages, work-related accidents and traffic accidents;

(v) Indemnities — refer to demands for indemnification for rescission or failure to comply with contracts;

(vi) Public Civil Suits related to service centers; and

(vii) Contractual — activities related to claims for a percentage, from the Plano Real, to be applied to service providers contracts, a review of the conversion into parcels in URV and later in the new currency, the Real, for the supply of equipment and rendering of services.

Letters of Guarantee

With regard to contingent liabilities, Letters of Guarantee have been signed with financial institutions to guarantee the continuity of lawsuits currently under temporary execution as a means of assuring the fulfillment of commitments with reference to the authorizations granted by ANATEL. The total amount of guarantees in effect on the last day of the fiscal year was R$749 (R$21,483 on December 31, 2007) and R$2,570,220 (R$1,381,488 at December 31, 2007) consolidated. The commission charges on these contracts reflect rates practiced in the market.

b. Contingent Assets

Tax assessments, for which the company has filed a complaint requesting a reversal of these taxes paid, are presented below:

PIS/COFINS: Legal questions about the application of Law 9.718/98, which expanded the base for calculation of PIS and COFINS. The period covered by the law was February 1999 to November 2002 for PIS and February 1999 to January 2004 for COFINS. In November 2005, the Superior Tax Court (STF) concluded its deliberations on some of the lawsuits and found the expansion of the basis for calculation introduced by the above-mentioned law to be unconstitutional. Some of the shares of BTP and the Region II Awards Plan STFC concessionaires that were merged into Brasil Telecom S.A. in February 2000, continued to be judged in the courts during 2006 with regard to the expansion of the basis for calculation for COFINS. Decisions are still pending regarding the other suits involving the other merged companies that in the opinion of the Company's legal counsel probably will be reversed through future appeals. The amount attributed to these lawsuits, which represent an unrecognized consolidated contingent asset, is R$18,843 (R$17,445 as of December 31, 2007).

9. SHAREHOLDERS' EQUITY

a. Capital Stock

Capital Stock as of December 31, 2008 was represented by 1,731,367,862 (one billion, seven hundred and thirty one million, three hundred and sixty seven thousand, eight hundred and sixty two) shares, of which 1,124,801,191 (one billion, one hundred twenty eight million, eight hundred one thousand one hundred ninety one) are common shares and 606,566,671 (six hundred six million, five hundred sixty six thousand, six hundred and seventy one) are preferred Class A shares, all non-registered and with no par value. The Company may increase its capital without calling a General Shareholders Meeting up to a limit of R$10,000,000, after deliberation by the Board of Directors.

At an Extraordinary General Meeting of the shareholders, held on April 18, 2008, approval was given for the conversion of all of the preferred Class "A" shares of the Company into common shares, at the rate of one share of common stock for each preferred share, Class "A" issued. The shares have the right to fixed dividends that were fully capitalized on that date. During fiscal 2008, R$19,143 (R$74,018 in 2007) were set aside for fixed dividends.

At an Extraordinary General Meeting of Invitel shareholders, held on April 25, 2008, it was decided to alter the characteristics of the abovementioned Class "A" shares that might be issued by Invitel, the privileges conferred on these shares and the conditions for redemption having been modified. Also changed were the features of the common shares of Invitel, which now may be converted into preferred Class "A" shares at any time and at the exclusive criteria of the shareholder, at the ratio of 1 (one) new Class "A" preferred share for each common share converted.

At an Extraordinary General Meeting of the shareholders, held on December 24, 2008 approval was given for the conversion of 606,566,671 (six hundred six million, five hundred sixty six thousand, six hundred and seventy one) common shares into preferred Class "A" shares, redeemable at the ratio of 1 (one) new preferred share Class "A" for each common share converted under the terms of article 5, paragraph 1 of the By-Laws of the Company, as follows:

"I — The preferred Class "A" shares may be wholly or partially redeemed at the option of the Company, at any time without the necessity of holding a Special Shareholders Meeting, under terms of §6° of article 44 of Law 6.404/76. The partial redemption of the preferred Class "A" shares will have a proportional effect on the shareholders, it being, therefore, unnecessary to hold the drawing called for in the law.

II — The value of the redemption of the preferred Class "A" shares corresponds to R$2.15 per share. The value of the redemption will be paid within 60 days of the date of redemption.

III — The Reserve for Redemption for Preferred Class "A" Shares and the capital reserves of the Company may only be used for the redemption of the preferred Class "A" shares.

IV — Any change in the conditions of this paragraph 5 or in article 28 of the Company's By-Laws will depend on the prior approval of the holders of Class "A" preferred stock, depending on the case, according to Paragraph §1 of article 136 of Law 6.404/76, making it possible for shareholders who disagree to withdraw from the Company, receiving as reimbursement an amount corresponding to the equity value of the respective share.

b. Capital Reserves

The Company maintains a capital reserve to cover the redemption of Class "A" preferred shares. The balance of this capital reserve as of December 31, 2008 was R$306,839 (R$325,982 as of December 31, 2007). Currently the Capital Stock of the company is composed of common and preferred shares, as described in item "a" above.

At an Extraordinary General Meeting of the shareholders, held on December 24, 2008, approval was given for the issuing of 29,843 (twenty nine thousand, eight hundred forty-three) subscription bonds with a value at issue of R$0.00004 per bond, where each subscription bond confers upon its holder the right to purchase 19,000 (nineteen thousand), shares issued by the Company, at the value at issue per share, to be fully paid-up in cash in the currency of the country, at R$0.00230, plus the total amount of the conversion of the subscription bonds in the amount of R$1.

c. Dividends and Interest on Capital

Dividends are calculated according to the Company's By-Laws and consistent with Brazilian Corporate Law. According to the Company's statutory regulations, the preferred class A shares have the right to receive minimum dividends of at least 10% higher than those distributed to common shares, besides having the right to participate for 100% in the Company's results, equal to the conditions of the common shares, relating to the remaining income, as well as to the distribution of new shares from capital increases.

10. NET OPERATING REVENUE

	CONSOLIDATED	
	2008	2007
Wireline services		
Local	**6,549,741**	**6,566,256**
Connection Fees	10,919	16,352
Subscriptions	3,675,529	3,535,708
Wireline	919,765	1,101,419
Fixed-to-Mobile Calls – VC1	1,926,096	1,881,853
Rents	1,129	1,157
Others	16,303	29,767
Long-Distance	**2,852,611**	**2,947,454**
Wireline Intra-Sectorial	834,586	863,484
Wireline Intra-Regional (Inter Sectorial)	247,235	264,243
Wireline Inter Regional	232,176	241,077
VC2	778,771	788,455
Wireline Origin	300,386	292,343
Wireless Origin	478,385	496,112
VC3	717,098	746,316
Wireline Origin	353,770	365,588
Wireless Origin	363,328	380,728
International	42,745	43,879
Interconnection (Remuneration)	**373,810**	**357,674**
Fixed-to-Fixed Calls	209,957	243,236
Mobile-to-Fixed Calls	163,853	114,438
Granting of Means	**449,409**	**357,893**
Public Telephony	**474,656**	**546,007**
Supplementary Services, Intelligent Network And Advanced Telephony	**417,234**	**393,980**
Others	**30,713**	**35,168**
Total Wireline Telephony Service	**11,148,174**	**11,204,432**
Wireless Telephony Service		
Telephony	**1,894,397**	**1,753,231**
Subscriptions	401,746	433,555
Use	642,109	547,050
Additional Calls	5,499	6,810
Roaming	16,437	16,070
Interconnection	662,238	624,691
Value Added Services	154,434	104,415
Other Services	11,934	20,640
Sale of Merchandise	**225,670**	**270,515**
Handsets	221,522	263,982
Electronic Cards — *Brasil Chip*, Accessories and other Merchandise	4,148	6,533
Total Wireless Telephony Service	**2,120,067**	**2,023,746**

	2008	2007
Data Communication Services and Others		
Data Communication	**3,249,938**	**2,310,959**
Other Services from Principal Activities	**488,963**	**458,251**
Total Data Communications Services and Others	**3,738,901**	**2,769,210**
Gross Operating Revenue	**17,007,142**	**15,997,388**
Deductions from Gross Revenue	**(5,710,307)**	**(4,938,842)**
Taxes on Gross Revenue	(4,389,541)	(4,353,809)
Other Deductions From Gross Revenue	(1,320,766)	(585,033)
Net Operating Revenue	**11,296,835**	**11,058,546**

11. COST OF GOODS SOLD AND SERVICES PROVIDED

The costs incurred in providing services and in the sale of merchandise are as follows:

	CONSOLIDATED	
	2008	2007
Interconnection	(2,202,660)	(2,318,884)
Depreciation and Amortization	(1,683,112)	(2,032,963)
Outsourced Services	(970,645)	(934,023)
Personnel	(338,489)	(162,494)
Rents, Leasing and Insurance	(395,008)	(313,925)
Connections	(143,434)	(135,532)
FISTEL	(76,548)	(64,820)
Materials	(64,073)	(69,951)
Concession	(65,578)	(69,406)
Employee and Management Profit Sharing	(29,125)	(20,959)
Merchandise Sold	(236,603)	(255,429)
Others	(4,143)	(3,815)
Total	**(6,209,418)**	**(6,382,201)**

12. COMMERCIALIZATION OF SERVICES

(Cost of Sales)

The costs related to sales activities are detailed in the following manner:

	CONSOLIDATED	
	2008	2007
Outsourced Services	(546,989)	(735,592)
Losses with Accounts Receivable from Clients	(370,242)	(348,001)
Personnel	(237,650)	(229,004)
Material	(90,844)	(50,753)
Rents, Leasing and Insurance	(49,838)	(56,801)
Employee and Management Profit Sharing	(25,863)	(21,149)
Depreciation and Amortization	(9,164)	(19,080)
Others	(33,633)	(24,972)
Total	**(1,364,223)**	**(1,485,352)**

13. GENERAL AND ADMINISTRATIVE EXPENSES

Expenses related to administrative activities, which include expenses with information technology, are described in the following manner:

	PARENT COMPANY		CONSOLIDATED	
	2008	2007	2008	2007
Outsourced Services	(589)	(280)	(809,512)	(798,970)
Depreciation and Amortization			(291,684)	(298,154)
Personnel	(54)	(62)	(235,947)	(178,696)
Employee and Management Profit sharing			(44,371)	(38,340)
Rents, Leasing and Insurance	(14)	(11)	(28,480)	(41,850)
Stock Option Plans			(17,411)	(13,219)
Material			(3,696)	(4,058)
Others	(7,921)	(220)	(9,177)	(1,800)
Total	**(8,578)**	**(573)**	**(1,440,278)**	**(1,375,087)**

14. OTHER OPERATING REVENUE (EXPENSES)

Other revenues and expenses attributed to operating activities are as follows:

	PARENT COMPANY		CONSOLIDATED	
	2008	2007	2008	2007
Receipts related to settlement of claims(1)			175,730	—
Reversal of taxes and expenses			145,204	95,857
Fines			103,275	77,984
Rent of Operating Infrastructure and Others			86,975	87,439
Recovery of Expenses with Pension Funds — Surplus			61,104	81,209
Technical and Administrative Services			60,956	59,600
Provision/ Reversal for Losses with Investments			58,025	(25,714)
Settlement of Claims With Telecommunications Companies			21,403	16,610
Provision/Reversal for the Amount of Losses in Fixed Assets			18,837	20,384
Subventions and Donations Received			15,284	16,889
Reversal of Other Provisions			10,920	32,390
Dividends from Investments Evaluated at Acquisition Cost		80	3,017	1,430
Results from Investments			(12,185)	26,216
Contingencies — Provisions(2)			(710,531)	(650,898)
Taxes (Except on Gross Revenues, IRPJ and CSLL)	(193)	(100)	(151,573)	(93,382)
Amortization of Premiums for the Acquisition of Investments	(12,061)		(129,149)	(114,532)
Pension Funds — Provisions			(81,324)	(89,675)
Processing Costs			(59,430)	(51,060)
Gains (Losses) from Investment	590		(42,825)	(974)
Results from Write Offs of Fixed and Deferred Assets			(40,120)	(23,904)
Donations and Sponsorships			(23,011)	(11,499)
Indemnities — Labor, Telephony and Others			(3,136)	(157)
Results from Write Offs of Inventory for Maintenance/Resale			(2,202)	(1,923)
Amortization of Discounts in Incorporation			—	(126)
Total Revenues (Expenditures)	(10)	3	18,520	8,371
Total	**(11,674)**	**(17)**	**(476,236)**	**(539,465)**
Other Operating Revenues	590	83	779,250	607,749
Other Operating Costs	(12,264)	(100)	(1,255,486)	(1,147,214)

Revenues and expenses of the same type are presented as net value.

(1) Refers to the amount received from the Quitclaim Deed and Closure of Litigation between BTP, Brasil Telecom S.A., 14 Brasil Telecom Celular S.A. and its Parent Company, Opportunity Fund/Banco Opportunity and its companies related to Telemar Norte Leste S.A., whose details are cited in Note 1, highlighted in a specific item.

(2) The contingencies provided for are explained in Note 8,

15. NET FINANCIAL INCOME (EXPENSES)

	PARENT COMPANY		CONSOLIDATED	
	2008	2007	2008	2007
Financial Income	**2,197**	**563**	**959,356**	**846,797**
Domestic Currency	2,197	563	833,933	777,295
Due in Foreign Currency	—	—	75,370	5,519
Interest on Capital			50,053	63,983
Financial Expenses	**(104,281)**	**(157)**	**(1,551,997)**	**(1,290,331)**
Domestic Currency	(104,281)	(157)	(900,522)	(751,001)
Due in Foreign Currency	—	—	(280,524)	(88,376)
Interest on Capital	—	—	(370,951)	(450,954)
Total	**(102,084)**	**406**	**(592,641)**	**(443,534)**

16. INCOME TAX AND SOCIAL CONTRIBUTION

Taxes on income include income taxes and social contributions on profits. The rate for income taxes is 25% and the rate for social contributions is 9% for a combined tax rate up 34%.

The recorded amounts for provision for income taxes and social contribution on profits recognized for the results are as follows:

	PARENT COMPANY		CONSOLIDATED	
	2008	2007	2008	2007
Income Before Taxes and Participations	**(45,681)**	**10,511**	**1,214,039**	**832,907**
Income from the Companies Not Subject to Income Tax and Social Contribution Calculations(1)	**45,681**	**(10,511)**	**154,306**	**60,194**
Total Taxable Income	—	—	**1,368,345**	**893,101**
Corporate Income Taxes — IRPJ				
Corporate Taxes on Taxable Income (10%+15%=25%)			**(342,086)**	**(223,275)**
Permanent Additions			**(165,907)**	**(102,214)**
Amortization of Goodwill			(27,893)	(28,535)
Exchange-Rate Variation on Investment			(1,751)	(3,510)
Changes in the Percent Participation of Subsidiaries			(10,854)	(50)
Non-deductible Fines			(43,395)	(2,140)
Losses from Investments			(14,211)	—
IOC Received Written Off from Investments			(12,513)	(15,855)
Other Additions			(55,290)	(52,124)
Permanent Exclusions			**46,052**	**32,987**
Equity Restatement			—	—
Investment Dividends Evaluated at Cost of Acquisition			754	178
Recovery of Federal Taxes			650	—
Other Exclusions			44,648	32,809
Compensation for Tax Losses			**14,160**	**8,032**
Constitution of Income Taxes Deferred on Accumulated Tax Losses			**(4,569)**	**1,196**
Others			**(5,410)**	**2,268**
Effect of Corporate Taxes on Income			**(457,760)**	**(281,006)**
Social Contribution on Net Profit — CSLL			**—**	**—**
Social Contribution on Taxable Income (9%)			**(136,685)**	**(92,030)**
Permanent Additions			**(48,550)**	**(34,086)**
Amortization of Goodwill			(10,041)	(10,272)
Exchange Rate Variation on Investments			(630)	(1,264)
Changes in the Percent Participation of Subsidiaries			(4,091)	(266)
Non-deductible Fines			(15,622)	(770)
Corporate Taxes on Revenues from Write Offs			(4,505)	(5,708)
Other Additions			(13,662)	(15,806)
Permanent Exclusions			**30,279**	**23,651**
Equity Restatement			—	—
Investment Dividends Evaluated at Cost of Acquisition			273	64
Other Exclusions			30,006	23,587
Compensation for Negative Calculations			**5,152**	**2,884**
Constitution of Social Contribution for Accumulated Negative Calculations			**(1,645)**	**430**
Others			**(2,434)**	**(107)**
Effect of Social Contribution On Income Statements			**(153,884)**	**(99,259)**
Effect of Corporate Income Taxes and Social Contribution on Income Statements	**—**	**—**	**(611,643)**	**(380,265)**

(1) Income from subsidiaries that do not pay corporate income taxes or social contributions on the tax losses and negative calculations.

17. CASH AND CASH EQUIVALENTS

	PARENT COMPANY		CONSOLIDATED	
	2008	2007	2008	2007
Cash in Banks	23	18	167,970	315,154
Cash Equivalents	36,982	3,745	2,592,870	523,338
Total	**37,005**	**3,763**	**2,760,840**	**838,492**

The composition of the portfolio of cash equivalents is shown below:

	PARENT COMPANY		CONSOLIDATED	
	2008	2007	2008	2007
Private Investment Funds				
Public Securities	—	—	—	224,877
Private Securities	—	—	19,667	96,381
Cash and Compensating Operations — Overnight	—	—	791,691	76,989
Derivatives	—	—	—	440
Provision for Income Taxes	—	—	(12,042)	(11,366)
Total Exclusive Investment Funds	**—**	**—**	**799,316**	**387,321**
Private Securities	**—**	**—**	**1,633,266**	**—**
Open Investment Funds	**36,982**	**3,745**	**50,992**	**135,945**
International Investments — Certificates of Deposit	**—**	**—**	**109,546**	**377**
Subtotal of Cash Equivalents	**36,982**	**3,745**	**2,593,120**	**523,643**
Partially blocked by legal action	—	—	(250)	(305)
Total Cash Equivalents	**36,982**	**3,745**	**2,592,870**	**523,338**

The exclusive investment funds are subject to legal restrictions to the payment of services full demonstration of assets, but committed to operation of the investments, such as custodial fees, auditing and other expenses of this nature, not including relevant financial operations, as well as assets of the Company and it's subsidiaries to guarantee these obligations.

18. FINANCIAL INVESTMENTS

The composition of the investment portfolio is shown below:

	CONSOLIDATED	
	2008	2007
Exclusive Investment Funds		
Public Securities	537,672	2,010,479
Private Securities	237,830	510,423
Cash and Compensating Operations — Overnight	—	110,057
Securities issued by the Republic of Austria — Austrian Notes	—	274,069
Securities issued by ICO — *Instituto de Crédito Oficial* of Spain	—	201,320
Public securities	—	53,556
Private securities	—	3,583
Total Financial Investments	**775,502**	**3,163,487**

The securities maintained for trading at fair value represent investments in private funds managed by first class financial institutions, and investments in their own portfolio, composed above all by federal government

securities and private securities issued by first class financial institutions. Changes in the fair value of these financial assets are recorded under financial income and expenses on the financial statements.

19. ACCOUNTS RECEIVABLE

The values of the accounts receivable consist of the following:

	CONSOLIDATED	
	2008	2007
Services Billed	1,589,911	1,597,040
Services to be Billed	954,353	892,448
Sales of Goods	60,249	75,603
Subtotal	**2,604,513**	**2,565,091**
Allowance for Doubtful Accounts	**(394,423)**	**(375,390)**
Services Provided	(389,377)	(370,799)
Sales of Merchandise	(5,046)	(4,591)
Total	**2,210,090**	**2,189,701**
Due	1,776,216	1,681,551
Past Due:		
01 to 30 Days	428,620	390,471
31 to 60 Days	125,636	125,924
61 to 90 Days	79,852	87,161
91 to 120 Days	54,354	61,219
More than 120 Days	139,835	218,765
Total	**2,604,513**	**2,565,091**

20. INVENTORY

Inventories for maintenance and resale for which provisions are made for losses or adjustments in value at the time when they may be used are as follows:

	CONSOLIDATED	
	2008	2007
Inventory for Resale (Mobile Handsets and Accessories)	65,420	53,532
Inventory for Maintenance	5,514	7,158
Provision for Adjustments in Value	(16,745)	(27,554)
Provisions for Probable Losses	(141)	(425)
Total	**54,048**	**32,711**

21. LOANS AND ASSET FINANCING

	CONSOLIDATED	
	2008	2007
Loans and ASSET Financing	6,868	7,973
Total	**6,868**	**7,973**
Cash	1,758	1,797
Long-Term	5,110	6,176

Loans and asset financing refers to the repassing of financial resources to the company that produces telephone books, corrected monetarily in accordance with the IGP-DI inflation index.

22. DEFERRED AND RECOVERABLE TAXES

	PARENT COMPANY		CONSOLIDATED	
	2008	2007	2008	2007
Deferred Taxes	—	—	1,809,920	1,679,905
Other Taxes Recoverable	9,762	1,072	1,135,280	998,762
Total	**9,762**	**1,072**	**2,945,200**	**2,678,667**
Short-Term	9,762	1,072	992,088	849,684
Long-Term	—	—	1,953,112	1,828,983

Deferred Corporate Income Tax and Social Contribution

	CONSOLIDATED	
	2008	2007
Corporate Income Taxes		
Deferred Income Taxes, On;		
Tax Losses	565,965	528,536
Provisions for Contingencies	321,563	298,809
Provision for Coverage for Actuarial Insufficiency in the Pension Funds	188,948	171,936
Provision for Credits for Doubtful Accounts	97,390	93,548
ICMS — Agreements 69/98 and 78/01	25,481	39,820
Provision for Required Payments — COFINS/CPMF	77,990	40,770
Provision for Profit Sharing	17,984	16,092
Provision for Inventory Losses	6,854	10,606
Provision for Required Payments — FUST	29,993	19,027
Provision for Losses — BIA	63	71
Deferred Write Offs — Adjustments under Law 11,638/07	9,992	20,167
Collections on Merchandise — Adjustment under Law 11,638/07	1,148	2,038
Other Provisions	18,356	16,358
Subtotal	**1,361,727**	**1,257,778**
Social Contribution on Profits		
Deferred Social Contribution, On:		
Negative Basis of Calculation	207,555	192,086
Provisions for Contingencies	115,763	109,082
Provision for Coverage for Actuarial Insufficiency in the Pension Funds	68,021	61,897
Provision for Credits for Doubtful Accounts	35,060	33,677
Provision for Profit Sharing	6,474	6,476
Provision for Inventory Losses	2,468	3,818
Provision for Losses — BIA	23	25
Deferred Write Offs — Adjustments under Law 11,638/07	3,597	7,261
Collections on Merchandise — Adjustment under Law 11.638/07	413	733
Other Provisions	8,819	7,072
Subtotal	**448,193**	**422,127**
Total	**1,809,920**	**1,679,905**
Cash	427,266	372,571
Long-Term	1,382,654	1,307,334

On December 31, 2008, the Solpart subsidiary proceeded with an update of the technical study of future taxes that supports the posting of deferred income taxes and social contributions on profits.

Next is presented the expected deadlines for the realization of the deferred tax assets related to the corporate income taxes and social contributions on profits, whose origins are based on the temporary differences between

the accounting result and the tax result, as well as the tax losses and the negative basis for the social contribution, when they exist. The maturities are based on a technical study of future profits based on the fiscal years in which the temporary differences became tax-deductible expenses, where the shares established by the subsidiaries of the Company are considered in order to expand the client base for the activities that were in the stage of expansion. The amounts recorded in the financial statements are based on technical studies that were submitted to management and the Board Of Directors, as well as to the Fiscal Council for their approval.

	CONSOLIDATED
2009	427,266
2010	133,359
2011	181,724
2012	142,978
2013	152,081
2014 to 2016	476,536
2017 to 2018	205,625
2019 onwards	90,351
Total	**1,809,920**
Cash	427,266
Long-Term	1,382,654

The amount of the recovery expected beyond 2018 stems from the provision constituted by Brasil Telecom S.A. for the coverage of actuarial insufficiencies in the pension funds, whose obligations are being financially liquidated according to the maximum remaining period of 13 years, in line with the deadline given by the Supplementary Social Security Department ("SPC"). Notwithstanding, the time period established by the SPC and in accordance with the estimated future tax profits, Brasil Telecom S.A. has the capacity to completely discharge its compensation obligations in a period of less than 10 years, in the case it should choose to completely liquidate the debt.

Other Taxes Due

These are composed of federal taxes withheld at the source and payments made, translated on the basis of legal estimates, that will be compensated against future tax obligations. The ICMS to compensate is in large part due to credits constituted in the acquisition of goods for fixed assets, whose compensation with tax obligations for this tax may take place within 48 months, according to Complementary Law 102/00.

	PARENT COMPANY		CONSOLIDATED	
	2008	2007	2008	2007
ICMS	—	—	644,121	500,994
Corporate Income Tax	8,209	974	340,935	317,227
PIS and COFINS	—	—	254,231	237,768
Social Contribution	1,547	93	10,482	15,591
FUST	—	—	724	724
Others	6	5	4,778	4,058
Subtotal	**9,762**	**1,072**	**1,255,271**	**1,076,362**
Provision for Reversible Amounts	—	—	(119,991)	(77,600)
Total	**9,762**	**1,072**	**1,135,280**	**998,762**
Short-Term	9,762	1,072	564,822	477,113
Long-Term	—	—	570,458	521,649

The provision to the reversible account corresponds to the portion of tax credits to be compensated in a period greater than the next 10 fiscal years.

23. JUDICIAL DEPOSITS

The balance of judicial deposits related to contingencies where the degree of possible loss is remote:

	PARENT COMPANY		CONSOLIDATED	
Nature of Demand	2008	2007	2008	2007
Labor	—	—	299,155	250,564
Fiscal	—	—	93,294	103,705
Civil	138	138	2,517,425	1,044,254
Total	**138**	**138**	**2,909,874**	**1,398,523**
Short-Term	—	—	679,012	329,396
Long-Term	138	138	2,230,862	1,069,265

The judicial deposits linked to expected liabilities are presented as deducted from the provisions (See Notes 8 and 31).

The increase in the amount of judicial deposits is related to civil suits that management, based on the opinion of its legal advisers, believes the degree of possible risk is remote.

24. DIVIDENDS/IOC RECEIVABLE

Refers to the IOC, net of taxes at the source, credited by the indirect subsidiary BTP, in 2008, whose amount receivable is R$318 (R$60 for IOC and R$80 in dividends as of December 31, 2007) and the minimum mandatory dividend from the direct Solpart subsidiary of R$42,545.

25. OTHER ASSETS

	PARENT COMPANY		CONSOLIDATED	
			2008	2007
Pension Funds — Future Contributions Due(1)	—	—	123,938	74,476
Advances to Employees	—	—	41,376	36,541
Advances and Amounts to Recover from Suppliers	13	—	26,101	19,056
Amounts Due for State Tax Obligations	—	—	9,217	—
Guarantees and Contractual Withholding	—	—	3,777	—
Tax Credits Acquired (2)		—	312	46,543
Anticipated Expenses Paid	16	—	64,205	47,237
Compulsory Deposits	—	—	1,562	1,562
Assets for Sale	—	—	606	1,280
Amounts Due From Telecommunications Companies	—	—	—	8,807
Others	—	—	27,551	22,673
Total	**29**	**—**	**298,645**	**258,175**
Cash	29	—	158,158	180,499
Long-Term	—	—	140,516	77,676

(1) Asset constituted to be used for compensation for future contract contributions to complementary retirement plans — Plan TCSPREV, as indicated in note 7,

(2) State Letters of Credit acquired to discharge ICMS infractions charged against BTP.

26. INVESTMENTS

	PARENT COMPANY		CONSOLIDATED	
	2008	2007	2008	2007
Valuation of Shares by Shareholders Equity	**1,537,349**	**1,003,948**	**—**	**—**
Solpart Participações S.A.	1,537,349		—	—
Techold Participações S.A.		1,003,948	—	—
Negative goodwill	(6)			
Techold Participações S.A.	(6)			
Other Investments	**—**	**2,044**	**3,744**	**44,920**
Other Investments	—	—	41	39
Valuation of Shares by Cost of Acquisition	—	2,044	3,703	24,622
Tax Incentives, Net of Loss Provisions,	—	—	—	20,259
Total	**1,537,343**	**1,005,992**	**3,744**	**44,920**

Valuation of Shares by Equity Adjustment Method: includes the share of the Company in its direct subsidiary companies Solpart on December 31, 2008 and Techold on December 31, 2007, that had a partial division of its equity with the version of the parcel divided by the Company on April 18, 2008, whose principal characteristics are:

Other investments at December 31, 2007 in the parent company these are represented by 76,000,000, shares that the Company owns in BTP, in the consolidated result represented by 474,996,283 common shares and 133,588,060 preferred shares that Techold owns in BTP (both investments were pledged during fiscal 2008) and in the consolidated are represented by shares of BTP and its subsidiary companies obtained via the conversion into shares or shares of capital of the investments encouraged in the regional funds FINOR/FINAM under the Incentive Law for Information Technology Companies and the Audovisual Law. Shares of other telecommunications companies located in the regions covered under these regional incentive laws predominate.

	Solpart 2008	Techold Apr. 18, 2008	Techold 2007
Net Equity	1,537,349	1,000,599	1,003,946
Capital Stock	1,433,556	1,553,900	1,553,900
Equity per Share/Quota (R$)	0,7182	0,6676	0,6698
Net Profit (Loss) for the Period	116,979	(12,283)	10,693
Number of Shares/Quotas Held by the Company			
Common Shares	2,140,472	1,948,911	1,948,911
% Share in the Capital Of the Subsidiary			
Of Total Capital	100%	100%	100%
Of Voting Capital	100%	100%	100%
Dividends/IOC Receivable	**42,545**	**—**	**—**
Equity Restatement	**88,938**	**(12,283)**	**10,693**

27. PROPERTY, PLANT AND EQUIPMENT

The changes in fixed assets are shown below:

	CONSOLIDATED						
	Work in progress	Automatic switching equipment	Transmission and other equipment(1)	Infra-structure	Buildings	Other assets	Total
Cost of Fixed Assets (Gross)							
Balance on Jan. 1, 2007	**322,712**	**5,149,971**	**14,132,526**	**3,777,602**	**943,061**	**1,792,621**	**26,118,493**
Additions	1,079,500	947	212,272	17,953	1,251	71,555	1,383,478
Write Offs	(10,575)	(2,302)	(122,651)	(22,974)	(500)	(34,941)	(193,943)
Transfers	(931,284)	7,835	468,718	121,356	13,522	56,692	(263,161)
Balance on Dec. 31 2007	**460,353**	**5,156,451**	**14,690,865**	**3,893,937**	**957,334**	**1,885,927**	**27,044,867**
Additions	1,586,465	2,412	286,234	9,028	10,444	65,631	1,960,214
Write Offs	(41,951)	(4,614)	(110,684)	(21,176)	(1,758)	(29,813)	(209,996)
Transfers	(994,910)	148,855	593,369	113,961	4,420	57,087	(77,218)
Balance on Dec. 31 2008	**1,009,957**	**5,303,104**	**15,459,784**	**3,995,750**	**970,440**	**1,978,832**	**28,717,867**
Accumulated Depreciation							
Balance on Jan. 1, 2007	**—**	**(4,778,262)**	**(10,651,929)**	**(2,327,267)**	**(530,425)**	**(1,250,676)**	**(19,538,559)**
Depreciation	—	(153,823)	(1,371,833)	(263,319)	(33,549)	(156,082)	(1,978,606)
Write Offs	—	2,102	120,719	17,909	73	26,531	167,334
Transfers	—	715	22,929	(10,300)	(1,393)	(15,775)	(3,824)
Balance on Dec. 31 2007	**—**	**(4,929,268)**	**(11,880,114)**	**(2,582,977)**	**(565,294)**	**(1,396,002)**	**(21,353,655)**
Depreciation	—	(103,591)	(1,081,424)	(251,796)	(34,178)	(147,728)	(1,618,717)
Write Offs	—	4,951	109,022	19,406	703	23,102	157,184
Transfers	—	—	369	—	(25)	(383)	(39)
Balance on Dec. 31 2008	**—**	**(5,027,908)**	**(12,852,147)**	**(2,815,367)**	**(598,794)**	**(1,521,011)**	**(22,815,227)**
Net Fixed Assets							
Balance on Jan. 1, 2007	322,712	371,709	3,480,597	1,450,335	412,636	541,945	6,579,934
Balance on Dec. 31 2007	460,353	227,183	2,810,751	1,310,960	392,040	489,925	5,691,212
Balance on Dec. 31 2008	1,009,957	275,196	2,607,637	1,180,383	371,646	457,821	5,902,640
Average Annual Depreciation Rate	—	20,0%	17,0%	8,5%	4,2%	—	—

(1) Transmission and other equipment includes: transmission and data communications equipment.

According to the STFC concession contracts, the goods of Brasil Telecom S.A. that are indispensable to the provision of services and qualified "reversible goods," when the contract expires will revert automatically to ANATEL with BTP holding the rights to indemnification called for in the legislation and the respective contracts. The value of the reversible goods at the end of the fiscal year was R$22,173,331 on cost basis, with a residual of R$3,001,610.

Insurance

The programs for insurance policies for the coverage of reversible assets, profits and contractual guarantees, as established in the concession contract signed with the public and civil authorities responsible for the operation of telephone services have been maintained.

The assets, responsibilities and interests covered by insurance are as follows (unaudited):

Type of Insurance	Coverage	Amount Insured 2008	Amount Insured 2007
Operating Risks	Buildings, machines and equipment, installation, service centers, towers, infrastructure and information technology equipment	15,090,068	12,705,368
Cessation of Profit	Fixed expenses and net income	8,955,588	8,669,400
Contractual Guarantees	Completion of contractual obligations	94,601	89,405
Civil Liabilities	Operations of telephone services	12,000	12,000

BTP purchased insurance coverage related to civil liability of managers that also covers Brasil Telecom S.A., whose total amount insured is the equivalent of US$ 90,000,000,00 (ninety million US dollars).

There is no insurance coverage for optional civil liabilities, related to accidents of BTP's vehicles involving third parties.

28. INTANGIBLE ASSETS

The changes in intangible assets are shown below:

	PARENT COMPANY							
	Premiums	Negative goodwill	Intangibles	Data Processing Systems	Trademarks and Patents	Regulatory Licenses	Others	Total
Cost of Intangible Assets (Gross)								
Balance on January 1, 2007	**—**		**—**	**—**	**—**	**—**	**—**	**—**
Additions	—		—	—	—	—	—	—
Write Offs	—		—	—	—	—	—	—
Transfers	—		—	—	—	—	—	—
Balance on December 31, 2007	**—**		**—**	**—**	**—**	**—**	**—**	**—**
Additions	310,146	(6)	—	—	—	—	—	310,140
Write Offs	—		—	—	—	—	—	—
Transfers	—		—	—	—	—	—	—
Balance on December 31, 2008	**310,146**	**(6)**	**—**	**—**	**—**	**—**	**—**	**310,140**
Accumulated Amortization								
Balance on January 1 2007	**—**		**—**	**—**	**—**	**—**	**—**	**—**
Amortization	—		—	—	—	—	—	—
Write Offs	—		—	—	—	—	—	—
Transfers	—		—	—	—	—	—	—
Balance on December 31, 2007	**—**		**—**	**—**	**—**	**—**	**—**	**—**
Amortization	(17,231)		—	—	—	—	—	(17,231)
Write Offs	—		—	—	—	—	—	—
Transfers	—		—	—	—	—	—	—
Balance on December 31, 2008	**(17,231)**		**—**	**—**	**—**	**—**	**—**	**(17,231)**
Net Intangible Assets								
Balance on January 1 2007	—		—	—	—	—	—	—
Balance on December 31, 2007	—		—	—	—	—	—	—
Balance on December 31, 2008	292,915	(6)	—	—	—	—	—	292,909
Average Annual Amortization Rate	—							—

	CONSOLIDATED							
	Premiums	Negative goodwill	Intangibles	Data Processing Systems	Trade-marks and Patents	Regulatory Licenses	Others	Total
Balance on January 1, 2007								
Additions	**1,137,645**	**(6)**	**11,891**	**1,870,862**	**1,886**	**352,900**	**2,831,690**	**6,206,868**
Write Offs		**—**	**17,877**	**2,058**	**—**	**4,847**	**—**	**24,782**
Transfers	**(353)**	**—**	**—**	**(40,301)**	**—**	**—**	**(2,625,411)**	**(2,666,065)**
Balance on December 31, 2007	**—**	**—**	**(20,203)**	**341,762**	**(1,199)**	**30,124**	**(96,832)**	**253,652**
Additions	**1,447,432**	**(6)**	**9,565**	**2,174,381**	**687**	**387,871**	**109,447**	**4,129,377**
Write Offs	**326,947**	**(6)**	**264,861**	**6,654**	**—**	**489,985**	**—**	**1,088,441**
Transfers	**(639,358)**	**6**	**—**	**(6,182)**	**—**	**—**	**(76,288)**	**(721,822)**
Balance on December 31, 2008	**—**	**—**	**(260,656)**	**349,893**	**—**	**6,148**	**(11,007)**	**84,378**
Accumulated Amortization	**1,445,161**	**(6)**	**13,770**	**2,524,746**	**687**	**884,004**	**22,152**	**4,890,514**
Balance on January 1 2007								
Balance on January 1 2007	**(420,232)**	**—**	**—**	**(1,017,209)**	**(775)**	**(55,061)**	**(2,816,577)**	**(4,309,854)**
Amortization	**(119,810)**	**—**	**—**	**(338,417)**	**(14)**	**(33,346)**	**(8,745)**	**(500,332)**
Write Offs	**—**	**—**	**—**	**26,355**	**—**	**—**	**2,631,459**	**2,657,814**
Transfers	**—**	**—**	**—**	**(98,927)**	**713**	**—**	**101,525**	**3,311**
Balance on December 31, 2007	**(540,042)**	**—**	**—**	**(1,428,198)**	**(76)**	**(88,407)**	**(92,338)**	**(2,149,061)**
Amortization	**(148,313)**	**—**	**—**	**(308,985)**	**(4)**	**(50,506)**	**(5,876)**	**(513,684)**
Write Offs	**18,941**	**—**	**—**	**6,080**	**—**	**—**	**76,287**	**101,308**
Transfers	**—**	**—**	**—**	**(12,050)**	**—**	**—**	**12,086**	**36**
Balance on December 31, 2008	**(669,414)**	**—**	**—**	**(1,743,153)**	**(80)**	**(138,913)**	**(9,841)**	**(2,561,401)**
Net Intangible Assets								
Balance on January 1, 2007	717,413	(6)	11,891	853,653	1,111	297,839	15,113	1,897,014
Balance on December 31, 2007	907,390	—	9,565	746,183	611	299,464	17,109	1,980,322
Balance on December 31, 2008	775,747	(6)	13,770	781,593	607	745,091	12,311	2,329,114
Average Annual Amortization Rate	—	—	—	0	—	—	—	—

29. PERSONNEL, CHARGES AND SOCIAL BENEFITS

	PARENT COMPANY		CONSOLIDATED	
	2008	2007	2008	2007
Pay & Professional Fees	3	4	268	6,114
Social Charges	1	1	85,313	72,908
Social Benefits	—	—	4,354	3,837
Stock Option Plans	—	—	23,893	13,179
Others	—	—	7,984	7,691
Total	**4**	**5**	**121,811**	**103,729**
Short-Term	4	5	110,328	103,729
Long-Term	—	—	11,483	—

30. ACCOUNTS PAYABLE AND PROVISIONS FOR EXPENSES

	PARENT COMPANY		CONSOLIDATED	
	2008	2007	2008	2007
Suppliers	4	1	1,889,695	1,496,483
Consignation in Favor of Third Parties	—	—	182,591	154,198
Total	**4**	**1**	**2,072,286**	**1,650,681**
Short-Term	4	1	2,072,286	1,637,225
Long-Term	—	—	—	13,456

31. INDIRECT TAXES

	PARENT COMPANY		CONSOLIDATED	
	2008	2007	2008	2007
ICMS, Net of Judicial Deposits Under Covenant nº 69/98	**—**	**—**	**555,350**	**621,601**
ICMS	—	—	702,645	811,743
Judicial Deposits referring to ICMS Covenant nº 69/98	—	—	(147,295)	(190,142)
PIS and COFINS	**6**	**4**	**312,344**	**170,778**
Others	**—**	**—**	**65,177**	**60,721**
Total	**6**	**4**	**932,871**	**850,477**
Short-Term	6	4	670,811	748,857
Loan-Term	—	—	262,060	104,243

The balance referring to ICMS includes amounts from Agreement 69/98, which has been challenged in court, causing monthly escrow deposits. Also includes deferment incentives from the Government of the State of Paraná, with regard to ICMS,

32. TAXES ON INCOME

	CONSOLIDATED	
	2008	2007
Corporate Income Taxes		
Amounts Payable	131,851	104,010
Law 8,200/91 — Special Monetary Correction	5,052	5,491
Subtotal	**136,903**	**109,501**
Social Contribution		
Amounts Payable	37,881	31,746
Law 8,200/91 — Special Monetary Correction	1,819	1,977
Subtotal	**39,700**	**33,723**
Total	**176,603**	**143,224**
Short-Term	67,519	76,347
Long-Term	109,084	66,877

33. DIVIDENDS/INTEREST ON CAPITAL AND PROFIT SHARING

	PARENT COMPANY		CONSOLIDATED	
	2008	2007	2008	2007
Controlling Shareholders	**—**	**52,230**	**—**	**52,230**
Dividends/Interest on capital	—	52,230	—	52,230
Minority Shareholders	—	21,788	390,369	911,487
Dividends/IOC	**—**	**21,788**	**320,580**	**849,479**
IRRF on Interest on Capital	—	—	(48,135)	(58,045)
Unclaimed Dividends from Previous Fiscal Years	—	—	117,924	120,053
Total — Shareholders	**—**	**74,018**	**390,369**	**963,717**
Employee Profit Sharing	**—**	**—**	**83,237**	**81,328**
Total	**—**	**74,018**	**473,606**	**1,045,045**
Short-Term	—	—	473,606	971,027
Long-Term	—	74,018	—	74,018

34. LOANS AND FINANCING
(Including Debentures)

	PARENT COMPANY		CONSOLIDATED	
	2008	2007	2008	2007
Financing	—	—	4,559,037	3,886,431
Provision and Other Interest on Financing	—	—	105,591	98,860
Commercial Leasing	—	—	12,698	27,017
Provision and Other Interest on Commercial Leasing	—	—	1,731	8,149
Loans	950,000		950,000	990,000
Provision and Other Interest on Loans	14,888		14,888	8,418
Subtotal	**964,888**	**—**	**5,643,945**	**5,018,875**
Cost of Funding	(8,661)	—	(23,813)	(23,630)
Total	**956,227**	**—**	**5,620,132**	**4,995,245**
Short-Term	956,227	—	1,626,934	1,392,612
Long-Term	—	—	3,993,198	3,602,633

Financing

	CONSOLIDATED	
	2008	2007
BNDES	2,655,191	2,206,917
Local Currency	2,564,245	2,112,204
Currency Basket, including US dollars	90,946	94,713
Financial Institutions	916,293	688,041
Local Currency	126,049	52,506
Foreign Currency	790,244	635,535
Debentures	1,091,906	1,088,956
Suppliers — Foreign Currency	1,238	1,377
Financial Leasing	14,429	35,166
Cost of Funding	(15,152)	(18,593)
Total	**4,663,905**	**4,001,864**
Short-Term	670,707	399,231
Long-Term	3,993,198	3,602,633

Financing in domestic currency: carries (i) fixed interest rates of 2.4% p.a to 10.0% p.a., resulting in a weighted average rate of 8.10% p.a.; and (ii) and variable interest rates based on the TJLP plus 2.3% to 5.5% p.a., the UMBNDES (BNDES currency basket unit) plus 5.5% p.a., or 100% and 104% of the CDI rate, resulting in a weighted average rate of variable interest of 11.73% p.a. The CDI rate at the close of the fiscal year was 13.61% p.a.

Financing Contracts

On July 18, 2008, Brasil Telecom S.A. and BrT Celular signed a financing contract with Banco do Brasil in the amounts of R$42,000 and R$33,000 respectively. The funding comes from the Constitutional Financing Fund for the Central West — FCO, for investment in the expansion of the infrastructure of the network (voice, data and images) in the states of Goiás, Mato Grosso, Mato Grosso do Sul and the Federal District. The financing was liberated on August 8, 2008 with a grace period of one year, after which payment will be made in 60 equal monthly payments, ending in August 2014. The financing charges are contracted, for each company, at 10% p.a. with a bonus of 15% on these charges. The balance of the accumulated liability on the date of the closing balance was R$43,010 for Brasil Telecom S.A. and R$33,794 for BrT Celular,

Financing in foreign currency: carries (i) fixed interest of 1.75% to 9.38% p.a. resulting in a weighted average rate of 9.36% p.a.; and (ii) variable interest rates of 0.5% p.a. over LIBOR and 1.92% p.a. over YEN LIBOR, resulting in a weighted average rate of 2.96% p.a. The LIBOR and YEN LIBOR rates at the end of the. For semiannual payments, were 3.13% p.a. and 0.99% p.a. respectively.

Debentures issued by Brasil Telecom S.A.:

Fourth public issue: 108,000 non-convertible debentures, and nominal unit price of R$10, for a total of R$1,080,000 on June 1, 2006. The maturity is seven years, ending June 1, 2013. Remuneration is equivalent to a rate of interest of 104.0% of the CDI, with payments on a semiannual basis. Amortization will include all of the debentures and will be paid in three installments of 33.3%, 33.3% and 33.4% of the nominal unit price, respectively, beginning June 1, 2011. On the closing date of the period there were no debentures from this issue in the treasury.

On December 17, 2008, the General Meeting of the Debenture Holders, representing 97.58% of the debentures in circulation, approved the signing of an addendum to the document. The addition changes the conditions for obligatory acquisition by the Issuer and the remuneration of the debentures, such that BTP will,

after providing Notice to the Debenture Holders, within 20 days of the conclusion of the operation of transfer of shareholder control of BTP to Telemar Norte Leste S.A., or any other of its subsidiaries, will or will not accept remuneration fixed at the General Meeting of the Debenture Holders, and furthermore should acquire, from the debenture holders that request it, the debentures held by them.

Scheduled Payments

The long-term debt is scheduled to be paid during the following periods:

	CONSOLIDATED	
	2008	2007
2009	—	499,633
2010	770,400	605,185
2011	880,670	722,052
2012	771,715	638,798
2013	772,650	639,837
2014	664,969	471,146
2015 onwards	132,794	25,982
Total	**3,993,198**	**3,602,633**

Composition of debt by currency/index

	CONSOLIDATED	
Adjusted by the	2008	2007
TJLP	2,564,245	2,112,204
CDI	1,106,336	1,124,122
US Dollar	509,490	394,979
Yen	281,992	241,933
Hedge for Debt in Yen	90,946	94,713
UMBNDES — Basket of Currency of the BNDES	31,607	26,599
INPC	94,441	25,907
Total	**4,679,057**	**4,020,457**

Guarantees

Certain loans and lines of financing are backed by guarantees of creditor collateral rights in relation to BTP's wireline telephone services, guarantees and sureties.

For consolidated loans and financing, hedging contracts have been taken out covering 60.5% of these obligations to third parties in US dollars and Japanese yen, in order to provide hedging protection against the impact of major fluctuations in the price quotation on the debt. On the date the financial statements were closed, taking into account the operations to protect financial investments in foreign currency, the effect of exposure was 8.6% (3.6% as of December 31, 2007). The gains and losses from these contracts are recognized by area.

The debentures issued by Brasil Telecom S.A. a covered by fiduciary guarantees through a guarantee provided by BTP, in the role of guarantor, representing an obligation to the holders of the benchers as a guarantor and principal payee responsible for all obligations assumed by Brasil Telecom S.A. related to its debentures.

Financial Contractual Obligations of BrT Celular with the BNDES

BrT Celular signed a contract with the Brazilian Development Bank — BNDES, on February 19, 2008, for a line of is financing in the amount of R$259,100 to be used for the expansion and modernization of the cellular

telephone network (personal mobile service) by 2009. The financing is for nine years and six months with a three-month grace period, at which point amortization will begin and 84 monthly payments. The fees for this financing are link to variations in the TJLP (Long-Term Interest Rate) plus 3.52% p.a. The full amount of the financing was released during 2008, where R$100,000 was funded on March 17, 2008, and R$159,376 was funded on October 22, 2008. This obligation is backed by both receivables from income and other guarantees of Brasil Telecom S.A.

Loans

	PARENT COMPANY		CONSOLIDATED	
	2008	2007	2008	2007
Promissory Notes	950,000	—	950,000	990,000
Provisions for Interest and Other Charges on PNs	14,888		14,888	8,418
Subtotal	**964,888**	**—**	**964,888**	**998,418**
Cost of Funding	(8,661)		(8,661)	(5,037)
Total	**956,227**		**956,227**	**993,381**
Current	956,227	—	956,227	993,381

On October 11, 2007, the Board Of Directors of Techold, a company at that time controlled by Invitel, authorized its management to seek funding in an amount of up to US$ 550 million in the form of debt.

On October 22, 2007, Techold filed with the CVM a notice of the public distribution of up to 100 (one hundred) 2nd issue Promissory Notes by Techold under CVM/SRE/SEC/2007/046 ("Promissory Notes"), nominative and registered, single series, with a nominal unitary value at the date of issue, of R$11,000,000 (eleven million) *reais* with a return of 100% of the CDI plus 0.7% p.a. Techold issued 90 (ninety) Promissory Notes with maturity on November 27, 2008. These Promissory Notes were distributed in full.

On December 5, 2007, 99.97% of the capital of Solpart and all of its related equity rights were pledged as a guarantee of payment of the Promissory Notes, as called for in the Pledge Contract of Shares and Other Stipends signed on October 11, 2007 by Techold, currently called Argolis Holdings, as a guarantor, Planner Trustee DTVM Ltda., acting as guarantor, and subsequently as guarantee agent, and by Solpart, acting as the endorser.

With a partial divestiture of Techold, Invitel assumed the obligations for the Promissory Notes through succession.

The Promissory Notes were paid on November 27, 2008.

On November 10, 2008, the Board of Directors of the Company, unanimously approved a 2nd Issue of Single Issue Promissory Notes of the Company. The Promissory Notes were issued on November 27, 2008, having the following characteristics:

a) total amount of the issue: R$950,000 (nine hundred and fifty million *reais*);

b) quantity of Promissory Notes issued: 190 (one hundred and ninety) Promissory Notes;

c) Nominal Unitary Value: the Promissory Notes have a nominal unitary value of R$5,000;

d) Series: the Promissory Notes were issued in single series;

e) Remuneration: On the Non-Unitary Value of the Promissory Notes, Beginning on the Date of Issue until the Date of Maturity, will have interest corresponding to the variation of the average daily rates for interbank financing for one day, "over extra group," expressed as a percentage per year, based on 252 (two hundred fifty two) working days, linked and released daily by the CETIP minutes daily bulletin available on its page and the Internet (*http://www.cetip.com.br*) ("DI rate"), to which is added up to 6.0% (six percent) per year based on 252 (two hundred fifty two) working days, calculated exponentially and cumulatively, *pro rata tempore* per day ("remuneration");

f) Form: issued physically by, and deposited in, Banco Itaú S.A.

g) Guarantee: the Promissory Notes are guaranteed by the pledge of all of the shares issued by Solpart Participações S.A. ("Solpart") owned by the Company, equivalent to, a minimum of 99.99% (ninety nine point ninety nine percent),

h) Date of issue at date of maturity: the Promissory Notes were issued and integrated on November 27, 2008 and had a maturity date 180 days after the date of issue,

i) Location of Payment: the payments for the Promissory Notes will be made according to the procedures of CETIP S.A. – ("CETIP"), for Promissory Notes registered in the Promissory Notes System, operated by CETIP, or for holders of Promissory Notes that are not connected to this system, at the headquarters of the Company;

j) Commission: the amount of R$10,394 was paid as commissioned to the financial institutions, which will be amortized over the period in which the Promissory Notes are in effect.

35. FINANCIAL DERIVATIVES

	CONSOLIDATED	
	2008	2007
Assets		
US Dollar Options	29,179	6,218
Total	**29,179**	**6,218**
Current	29,179	—
Long-Term	—	6,218
Liabilities		
US Dollar Options	419	8,684
Swaps — Yen x CDI	221,654	397,830
Total	**222,073**	**406,514**
Current	89,920	118,752
Long-Term	132,153	287,762

BTP has debts denominated in Japanese yen, and swap operations were undertaken to protect against fluctuations of the yen. The resulting exposure after the swap contracts is linked to CETIP's interbank deposit rate in Brazil. In addition, BTP purchased dollar options for protection against its debt in this currency. The description of these derivative instruments is presented in Note 5 (e).

Payment Schedule

Long-term derivatives are scheduled to occur in the following years:

	CONSOLIDATED	
	2008	2007
2009	—	123,262
2010	88,380	110,606
2011	43,773	53,894
Total	**132,153**	**287,762**

36. AUTHORIZATIONS AND CONCESSIONS

	CONSOLIDATED	
	2008	2007
Personal Mobile Services	707,999	242,162
STFC Concession	65,578	—
Other Authorizations	10,082	11,314
Total	**783,659**	**253,476**
Short-Term	160,074	78,844
Long-Term	623,585	174,632

The Authorizations for Personal Mobile Service awarded to BrT Celular by ANATEL in 2002 and 2004 represent payments totalling R$220,119. These authorizations refer to the provision of PMS for a period of 15 years in the same areas where BTP already holds the concession for wireline services. Of the amount under contract, 10% was paid at the time of signing of the contract, and the remaining balance was fully recognized as a liability of Brasil Telecom S.A. to be amortized in equal and consecutive annual installments, with maturities in 2009 and 2010 (balance of two installments) and 2009 through 2012 (a total of four installments), related to the fiscal years in which the terms were signed. Interest is paid on the remaining balance based on variations in the IGP-DI, plus 1% per month.

On April 29, 2008, BrT Celular received authorization for the provision of 3G services, for the sum of R$488,235, with 10% of the total paid at the time of signing of the terms, with the remainder to be paid in the fiscal years 2010 to 2015 (balance of six installments). The outstanding balance is adjusted based on the variations in the Index for Telecommunications Services (IST), plus 1% per month.

The concession of the STFC refers to the provision created by Brasil Telecom S.A. on the accrual basis, taking as a base the investment of 1% of revenue net of taxes. According to the concession contract in effect, a payment will fall due to ANATEL every two years, during the month of April of the odd years, in the equivalent amount of 2% of net revenues received during the immediately preceding fiscal year. The next payment is scheduled for 2009.

The amount of other authorizations belongs to BrT Multimídia and refers to the granting of authorization for the use of radio frequency bands associated with the provision of multimedia communications services. The amount under contract was R$9,110, adjusted by variations in the IGP-DI, plus 1% per month. The liquidation of the balance of this obligation will be made in three equal and consecutive annual installments, always in the month of May.

37. ADVANCE PAYMENTS BY CLIENTS

	CONSOLIDATED	
	2008	2007
Assignment of Telecommunication Means	153,206	91,272
Prepaid Services	57,589	42,878
Other Advance Payments by Clients	57,604	940
Total	**268,399**	**135,090**
Short-Term	79,227	62,957
Long-Term	189,172	72,133

Realization of the long-term balance, for which the clients made advance payments in order to obtain benefits for a longer period, is expected to take place in the following years:

	CONSOLIDATED	
	2008	2007
2009	—	7,920
2010	19,453	7,770
2011	17,943	7,718
2012	17,720	7,496
2013	17,399	7,238
2014	16,701	6,589
2015	16,671	6,521
2016 onwards	83,285	20,881
Total	**189,172**	**72,133**

38. OTHER OBLIGATIONS

	PARENT COMPANY		CONSOLIDATED	
	2008	2007	2008	2007
Obligations from Consolidation of Shares(1)	—	—	80,686	81,230
Self-Financing Funds	—	—	32,117	32,117
Bank Credits and Recurring Payments undergoing Processing	—	—	16,117	12,293
Other Taxes	—	—	18,866	11,332
Obligations from the Acquisition of Tax Credits	—	—	25,156	7,053
Bonuses and Premiums — Subsequent Periods	—	—	5,228	3,249
CPMF — Suspended Liabilities	—	—	2,557	2,421
Obligations with Other Telecommunications Companies	—	—	1,616	1,616
Return of Self-Financing Installments — PCT	—	—	600	607
Negative goodwill			6	6
Others	2	—	2,838	8,161
Total	**2**	**—**	**185,787**	**160,085**
Short-Term	2	—	169,128	143,570
Long-Term	—	—	16,659	16,515

(1) Represents the amounts available to respective shareholders, related to fractions of shares that were separated and consolidated in whole numbers and sold at auction held on the BOVESPA, from consolidation of shares mentioned in note 9.a.

Brasil Telecom S.A. Self-Financing funds

Rio Grande do Sul Branch

Corresponds to credits for financial stakes, paid in by promised subscribers, for the acquisition of the right to use wireline service, under the extinct self-financing program. Since the shareholders of Brasil Telecom S.A. completely subscribed to the increase in capital for the shares of credits for financial participation, there does not exist a surplus of shares promised to subscribers. Part of the subscribers refused to accept the Public Offer made by BTP for the return of these credits in cash, as established under article 171, paragraph 2 of law 6.404/76, and are waiting for a decision on the lawsuit brought by the Public Prosecutor and Others, requesting compensation in shares.

Mato Grosso do Sul Branch

The plans for self-financed expansion were they means by which the telecommunications companies financed part of their investments in the network. With the publication of Degree 261/97 by the Ministry of Communications, the mechanism for funding using this mechanism became extinct. The amount attributed to the MS Branch is based on plans negotiated prior to the publication of this Decree, whose corresponding records are now incorporated as fixed assets of Brasil Telecom S.A. through the Community Telephone Plan — PCT.For compensation in shares, it is necessary to await the court decisions on the cases brought by the interested parties.

39. INFORMATION BY BUSINESS SEGMENT — CONSOLIDATED

Results by segment, as well as certain equity items, are as follows:

	2008						
	Wireline and Data Communication	Wireless	Internet	Call Center	Adminis-tration	Elimination between Segments	Consolidated
Gross Operating Revenue	**14,844,896**	**2,560,789**	**453,807**	**246,383**	**—**	**(1,098,733)**	**17,007,142**
Deductions from Gross Revenue	**(4,958,335)**	**(679,038)**	**(61,632)**	**(15,785)**	**—**	**4,483**	**(5,710,307)**
Net Operating Revenue	**9,886,561**	**1,881,751**	**392,175**	**230,598**	**—**	**(1,094,250)**	**11,296,835**
Cost of Goods Sold and Services Provided	**(5,186,658)**	**(1,512,338)**	**(54,572)**	**(211,563)**	**—**	**755,713**	**(6,209,418)**
Gross Income	**4,699,903**	**369,413**	**337,603**	**19,035**	**—**	**(338,537)**	**5,087,417**
Net Operating Income (Expenses)	**(2,545,651)**	**(617,927)**	**(382,074)**	**(27,590)**	**(46,311)**	**338,816**	**(3,280,737)**
Commercialization Expenses	(951,810)	(525,005)	(264,848)	(7,705)	—	385,145	(1,364,223)
General and Administrative Expenses	(1,210,315)	(135,721)	(75,936)	(18,226)	(38,928)	38,848	(1,440,278)
Other Operating Income (Expenses)	(383,526)	42,799	(41,290)	(1,659)	(7,383)	(85,177)	(476,236)
Operating Profit (Loss) Before Financial Income (Expenses)	**2,154,252**	**(248,514)**	**(44,471)**	**(8,555)**	**(46,311)**	**279**	**1,806,680**
Accounts Receivable	**2,053,175**	**200,174**	**93,414**	**55,160**	**—**	**(191,833)**	**2,210,090**
Inventory	**4,764**	**49,284**	**—**	**—**	**—**	**—**	**54,048**
Net Fixed and Intangible Assets	**5,268,918**	**2,122,081**	**143,343**	**—**	**6,583**	**—**	**7,540,925**

	2007						
	Wireline and Data Communication	Wireless	Internet	Call Center	Adminis-tration	Elimination between Segments	Consolidated
Gross Operating Revenue	**13,911,298**	**2,445,806**	**445,820**	**22,151**	**—**	**(827,687)**	**15,997,388**
Deduction from Gross Revenue	**(4,178,153)**	**(699,872)**	**(66,305)**	**(1,252)**	**—**	**6,740**	**(4,938,842)**
Net Operating Revenue	**9,733,145**	**1,745,934**	**379,515**	**20,899**	**—**	**(820,947)**	**11,058,546**
Cost of Goods Sold and Services Provided	**(5,487,894)**	**(1,531,692)**	**(55,203)**	**(20,517)**	**—**	**713,105**	**(6,382,201)**
Gross Income	**4,245,251**	**214,242**	**324,312**	**382**	**—**	**(107,842)**	**4,676,345**
Net Operating Income (Expenses)	**(2,497,866)**	**(510,012)**	**(398,503)**	**(10,207)**	**(92,177)**	**108,861**	**(3,399,904)**
Commercialization Expenses	(898,192)	(453,909)	(274,212)	—	—	140,961	(1,485,352)
General and Administrative Expenses	(1,173,466)	(89,987)	(69,056)	(10,207)	(56,626)	24,255	(1,375,087)
Other Operating Income (Expenses)	(426,208)	33,884	(55,235)	—	(35,551)	(56,355)	(539,465)
Operating Profit (Loss) Before Financial Income (Expenses)	**1,747,385**	**(295,770)**	**(74,191)**	**(9,825)**	**(92,177)**	**1,019**	**1,276,441**
Accounts Receivable	**2,033,133**	**194,556**	**110,223**	**22,151**	**—**	**(170,362)**	**2,189,701**
Inventory	**6,165**	**26,546**	**—**	**—**	**—**	**—**	**32,711**
Net Fixed and Intangible Assets	**5,337,567**	**1,400,786**	**188,758**	**—**	**13,241**	**—**	**6,940,352**

40. SUBSEQUENT EVENTS

Changes in Shareholder Control of the Company and BTP

On January 8, 2009, Telemar Norte Leste S.A. ("TMAR") through its indirect subsidiary Copart 1 Participações S.A. ("Copart 1"), acquired control of BTP and Brasil Telecom S.A. This acquisition gave TMAR a 61.2% share of the voting capital of BTP. Notice of the acquisition was provided in a "Material Fact" statement by both companies on the same day. The notice can be found in full at the end of this note.

The notice of the Contract for Sale and Purchase of Shares of BTP (the "Contract"), signed April 25, 2008, was given through a "Material Fact" statement released by the companies related to the event on the same day, and at the same time was published new Relevant Facts relating to events or facts inherent in their respective Contract. All of the Material Facts are available for consultation at the site www.brasiltelecom.com.br/ri.

The change in control of Brasil Telecom to TMAR took place through the acquisition of 100% of the shares of Invitel S.A., which in turn holds 99.9% of the shares of the Company.

The acquisition of control of Brasil Telecom by TMAR was done in accordance with the Prior Consent of ANATEL granted in Act 7.828, issued December 19, 2008 in which the Management Council gave consent to the subsequent corporate acts regarding the incorporation of the companies or the incorporation of the shares of the corporations Invitel S.A., Solpart Participações S.A. and Brasil Telecom Participações S.A by Telemar Norte Leste S.A.

The change in control of BTP, and consequently of Brasil Telecom S.A., has implications for the following questions related to Brasil Telecom S.A:

a) Stock Option Scheme

The programs awarding the purchase share options linked to the plan approved on November 6, 2007 (note 7.b) contain clauses that anticipate the early expiration of options, in the case of change of shareholder control, directly or indirectly of Brasil Telecom S.A. With the effective change in control, on January 8, 2009, the options for shares in the programs mentioned were completely exercised. Program 1, totaling 2,817,324 purchase options, was liquidated at a total value of R$17,855. Program 2, with reference to the grant of July 1, 2008 containing 701,601 purchase options, was liquidated at a total value of R$4,446.

The 646,585 purchase options in Program 2, with reference to the grant realized on July 1, 2007, were liquidated by the: (i) delivery of preferential shares maintained in the treasury by Brasil Telecom S.A. at the price for the period of R$2,386, and a cost value of R$2,979; and (ii) the delivery of common and preferred shares of BTP, however with part of the obligations included of Brasil Telecom S.A. at a price for the period of R$13,733, and a market value of R$17,108, to which the sum of R$130 was added.

b) Loans and Financing

Contractual obligations with creditors for financing, relating to the financial instruments signed by Brasil Telecom S.A. with the Brazilian Development Bank , and the swaps with Citibank, contain clauses that anticipate the early expiration of these obligations in the case of change in the shareholder control of Brasil Telecom S.A. Upon the obtaining of consent — waivers — by the creditors, the respective contract amendments were made with the expiration dates originally contracted remaining in effect.

c) Debentures

Because of the transfer of shareholder control of BTP and Brasil Telecom S.A. to TMAR (through its indirect subsidiary Copart 1), under the terms of the deliberations of the General Meeting of Debenture Holders for the 5th Issue of Brasil Telecom S.A. ("AGD", "Issue" and "Issuer"), held on December 17, 2008 and the Meeting of the Board of Directors of Brasil Telecom S.A. held on January 26, 2009, the issuer announced to the debenture holders on January 28, 2009 ("Notice to Debenture Holders"), that discussed the alteration of the remuneration of the debentures, from "104.0% of the DI rate" to "the DI rate capitalized at a spread of 3.5% per year" and the acquiring of the debentures from the current debenture holders present.

The debenture holders had a period of five working days, ending February 4, 2009, to indicate their intention of redemption of their debentures; however, no requests of this type were made.

Material Information

The transcript of the material information release, issued after the closing date for the period, regarding the change of control of the Company and BTP, is shown below:

Material Information release of January 8, 2009

" MATERIAL INFORMATION

In compliance with the provisions of CVM Instruction nº 358/02, and following the Material Information release and Public Announcements by Tele Norte Leste Participações S.A. ("**TNL**") and Telemar Norte Leste S.A. ("**TMAR**") on April 25, 2008, November 21, 2008, December 19, 2008, and December 22, 2008, we wish to inform our shareholders, the Brazilian Securities Commission, and the market in general that, on this date, in compliance with the Share Sales Contract, signed on April 25, 2008 (the **Contract**), TMAR, through its indirect subsidiary Copart 1 Participações S.A. ("**Copart 1**"), acquired, on this date, shareholder control of Brasil Telecom Participações S.A. ("**BrT Part**") and of Brasil Telecom S.A. ("**BrT**").

I — THE ACQUISITION:

Because of the above-mentioned acquisition, TMAR, on this date, became the holder, indirectly, of 81,992,986 common shares issued by BrT Part, representing 61.2% of the voting capital of BrT Part, through the total payment of R$5,371,098,527,04 (five billion, three hundred and seventy one million, ninety eight thousand, five hundred and twenty seven *reais* and four centavos).

The amount paid is equivalent to (i) the price agreed to in the Sales Contract, of R$5,863,495,791.40 (five billion, eight hundred and sixty three million, four hundred and ninety five thousand, seven hundred and ninety one *reais* and forty centavos), (ii) corrected monetarily according to the variations in the average daily rate of the Interbank Certificate of Deposit (CDI), (iii) less the net debt of Invitel S.A. ("Invitel") (R$998,053,465,69 — nine hundred and ninety eight million, fifty three thousand, four hundred and sixty five *reais* and sixty nine centavos), and (iv) adjusted for the events declared between January 1, 2008 and the Closing Date.

II — OBLIGATORY PUBLIC OFFERINGS — ART. 254-A

Within a period of 30 days, counting from this date, TMAR, directly or through its wholly-owned subsidiary, will submit to the CVM, for registration, under the terms of CVM Instruction nº 361/02, the requirements for the Registration of a Public Offering For the Acquisition of Shares with voting rights belonging to minority shareholders of BrT Part. and of BrT, in order to assure them a minimum price equal to 80% of the price per share paid to the controlling bloc, according to a condition in article 254-A of Law 6,404/76, ("Obligatory OPAs"), minus eventual dividends, interest on capital or reduction in capital that may be decided on prior to the liquidation of the Public Offering.

The realization of the public offering depends upon prior registration with the CVM, and a subsequent notice in the press, giving 30 days advance notice.

III — CORPORATE RESTRUCTURING:

With the conclusion of the required OPAs, the Company intends to realize, in order to simplify the corporate structure, a corporate reorganization of the companies involved in the operation ("Corporate Restructuring"), such that after the required OPA the remaining shareholders of BrT Part. and BrT will receive shares of TMAR to replace the shares that they hold, considerably increasing the liquidity of their shares on the Stock Exchange to the benefit of the shareholders of the corporations involved, under the terms and conditions already published in a Material Information release on April 25, 2008.

IV — ADDITIONAL INFORMATION:

(i) the operations indicated above are subject, when applicable, to approval, presentation or registration with various regulatory agencies and will be submitted to them or communicated, according to what is necessary and required, especially to the National Telecommunications Agency — ANATEL, the Brazilian Securities Commission — CVM, the Administrative Council for Economic Protection — CADE; the São Paulo Stock Exchange — BOVESPA; the U.S. Securities and Exchange Commission — SEC; and the New York Stock Exchange — NYSE.

(ii) Additionally, as already stated in the Material Information release of April 25, 2008: (a) TMAR intends to create one or more American Depository Receipt ("ADR") programs for its shares, in order to make it possible for the current holders of BrT and BrT Part. ADRs to trade these on the NYSE; (b) TMAR intends to request the registration of these ADRs on the NYSE; and (c) the Corporate Restructuring will be submitted to certain creditors without, however, being conditional on their approval.

The acquisition of BrT and its subsequent integration into the operations of TMAR will create a telecommunications company whose shareholder control is 100% domestic, present throughout Brazilian territory and with the capacity — managerial, operational and financial — to expand its operations domestically and internationally.

Rio de Janeiro, January 8, 2009

TELE NORTE LESTE PARTICIPAÇÕES S.A.
TELEMAR NORTE LESTE S.A.
COARI PARTICIPAÇÕES S.A.
BRASIL TELECOM PARTICIPAÇÕES S.A.
BRASIL TELECOM S.A.
INVITEL S.A.
Alex Waldemar Zornig
Director of Investor Relations"

41. AUTHORIZATION FOR THE PREPARATION OF FINANCIAL STATEMENTS

At a Meeting of the Board of Directors of the Company held on March 27, 2009, the preparation of the present financial statements, which include subsequent events occurring after the date of the closing of the fiscal year 2008, were approved for distribution.

42. EXPLANATION ADDED TO THE TRANSLATION INTO THE ENGLISH VERSION

The accompanying financial statements were translated into English from the original Portuguese version prepared for local purposes. Certain accounting practices applied by the Company that conform to those accounting practices adopted in Brazil may not conform to the generally accepted accounting principles in the countries where these financial statements may be used.

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ANNEX A

SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING PRACTICES ADOPTED IN BRAZIL AND U.S. GAAP — TELEMAR

We have presented our financial statements based on accounting principles established under accounting practices adopted in Brazil. The significant differences related to our accounting policies under accounting practices adopted in Brazil, which differs significantly from U.S. GAAP, are summarized below.

(a) Subsidies on post-paid mobile handsets

Under accounting practices adopted in Brazil, we defer and amortize these subsidies over a period of 12 months since this is the period agreed upon in the contract with the customer.

For U.S. GAAP purposes, these amounts would be presented as cost of sales in the period in which they are incurred.

(b) Derivatives

Under accounting practices adopted in Brazil, until December 31, 2007, foreign currency derivatives were recorded by comparing contractual exchange rates to exchange rates at period end. Gains and losses on swap agreements were recorded on a monthly basis, reducing or increasing foreign currency indebtedness. Gains on options and forward contracts were recorded under interest income when the contracts expired while losses were recorded currently against income. Law No. 11,638/07 requires that the derivatives be recorded at fair value. See "Presentation of Financial and Other Information — Financial statements — Telemar financial statements" for further information on Law 11,638/07.

Under U.S. GAAP, all derivatives are recorded at fair value on the balance sheet and all variations in fair value are recorded in the statement of operations.

(c) Business combinations

Accounting practices adopted in Brazil do not specifically address business combinations, and the purchase method is applied based primarily on book values. If goodwill or negative goodwill is based on future profitability expectations, its amortization is recognized in income over a period consistent with the period in which the expectation is to incur gains or losses. If goodwill or negative goodwill is based on the fair value of property, plant and equipment, the amortization is recognized in income over a period consistent with the assets' useful lives.

Under U.S. GAAP the method of accounting used in business combination transactions is the purchase method, which requires that acquirers reasonably determine the fair value of the identifiable assets and liabilities of acquired companies, individually, in order to determine the goodwill paid in the purchase.

Goodwill represents the excess of the acquisition cost of businesses over the fair value of the identifiable tangible and intangible net assets acquired. The cost of acquired entities at the date of the acquisition is allocated to identifiable assets and the excess of the total purchase price over the amounts assigned to identifiable assets is recorded as goodwill. Effective January 1, 2002, Statement of Financial Accounting Standard ("SFAS") No. 142 "Goodwill and Other Intangible Assets" changed the accounting for goodwill and other indefinite-lived intangible assets from an amortization method to an impairment-only approach.

(d) Fistel fee upon activation of new clients

Fistel is a telecommunications inspection fund under the supervision of ANATEL. Under accounting practices adopted in Brazil, since Fistel fees are mandatory, we consider them to be subscriber acquisition costs

and therefore record them as pre-paid expenses and amortize them over the average churn (retention) period to match revenues and costs.

For U.S. GAAP purposes, these amounts would be presented as cost of sales in the period in which they were incurred.

(e) Deferred charges from pre-operating period

Under accounting practices adopted in Brazil, expenses incurred during the pre-operating period are deferred until the entity is fully operational, at which time the expenses are amortized to income over the time of the expected future benefit of the new subsidiary.

Under U.S. GAAP, in accordance with Statement of Position 98-5 "Reporting on the Costs of Start-Up Activities," costs incurred during the start-up and organization of a development stage entity are to be expensed as incurred.

(f) Pension plans and other post-retirement benefits

Under accounting practices adopted in Brazil, amounts due to a multi-sponsored pension plan are treated on an accrual basis when obligations fall due. In December 1999, we split-up the Sistel multi-sponsored defined benefit pension plan and formed a single-sponsored defined benefit plan. However, we and the co-sponsors of the multi-employer pension plan agreed to jointly maintain a plan offering the current levels of benefits under Sistel for those employees who had retired before January 30, 2000. On September 21, 2000, we created a new defined contribution plan, which replaced the defined benefit plan by migrating active employees to the new plan. By the end of March 2001, the deadline for voluntary migrations, 96.0% of the active participants of the previous plan had migrated to the new defined contribution plan and the accrual of future benefits under the defined benefit plan relating to the post-retirement health care plan for these participants was eliminated. Under accounting practices adopted in Brazil, there is no requirement to recognize a gain or loss caused by a curtailment of a benefit plan.

For U.S. GAAP purposes, the funded status of pension plans is presented as a pre-paid asset according to Financial Accounting Standard ("FAS") 87.

Accounting practices adopted in Brazil and U.S. GAAP do not require the sponsor to record actuarial calculations for multi-sponsored pension plans such as the PBS-A plan, and contributions to such plans are recorded on an accrual basis.

(g) Revenue recognition

Under accounting practices adopted in Brazil, installation revenues are recognized in the period in which the installation services are provided while related costs of services are recognized when incurred.

We recognize fixed-line public telephone pre-paid card revenues when the cards are sold while costs are recognized when the cards are used for purposes of accounting practices adopted in Brazil.

In December 1999, the SEC issued Staff Accounting Bulletin ("SAB") No. 101, which has been superseded by SAB No. 104 — Revenue Recognition, which provides guidance on revenue recognition. SAB No. 101 requires the deferral of certain non-recurring fees, such as service activation, installation fees and associated incremental costs that are recognized over the expected term of the customer relationship.

Under U.S. GAAP, fixed-line public telephone pre-paid calling card revenues and rollover related to unused minutes would be deferred and recognized in income, based on customer usage.

(h) Capitalized interest and its depreciation

As applied to public companies in the Brazilian telecommunications industry, interest attributable to construction-in-progress was calculated at a rate of 12% per year of the balance of construction-in-progress. The part that relates to interest on third-party loans is credited to interest expense based on actual interest costs with the balance relating to capital being credited to capital reserves up to December 31, 1999. As of January 1, 2000, in compliance with a regulation issued by the CVM (Instruction No. 193), we changed our interest capitalization policy. Similar to U.S. GAAP, under this policy, interest incurred on loans is capitalized to the extent that loans do not exceed construction-in-progress, except that under accounting practices adopted in Brazil the amount of capitalized interest includes: (i) monetary gains and losses associated with loans and financing in foreign currency and (ii) charges resulting from currency derivatives. The capitalization excludes financial charges on loans not associated with specific construction-in-progress. Similar to U.S. GAAP, interest is capitalized to individual assets and amortized over their useful lives.

Under U.S. GAAP, in accordance with the provisions of SFAS No. 34, interest incurred on loans is capitalized to the extent that loans do not exceed construction-in-progress, added to the individual assets and amortized over their useful lives. Under U.S. GAAP, the amount of interest capitalized excludes: (i) the monetary gains and losses associated with the loans and financing in foreign currency and (ii) charges resulting from currency derivatives. However, interest on loans that are not directly associated with construction-in-progress can be capitalized.

(i) Capital lease

Under accounting practices adopted in Brazil, up to December 31, 2007, there was no requirement to capitalize assets acquired through capital leases and to depreciate them over the respective economic life. All lease contracts were recorded as operational leases, with charges made to income on a monthly basis during the contractual period. Law No. 11,638/07, requires that finance leases be capitalized. See “Presentation of Financial and Other Information — Financial statements — Telemar financial statements” for further information on Law 11,638/07.

Under U.S. GAAP, material lease contracts which meet one of the following four criteria according to SFAS No. 13 “Accounting for Leases” are to be capitalized as property, plant and equipment and depreciated over the economic life of the asset: (i) the lease contract provides for automatic transfer of title at the end of the lease term; (ii) the lease contract includes a bargain purchase option; (iii) the lease term equals or exceeds 75 percent of the remaining estimated economic life of the asset; and (iv) the present value of the minimum lease payments equals or exceeds 90 percent of the fair value of the leased asset.

(j) Rights of use

We have a number of indefeasible right-of-use contracts (IRU), mainly through our subsidiary Oi.

Under accounting practices adopted in Brazil, only the monthly payments are accounted for and recorded as expenses in the statement of operations.

Under U.S. GAAP, the total amount has to be recorded as long-term assets and the total amount of future monthly payments, as current and long-term liabilities.

(k) Income tax and social contribution

Income taxes in Brazil are calculated and paid on a legal entity basis. There are no consolidated tax returns. Accordingly, we only recognize deferred tax assets, related to tax loss carry-forwards and temporary differences, if it is more likely than not that they will be realized on a legal entity basis.

Under accounting practices adopted in Brazil, the amount recorded is the net amount, which must be supported by a business plan, approved by our board of directors and fiscal council. As required by CVM Instruction No. 273/98 and CVM Instruction No. 371/02, we disclose in our local GAAP financial statements the amounts expected to be recovered for the next ten years.

Under U.S. GAAP, only enacted tax rates may be used to calculate deferred taxes. Tax rates for future periods, which have been established by provisional measures, are not considered to have been enacted and are ignored. The current, combined tax rate of 34% was enacted in 2003.

Under U.S. GAAP, a deferred tax liability or asset shall be recognized for all temporary differences and operating loss and tax credit carry-forwards in accordance with the provisions of SFAS No. 109 "Accounting for Income Taxes." In addition, deferred tax assets shall be reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not (a likelihood of more than 50 percent) that some portion or all of the deferred tax assets will not be realized.

Under accounting practices adopted in Brazil, fiscal incentives are recorded directly in stockholders' equity as a special capital reserve. Under U.S. GAAP, these benefits are recorded as income for the period in the line item "income tax and social contribution".

(l) Provision for dividends proposed but not yet declared

Under accounting practices adopted in Brazil, at each balance sheet date, the board of directors is required to propose a dividend distribution from earnings and accrue for this in the financial statements. Under accounting practices adopted in Brazil, companies are permitted to distribute or capitalize an amount of interest on stockholders' equity, subject to certain limitations and calculated based on a government interest rate.

Under U.S. GAAP, since dividends proposed may be ratified or modified at the annual shareholders' meeting, such dividends are not considered declared at the balance sheet date and therefore accrued only up to the minimum annual compulsory dividends.

(m) Earnings per share

Under accounting practices adopted in Brazil, net income per share is calculated using the number of shares outstanding at the balance sheet date. Information is disclosed per share.

Under U.S. GAAP, since the preferred and common shareholders have different voting and liquidation rights, basic and diluted earnings per share would be calculated using the "two-class" method, pursuant to SFAS No. 128 "Earnings per share".

(n) Segment reporting

Under accounting practices adopted in Brazil, no separate segment reporting is required. However, we have been disclosing separate segment reporting under accounting practices adopted in Brazil. The segment reporting included in accounting practices adopted in Brazil uses the presentation basis of U.S. GAAP, which is based on SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information."

(o) Statement of cash flows

Under accounting practices adopted in Brazil, up to December 31, 2007, a statement of changes in financial position that reflects the source and application of funds in terms of movement in working capital is required to be presented. The statement of cash flows could be presented as supplemental information up to December 31, 2007. As from January 1, 2008, a statement of cash flows is required to be presented pursuant to Law No. 11,638/07. See "Presentation of Financial and Other Information — Financial statements — Telemar financial statements" for further information on Law 11,638/07.

Under U.S. GAAP, presentation of a statement of cash flows describing the cash flows provided by or used in operating, investing and financing activities is required.

Under U.S. GAAP, cash equivalents are defined as short-term, highly liquid investments, which are both readily convertible to known amounts of cash and have original maturities of 90 days or less. We hold certain highly liquid, low risk financial investments, comprised principally of highly rated government bonds, which are classified as cash equivalents under accounting practices adopted in Brazil. Additionally, under accounting practices adopted in Brazil, we have reported interest payments as a financing activity; however, under U.S. GAAP, these payments are considered to be part of a company's operating activity.

Under U.S. GAAP, judicial deposits and blockings are treated as an investing activity whereas under accounting practices adopted in Brazil this amount is presented under operating activities.

For U.S. GAAP purposes, government securities are classified as held-to-maturity securities and the other investments not considered to be cash equivalents under U.S. GAAP are classified as trading securities. Unrealized gains or losses on trading securities are recognized in income. Although these securities are not considered cash equivalents under U.S. GAAP, there is no difference in measurement or impact to the statements of operations compared to accounting practices adopted in Brazil. However, for purposes of statements of cash flows prepared under U.S. GAAP, sales or maturities of held-to-maturity securities are presented in cash flows from investing activities, and purchases, sales or maturities of trading securities are presented in cash flows from operating activities.

(p) Classification of income statement line items

Under accounting practices adopted in Brazil, the classification of certain income and expense items would be presented differently from U.S. GAAP. The major reclassifications are summarized as follows:

- Interest income and interest expense, together with other financial charges are presented within operating income in the consolidated statement of operations in accordance with accounting practices adopted in Brazil. Such amounts would be classified separately below operating income and expenses in accordance with U.S. GAAP.
- Non-recurring gains or losses are presented as a separate line item under accounting practices adopted in Brazil, but would be reclassified to "other operating expenses, net" for U.S. GAAP presentation purposes.
- Non-operating income (expense) is presented as a separate line item after operating income under accounting practices adopted in Brazil, but would be reclassified to "other operating expenses, net" for U.S. GAAP presentation purposes, and thus included in "operating income" for U.S. GAAP purposes because none of the components of non-operating income (expense) would be classified as extraordinary items for U.S. GAAP purposes.
- Equity accounting adjustments presented in "other operating expenses, net" under accounting practices adopted in Brazil would be reclassified as a separate line item, "equity in earnings of unconsolidated companies," for U.S. GAAP presentation purposes.
- The item "bonuses and discounts" would be reclassified from "other operating income" to "costs of handsets and accessories" for U.S. GAAP purposes.
- Inventory write-down due to obsolescence relating to handsets would be reclassified from "other operating expenses" to "costs of handsets and accessories."

(q) Stock options

Under accounting practices adopted in Brazil, up to December 31, 2007, there was no requirement to recognize stock option compensation expense. As from January 1, 2008, stock option compensation expense must be recorded.

Under U.S. GAAP, SFAS No. 123R, “Share-Based Payment” and SFAS No. 123(R)-2 “Practical accommodation to the application of grant date as defined in FASB Statement No. 123(R)” require companies to recognize in the income statement the grant-date fair value of stock options and other equity-based compensation issued to employees.

(r) Fiscal incentives

Under accounting practices adopted in Brazil, up to December 31, 2007, the fiscal incentives for purposes of accounting practices adopted in Brazil were recorded in the equity accounts. As from January 1, 2008, Law No. 11,683 requires the fiscal incentives to be recorded in the income statement, which is the position adopted for U.S. GAAP purposes.

(s) Financial investments

Under accounting practices adopted in Brazil, some equity investments can be presented at cost if considered to be permanent investments and such investments do not represent participation in voting shares that represent at least 20% of the total of the voting shares and if the company does not have significant influence over the investee.

Under U.S. GAAP, the financial investments would be classified as held-to-maturity, trading or available-for-sale based on SFAS No. 115 and would be measured at fair value for the ones classified as trading or available-for-sale. U.S. GAAP does not have a measurement based on the cost value for financial investments.

ANNEX B

SUMMARY OF SIGNIFICANT DIFFERENCES BETWEEN ACCOUNTING PRACTICES ADOPTED IN BRAZIL AND U.S. GAAP — BRASIL TELECOM PARTICIPAÇÕES

BrT Part's financial statements have been presented based on accounting principles established under accounting practices adopted in Brazil. The significant differences related to BrT Part's accounting policies under accounting practices adopted in Brazil, which differ significantly from U.S. GAAP, are summarized below.

(a) Capitalized interest and its depreciation

As applied to public companies in the Brazilian telecommunications industry, interest attributable to construction-in-progress was calculated, up to December 31, 1998, at a rate of 12% per year of the balance of construction-in-progress. The part that relates to interest on third-party loans is credited to interest expense based on actual interest costs with the balance relating to capital being credited to capital reserves. As of January 1, 1999, accounting practices adopted in Brazil required capitalization of interest on loans specifically related to financing of construction-in-progress, and interest on self-financing was no longer allowed.

Under U.S. GAAP, in accordance with the provisions of Statement of Financial Accounting Standards ("SFAS") No. 34, interest incurred on loans is capitalized to the extent that loans do not exceed construction-in-progress, added to the individual assets and amortized over their useful lives. Under U.S. GAAP, the amount of interest capitalized excludes: (i) the monetary gains and losses associated with the loans and financing in foreign currency and (ii) charges resulting from currency derivatives. However, interest on loans that are not directly associated with construction-in-progress can be capitalized.

(b) Dividends and interest on shareholders' equity

Although proposed dividends require approval at a shareholders' meeting, under accounting practices adopted in Brazil, dividends are accounted for in the consolidated financial statements prior to approval at a shareholders' meeting. Distributions characterized as interest on shareholders' equity as well as minimum compulsory dividends are accrued for under both accounting practices adopted in Brazil and U.S. GAAP. Any excess of proposed dividends over either the minimum compulsory dividend or distributions characterized as interest on shareholders' equity which are subject to approval at the annual shareholders' meeting would not be accounted for under U.S. GAAP.

(c) Pensions and other post-retirement benefits

As of December 31, 2006, BrT Part adopted SFAS No. 158, Employers' Accounting for Defined Benefit Pension and Other Post-retirement Plans. This statement requires an employer to recognize the over- or under-funded status of a defined benefit postretirement plan as either an asset or liability in its statement of financial position and to recognize any changes in that funded status during the year in which such changes occur through other income.

For U.S. GAAP purposes, unrecognized net gains (losses) are recognized following the "corridor" approach, *i.e.*, the portion which exceeds 10% of the greater of the projected benefit obligation or the market-related value of plan assets is recognized, and the unrecognized prior service cost or benefit and unrecognized transition obligation are deferred according to an actuarial valuation.

Although the "corridor" approach is permitted by accounting practices adopted in Brazil, it was not adopted by BrT Part. BrT Part recognizes an asset where there is express authorization to offset against a future employer contribution. As such, under the Complementary Law No. 109, only the portion that was not allocated to the special reserves of participants, beneficiaries and contingencies with an over-funded status would be entitled to be recognized under accounting practices adopted in Brazil.

(d) Earnings (losses) per share

Under accounting practices adopted in Brazil, net income (loss) per share is calculated based on the number of shares outstanding at the balance sheet date.

As determined by SFAS No. 128, "Earnings per Share", because the preferred and common stockholders have different dividend, voting and liquidation rights, basic and diluted earnings per share, which are calculated based on the weighted average number of outstanding shares as of year end, would be calculated using the "two-class" method. The "two-class" method is an earnings allocation formula that determines earnings per share for preferred and common stock according to the dividends to be paid as required by BrT Part's by-laws.

(e) Income taxes

Under accounting practices adopted in Brazil, the amount recorded is the net amount, which must be supported by a business plan, approved by BrT's board of directors and fiscal council. As required by CVM Instruction No. 273/98 and CVM Instruction No. 371/02, BrT discloses in its local GAAP financial statements the amounts expected to be recovered for the next ten years.

Under U.S. GAAP, only enacted tax rates may be used to calculated deferred taxes. Tax rates for future periods, which have been established by provisional measures, are not considered to have been enacted and are ignored. The current, combined tax rate of 34% was enacted in 2003.

Under U.S. GAAP, a deferred tax liability or asset shall be recognized for all temporary differences and operating loss and tax credit carry-forwards in accordance with the provisions of SFAS No. 109 "Accounting for Income Taxes." In addition, deferred tax assets shall be reduced by a valuation allowance if, based on the weight of available evidence, it is more likely than not (a likelihood of more than 50 percent) that some portion or all of the deferred tax assets will not be realized.

(f) Interest expense, interest income and accrued interest

Accounting practices adopted in Brazil require interest expense and income, as well as other financial charges, to be shown as operating income (expense) or accrued interest as a part of loans and financing as a liability on the balance sheet.

Under U.S. GAAP, interest expense and income, as well as other financial charges, are shown after operating income (expense) in statements of operations and accrued interest is included in accounts payable on the balance sheet.

(g) Permanent assets

Accounting practices adopted in Brazil, up to December 31, 2007, included a class of assets called "permanent assets." This was the collective name for all assets with respect to which indexation adjustments were calculated in the corporate and fiscal accounts of Brazilian companies.

Under U.S. GAAP, the assets under this classification would be non-current assets and property, plant and equipment. Additionally, gains and losses on the disposal of permanent assets were classified as non-operating expense for accounting practices adopted in Brazil up to December 31, 2007. Under U.S. GAAP, such gains and losses would affect operating income (expense).

(h) Funds for capitalization

Under accounting practices adopted in Brazil, up to December 31, 2007, resources for capital increases and expansion plan contributions received were included on the balance sheet as non-current liabilities until the subscribers paid for their telephone connection in full and a general meeting of shareholders approved the capital increases.

As of January 1, 1996, indexation of the expansion plan contributions were no longer applied and, for contracts signed from that date, Telebrás (BrT Part's former controlling shareholder) was allowed an option of using a value per share equal to the market value when this value was higher than book value.

For U.S. GAAP purposes, a portion of the resources for capital increase and expansion plan contributions are allocated to shareholders' equity based on the market value of the shares to be issued to subscribers. The remainder of the resources for capital increase and expansion plan contributions are classified as a deferred credit and amortized to reduce depreciation expenses from the completion of the related construction-in-progress.

Under accounting practices adopted in Brazil, those amounts which principally comprise the excess of the value of property, plant and equipment incorporated into the assets over the corresponding credits for expansion plan contributions received are recorded as a credit to other capital reserves. For U.S. GAAP purposes, the credit to capital reserves is classified as deferred credit and amortized to reduce depreciation expense.

(i) Valuation of long-lived assets

Accounting practices adopted in Brazil do not require a "two step" approach to determine potential asset impairment; rather, they require measurement of recoverability for long-lived assets on a recurring basis or when events or changes in circumstances indicate that the carrying value of an asset or group of assets may not be recoverable.

SFAS No. 144 provides a single accounting model for the disposal of long-lived assets. SFAS No. 144 also changes the criteria for classifying an asset as held for sale and broadens the scope for businesses to be disposed of that qualify for reporting as discontinued operations and changes the timing of recognizing any losses on such operations.

(j) Stock options

Under accounting practices adopted in Brazil, up to December 31, 2007, there was no requirement to recognize stock option compensation expenses. As from January 1, 2008, stock option compensation expense must be recorded, and stock option plans must be recognized based on the fair value of the financial instruments granted.

Under U.S. GAAP, SFAS No. 123R, "Share-Based Payment" and SFAS No. 123(R)-2 "Practical accommodation to the application of grant date as defined in FASB Statement No. 123(R)" require companies to recognize the grant-date fair value of stock options and other equity-based compensation issued to employee in the income statement.

(k) Revenue recognition

Under accounting practices adopted in Brazil, revenues from activation and installation fees are recognized in the period in which installation services are provided. Under accounting practices adopted in Brazil, revenues from public telephone phone cards are recognized when the cards are sold.

Under U.S. GAAP, revenues generated from sales of public telephone pre-paid cards are recognized as such services are provided, and deferred revenues at each consolidated balance sheet date are determined based upon estimates of sold but unused public telephone pre-paid card credits outstanding as of each consolidated balance sheet date.

(l) Goodwill & other intangible assets and business combination

Accounting practices adopted in Brazil do not specifically address business combinations, and the purchase method is applied based primarily on book value. Up to December 31, 2008, if goodwill or negative goodwill

was based on future profitability expectations, its amortization was recognized as income (expense) over a period consistent with the expected period during which gains or losses are incurred. If goodwill or negative goodwill was based on the fair value of property, plant and equipment, the amortization was recognized as income (expense) over a period consistent with the assets' useful lives. As from January 1, 2009, goodwill will not be amortized; rather, it will be tested annually for impairment.

Under U.S. GAAP, the method of accounting used in business combination transactions is the purchase method, which requires that acquirers reasonably determine the fair value of the identifiable assets and liabilities of each acquired companies in order to determine the goodwill paid in the purchase.

Goodwill represents the excess of the acquisition cost of a business over the fair value of the acquired identifiable tangible and intangible net assets. The cost of acquired entities at the date of the acquisition is allocated to identifiable assets and the excess of the total purchase price over the amounts assigned to identifiable assets is recorded as goodwill. Effective January 1, 2002, SFAS No. 142 "Goodwill and Other Intangible Assets" changed the accounting for goodwill and other indefinite-lived intangible assets from an amortization method to an impairment-only approach.

(m) Derivatives

Under accounting practices adopted in Brazil, until December 31, 2007, foreign currency derivatives were recorded by comparing contractual exchange rates to exchange rates at period end. Gains and losses on swap agreements were recorded on a monthly basis, reducing or increasing foreign currency indebtedness. Gains on options and forward contracts were recorded under interest income when the contracts expired while losses were recorded currently against income. Law No. 11,638/07 requires that the derivatives be recorded at fair value. See "Presentation of Financial and Other Information — Financial statements — Telemar financial statements" for further information on Law 11,638/07.

Under U.S. GAAP, all derivatives are recorded at fair value on the balance sheet and all variations in fair value are recorded in the statement of operations.

Under accounting practices adopted in Brazil, until December 31, 2007, swap contracts were recorded on the balance sheet based on the net amount to be received or paid. From January 1, 2008, all derivative financial instruments are recorded on the balance sheet at fair value.

(n) Capital leases

According to accounting practices adopted in Brazil, up to December 31, 2007, there was no requirement to capitalize assets acquired through capital leases and to depreciate them over their respective economic life. All lease contracts were recorded as operational leases, with charges made to income on a monthly basis during the contractual period. Law No. 11,638/07 requires that finance leases now be capitalized.

Under U.S. GAAP, material lease contracts which meet one of the following four criteria according to SFAS No. 13 "Accounting for Leases" are to be capitalized as property, plant and equipment and depreciated over the economic life of the asset: (i) the lease contract provides for automatic transfer of title at the end of the lease term; (ii) the lease contract includes a bargain purchase option; (iii) the lease term equals or exceeds 75 percent of the remaining estimated economic life of the asset; and (iv) the present value of the minimum lease payments equals or exceeds 90 percent of the fair value of the leased asset.

(o) Pre-operating costs

According to accounting practices adopted in Brazil, up to December 31, 2007, all expenses registered during the pre-operating stage of BrT Part's subsidiaries, BrT Celular and BrT Call Center, were deferred until

the subsidiaries start their operations and the deferred expenses were amortized over the period in which the subsidiaries expected to benefit from these expenses. In 2008, the remaining amount of the pre-operating costs was reversed through shareholders' equity.

Under U.S. GAAP, expenses registered during the start-up stage and organizations of a development stage entity are expensed as incurred, according to Statement of Position 98-5 "Reporting on the Costs of Start-up activities".

(p) Asset retirement obligations

Pursuant to accounting practices adopted in Brazil, asset retirement obligations are not recorded.

Under U.S. GAAP, in accordance with SFAS No. 143 "Accounting for Asset Retirement Obligations," a Company is required to record the fair value of an asset retirement obligation as a liability in the period for which it incurs a legal obligation associated with the retirement of tangible long-lived assets that result from their acquisition, construction, development, and/or normal use of the assets. A Company is also required to record any corresponding asset that is depreciated over the life of the related asset. Subsequent to the initial measurement of the asset retirement obligation, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation.

(q) Comprehensive income

As from January 1, 2008, pursuant to Law No. 11,638/07 charges or credits (comprehensive income) should be accounted for directly to equity if they are not the result of transactions with shareholders.

Under U.S. GAAP, SFAS No. 130 "Reporting Comprehensive Income" requires the disclosure of comprehensive income. Comprehensive income is comprised of net income and "Other comprehensive income," which includes charges or credits directly to equity that are not the result of transactions with shareholders.

(r) Cash and Cash Equivalents

Under U.S. GAAP, cash equivalents are defined as short-term, highly liquid investments, which are both readily convertible to known amounts of cash and original maturities of 90 days or less. Although the investments have a high level of liquidity and present insignificant risks of changes in value, since these investments have original maturities of over 90 days, such investments do not qualify as cash equivalents and are classified as trading securities under U.S. GAAP. BrT Part holds certain highly liquid, low risk financial investments, comprised principally of high quality government debt, which were classified as cash equivalents under accounting practices adopted in Brazil up to December 31, 2007.

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PRINCIPAL EXECUTIVE OFFICES

Telemar Norte Leste S.A.
Rua Humberto de Campos, 425, 8th Floor
Leblon, Rio de Janeiro, RJ 22430-190
Brazil

TRUSTEE, REGISTRAR, PAYING AGENT AND TRANSFER AGENT

The Bank of New York Mellon
101 Barclay Street, Floor 4E
New York, New York 10286
United States

PRINCIPAL PAYING AGENT

The Bank of New York Mellon Trust (Japan) Ltd.
Fukoku Seimei Building
2-2-2 Uchisaiwai-cho
Chiyoda-ku, Tokyo 100-0011
Japan

LUXEMBOURG PAYING AGENT, TRANSFER AGENT AND LISTING AGENT

The Bank of New York (Luxembourg) S.A.
Aerogolf Center – 1A,
Hoehenhof L-1736 Senningerberg
Luxembourg

LEGAL ADVISORS

To Telemar Norte Leste S.A.
as to U.S. Law
Mayer Brown LLP
Rua do Rócio, 2nd Floor
Vila Olímpia
São Paulo - SP 04552-000
Brazil

To Telemar Norte Leste S.A.
as to Brazilian Law
Mattos Filho, Veiga Filho, Marrey Jr. e Quiroga Advogados
Av. Presidente Wilson, 231, Suites 403/404
Rio de Janeiro - RJ 20030-021
Brazil

To the Initial Purchasers
as to U.S. Law
Milbank, Tweed, Hadley & McCloy LLP
One Chase Manhattan Plaza
New York, New York 10005-1413
USA

To the Initial Purchasers
as to Brazilian Law
Pinheiro Guimarães – Advogados
Av. Rio Branco 181, 27th Floor
Rio de Janeiro - RJ 20040-918
Brazil

INDEPENDENT ACCOUNTANTS TO TELEMAR NORTE LESTE S.A.

BDO Trevisan Auditores Independentes
Rua 7 de Setembro 71, 15th Floor
Centro, Rio de Janeiro - RJ 20050-005
Brazil

INDEPENDENT ACCOUNTANTS TO BRASIL TELECOM PARTICIPAÇÕES S.A.

Deloitte Touche Tohmatsu Auditores Independentes
Rua Alexandre Dumas, No. 1981
São Paolo - SP 04717-906
Brazil

INDEPENDENT ACCOUNTANTS TO INVITEL S.A.

Terco Grant Thornton Auditores Independentes
Rua do Ouvidor,
88 - 6th Floor
Centro-Rio de Janeiro
Brazil

