

# **Oi S.A. and Subsidiaries**

## **Financial Statements for the Years Ended December 31, 2012 and 2011 and Independent Auditor's Report**

**(A free translation of the original report in Portuguese, as filed  
with the Brazilian Securities and Exchange Commission (CVM), prepared in accordance with  
the accounting practices adopted in Brazil, rules of the CVM and the International Financial  
Reporting Standards - IFRS)**

(Convenience Translation into English from the Original Previously Issued in Portuguese)

## Oi S.A. and Subsidiaries

### Balance Sheets as at December 31, 2012 and 2011 (In thousands of Brazilian reais - R\$, unless otherwise stated)

	Notes	Company (BR GAAP)		Consolidated (BR GAAP/IFRS)		Notes	Company (BR GAAP)		Consolidated (BR GAAP/IFRS)	
		2012 Restated	2011	2012 Restated	2011		2012 Restated	2011		
<b>Assets</b>										
<b>Current assets</b>										
Cash and cash equivalents	9	1,043,984	4,354,317	4,413,042	6,004,506					
Cash investments	9	853,277	89,331	2,425,907	1,084,027					
Derivative financial instruments	20	381,866	7,186	640,229	7,186					
Trade receivables	10	1,756,800	1,705,213	7,018,497	2,010,487					
Inventories		13,741	4,246	385,165	12,671					
Current recoverable taxes	12	119,361	99,025	1,726,369	353,225					
Other taxes	13	561,669	563,901	1,557,177	783,382					
Judicial deposits	14	1,728,996	1,609,577	2,068,315	1,651,114					
Dividends and interest on capital	28	663,884	430,377							
Pension plan assets	26	8,653	50,149	9,311	50,149					
Other assets		236,984	207,601	900,774	288,826					
		7,369,215	9,120,923	21,144,786	12,245,573					
<b>Non-current assets</b>										
Due from related parties	11	1,501	6,703		2,217,682					
Cash investments	9	14,277	13,327	63,692	13,327					
Derivative financial instruments	20	246,164		348,870						
Deferred taxes recoverable	12	4,333,272	4,033,922	8,210,906	4,982,322					
Other taxes	13	243,987	148,754	738,019	178,636					
Available-for-sale financial asset				905,829						
Judicial deposits	14	5,998,197	4,847,762	9,722,731	4,955,025					
Pension plan assets	26	99,242	140,276	101,114	142,614					
Held-for-sale assets		24,508		94,522						
Other assets		38,366	23,420	318,500	41,848					
Investments	15	24,462,916	7,451,757	80,712	8,436					
Property, plant and equipment	16	4,723,563	4,203,318	23,110,061	5,793,711					
Intangible assets	17	284,970	264,398	4,237,152	1,084,857					
		40,470,963	21,133,637	47,932,108	19,418,458					
<b>Total assets</b>		<b>47,840,178</b>	<b>30,254,560</b>	<b>69,076,894</b>	<b>31,664,031</b>					
<b>Liabilities and equity</b>										
<b>Current liabilities</b>										
Payroll, related taxes and benefits		235,174	62,063	774,166	130,031					
Trade payables	18	1,567,710	1,543,703	4,658,849	1,840,552					
Borrowings and financing	19	1,877,195	1,025,753	3,113,621	1,143,537					
Derivative financial instruments	20	194,405	25,698	309,555	25,698					
Current taxes payable	12	66,539	4,100	1,065,754	179,194					
Other taxes	13	1,097,494	1,165,680	2,248,075	1,445,362					
Dividends and interest on capital	25	642,633	307,720	655,306	307,720					
Licenses and concessions payable	21	49,426		1,058,881	131,984					
Tax refinancing program	22	49,828	36,993	99,732	39,238					
Provisions	23	1,080,455	1,234,430	1,569,356	1,283,354					
Provisions for pension funds	26	103,666	75,599	103,666	77,745					
Other payables	24	334,831	1,780,340	1,439,462	2,014,762					
		7,299,356	7,262,079	17,096,423	8,619,177					
<b>Non-current liabilities</b>										
Borrowings and financing	19	24,554,280	7,795,040	30,232,468	6,961,674					
Derivative financial instruments	20	125,321		204,742						
Other taxes	13	497,670	413,723	2,238,571	502,766					
Licenses and concessions payable	21			1,099,116	544,497					
Tax refinancing program	22	492,830	382,138	985,367	407,190					
Provisions	23	2,981,618	3,059,609	4,851,273	3,131,537					
Provisions for pension funds	26	477,773	545,958	480,471	545,958					
Other payables	24	94,776	207,211	571,909	362,060					
		29,224,268	12,403,679	40,663,917	12,455,682					
<b>Equity attributable to controlling shareholders</b>	25									
Share capital		7,308,753	3,731,059	7,308,753	3,731,059					
Share issue costs		(56,609)		(56,609)						
Capital reserves		4,302,535	4,367,576	4,302,535	4,367,576					
Profit reserves		1,330,977	891,242	1,330,977	891,242					
Treasury shares		(2,104,524)	(149,642)	(2,104,524)	(149,642)					
Other comprehensive income		140,184		140,184						
Change in equity interest's percentage		3,916		3,916						
Proposed additional dividends		391,322	1,748,567	391,322	1,748,567					
		11,316,554	10,588,802	11,316,554	10,588,802					
Non-controlling interests					370					
Total equity		11,316,554	10,588,802	11,316,554	10,589,172					
<b>Total liabilities and equity</b>		<b>47,840,178</b>	<b>30,254,560</b>	<b>69,076,894</b>	<b>31,664,031</b>					

The accompanying notes are an integral part of these financial statements.

**Oi S.A. and Subsidiaries****Income Statements  
for the Years Ended December 31, 2012 and 2011  
(In thousands of Brazilian reais - R\$, unless otherwise stated)**

	Notes	Company (BR GAAP)		Consolidated (BR GAAP/IFRS)	
		2012 Restated	2011	2012 Restated	2011
<b>Net operating revenue</b>	4	7,016,979	7,478,656	25,169,230	9,245,255
Cost of sales and services	5	(3,448,662)	(3,848,801)	(12,673,253)	(4,586,565)
<b>Gross profit</b>		<u>3,568,317</u>	<u>3,629,855</u>	<u>12,495,977</u>	<u>4,658,690</u>
<b>Operating income (expenses)</b>					
Share of profits of subsidiaries	15	2,481,715	676,070		
Selling expenses	5	(1,267,439)	(986,189)	(4,847,297)	(1,160,793)
General and administrative expenses	5	(1,021,427)	(1,155,040)	(2,998,437)	(1,444,627)
Other operating income	6	878,008	555,919	1,996,122	560,360
Other operating expenses	6	(724,367)	(824,546)	(1,886,226)	(1,046,343)
		<u>346,490</u>	<u>(1,733,786)</u>	<u>(7,735,838)</u>	<u>(3,091,403)</u>
<b>Profit before financial income (expenses) and taxes</b>		<u>3,914,807</u>	<u>1,896,069</u>	<u>4,760,139</u>	<u>1,567,287</u>
Financial income	7	1,150,927	768,508	2,275,372	1,405,870
Financial expenses	7	(3,486,536)	(1,404,108)	(4,490,899)	(1,477,782)
<b>Financial income (expenses)</b>	7	<u>(2,335,609)</u>	<u>(635,600)</u>	<u>(2,215,527)</u>	<u>(71,912)</u>
<b>Pre-tax profit</b>		<u>1,579,198</u>	<u>1,260,469</u>	<u>2,544,612</u>	<u>1,495,375</u>
Income tax and social contribution					
Current	8	(74,367)	(20,847)	(934,079)	(205,730)
Deferred	8	280,059	(233,891)	174,394	(283,895)
<b>Profit for the year</b>		<u>1,784,890</u>	<u>1,005,731</u>	<u>1,784,927</u>	<u>1,005,750</u>
Profit attributable to controlling shareholders		1,784,890	1,005,731	1,784,890	1,005,731
Profit attributable to non-controlling shareholders				37	19
Basic and diluted earnings per share	25(h)				
Common shares – basic and diluted (R\$)		1.09	0.61	1.09	0.61
Preferred shares – basic and diluted (R\$)		1.09	0.61	1.09	0.61

## Oi S.A. and Subsidiaries

### Statements of Comprehensive Income for the Years Ended December 31, 2012 and 2011 (In thousands of Brazilian reais - R\$, unless otherwise stated)

	<u>Company (BR GAAP)</u>		<u>Consolidated (BR GAAP/IFRS)</u>	
	<u>2012 Restated</u>	<u>2011</u>	<u>2012 Restated</u>	<u>2011</u>
Profit for the year	<b>1,784,890</b>	<b>1,005,731</b>	<b>1,784,927</b>	<b>1,005,750</b>
Increase due to corporate reorganization	87,550		87,550	
Hedge accounting gain	35,842		52,634	
Subsidiaries' hedge accounting gain	16,792			
Total comprehensive income for the year	<b>1,925,074</b>	<b>1,005,731</b>	<b>1,925,111</b>	<b>1,005,750</b>
Comprehensive income attributable to controlling shareholders	1,925,074	1,005,731	1,925,074	1,005,731
Comprehensive income attributable to non-controlling shareholders			37	19

Statement of comprehensive income items are carried net of taxes.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

## Oi S.A. and Subsidiaries

### Statements of Changes in Equity for the Years Ended December 31, 2012 and 2011

(In thousands of Brazilian reais - R\$, unless otherwise stated)

	Attributable to owners of the Company																	Total controlling interests	Non- controlling interests	Total equity	
	Share capital	Share issue costs	Capital reserves							Profit reserves			Treasury shares	Proposed additional dividends	Retained earnings	Change in equity interest percentage <sup>1</sup>	Other comprehensive income				
			Donations and investment grants	Share subscription premium	Special merger goodwill reserve	Special merger reserve – net assets	Interest on construction in progress	Special inflation adjustment – Law 8200/1991	Stock options	Other reserves	Legal	Investments									
<b>Balance at December 31, 2010</b>	3,731,059		123,558	458,684	2,967,829	1,415,970	745,756	31,287	104	126,372	383,527	1,501,984	(149,642)						11,336,488	351	11,336,839
Bonus shares				(86,014)		(1,415,970)													(1,501,984)		(1,501,984)
Profit for the year																1,005,731			1,005,731	19	1,005,750
Allocation of profit for the year:																					
Declared dividends (R\$0.4263 per share)																(251,433)			(251,433)		(251,433)
Proposed additional dividends (R\$2.9647 per share)											(994,269)			1,748,567	(754,298)						
<b>Balance at December 31, 2011</b>	3,731,059		123,558	372,670	2,967,829		745,756	31,287	104	126,372	383,527	507,715	(149,642)	1,748,567					10,588,802	370	10,589,172
Capital increase with redeemable shares	492,285				(492,285)																
Cancellation of treasury shares				(99,822)						(49,820)			149,642								
Corporate reorganization	3,085,409			(272,848)	(890,621)	2,309,296				(76,552)			(96,199)				87,550		4,146,035	40,094	4,186,129
Share issue costs		(56,609)																	(56,609)		(56,609)
Stock option plan termination									(104)							104					
Hedge accounting gain																		35,842	35,842		35,842
Subsidiaries' hedge accounting gain																		16,792	16,792		16,792
Approval of proposed dividends														(1,748,567)					(1,748,567)		(1,748,567)
Redemption of bonus shares (R\$0.3002 per share)					(492,285)														(492,285)		(492,285)
Interim dividends (R\$0.3096 per share)											(507,715)								(507,715)		(507,715)
Withdrawal rights related to the corporate reorganization													(2,008,325)						(2,008,325)		(2,008,325)
Dividends and interest on capital declared by subsidiaries																				(1,536)	(1,536)
Acquisition on non-controlling interests																				(35,032)	(35,032)
Change in equity interest percentage																	3,916		3,916	(3,916)	(3,916)
Other																				(17)	(17)
Profit for the year																1,784,890			1,784,890	37	1,784,927
Allocation of profit for the year:																					
Declared dividends (R\$0.2720 shares)																(446,222)			(446,222)		(446,222)
Proposed additional dividends (R\$0.2386 shares)														391,322	(391,322)						
Constituição da reserva de investimento											947,450				(947,450)						
	7,308,753	(56,609)	123,558		1,092,638	2,309,296	745,756	31,287			383,527	947,450	(2,104,524)	391,322			3,916	140,184	11,316,554		11,316,554
<b>Balance at December 31, 2012</b>	7,308,753	(56,609)	123,558		1,092,638	2,309,296	745,756	31,287			383,527	947,450	(2,104,524)	391,322			3,916	140,184	11,316,554		11,316,554

The accompanying notes are an integral part of these financial statements.

**Oi S.A. and Subsidiaries****Statements of Cash Flows  
for the Years Ended December 31, 2012 and 2011  
(In thousands of Brazilian reais - R\$, unless otherwise stated)**

	Company (BR GAAP)		Consolidated (BR GAAP/IFRS)	
	2012 Restated	2011	2012 Restated	2011
<b>Cash flows from operating activities</b>				
Income before income tax and social contribution	1,579,198	1,260,469	2,544,612	1,495,375
Non-cash items				
Charges, interest income, and inflation adjustment	3,326,760	171,422	4,045,769	127,521
Depreciation and amortization	700,037	711,122	3,228,100	1,044,226
Loss on receivables	97,781	263,398	502,509	332,808
Provisions	231,492	529,684	400,595	570,672
Provision for pension plans	7,701	6,865	8,118	7,237
Share of profits of subsidiaries	(2,481,715)	(676,070)		
Loss on write-off of fixed assets	11,716	5,663	267,273	12,693
Income from asset sales	(231,974)		(389,128)	
Concession Agreement Extension Fee - ANATEL	49,426	49,019	121,430	49,019
Employee and management profit sharing	143,682	7,893	387,380	27,449
Financial derivative instrument transactions	(472,786)	49,251	(942,021)	49,251
Inflation adjustment of intragroup receivables and private debentures	(2,125)	(1,297)	(48,233)	(306,548)
Inflation adjustment of provisions	92,185	156,719	233,017	167,087
Inflation adjustment on tax refinancing program	43,650	44,414	81,371	46,299
Reversal of inflation adjustment of judicial deposit		198,853		198,853
Expired dividends	(49,122)	(50,330)	(74,732)	(50,330)
Other	70,824	25,919	1,376,661	204,319
	<u>3,116,730</u>	<u>2,752,994</u>	<u>11,742,721</u>	<u>3,975,931</u>
Changes in assets and liabilities				
Trade receivables	(150,170)	(249,949)	(1,723,305)	(274,193)
Inventories	(9,495)	(3)	(234,494)	8,102
Taxes	118,830	169,861	581,295	152,874
Held-for-trading cash investments	(1,360,659)	(2,419,014)	(8,885,812)	(3,811,531)
Redemptions of held-for-trading cash investments	609,427	2,915,190	8,963,131	3,641,371
Prepaid expenses	(101,781)	(143,505)	(1,452,539)	(332,135)
Trade payables	(430,803)	(234,431)	(760,098)	(185,429)
Payroll, related taxes and benefits	29,107	(44,921)	65,322	(69,200)
Provisions	(310,165)	(338,232)	(771,125)	(365,042)
Provision for pension plans	(100,525)	(96,148)	(100,526)	(96,148)
Other assets and liabilities	(151,542)	(40,049)	133,519	7,560
	<u>(1,857,776)</u>	<u>(481,201)</u>	<u>(4,184,632)</u>	<u>(1,323,771)</u>
Financial charges paid	(1,844,636)	(302,255)	(2,502,884)	(496,843)
Income tax and social contribution paid - Company	(1,030)	(23,427)	(992,820)	(205,326)
Income tax and social contribution paid - third parties	(71,429)	(81,380)	(286,538)	(110,690)
Dividends received	948,185		83,087	
	<u>(968,910)</u>	<u>(407,062)</u>	<u>(3,699,155)</u>	<u>(812,859)</u>
<b>Net cash generated by operating activities</b>	<u>290,044</u>	<u>1,864,731</u>	<u>3,858,934</u>	<u>1,839,301</u>

# Oi S.A. and Subsidiaries

## Statements of Cash Flows for the Years Ended December 31, 2012 and 2011 (In thousands of Brazilian reais - R\$, unless otherwise stated)

(continued)

	Company (BR GAAP)		Consolidated (BR GAAP/IFRS)	
	2012 Restated	2011	2012 Restated	2011
<b>Cash flows from investing activities</b>				
Purchase of tangibles and intangibles	(853,431)	(557,652)	(5,329,827)	(883,611)
Due from related parties and debentures – disbursements	(3,041)	(78,556)		
Due from related parties and debentures - receipts	149,147	75,133	133,023	
Funds from sale of property, plant and equipment	362,839	17,067	716,475	21,438
Judicial deposits	(1,610,764)	(1,420,379)	(2,409,166)	(1,467,182)
Redemption of judicial deposits	369,428	242,427	747,489	243,535
Available-for-sale financial asset			(250,186)	
Acquisition on non-controlling interests			(35,032)	
Increase/(decrease) in permanent investments	13,958	(2,927)	(11,969)	(3,066)
<b>Net cash used in investing activities</b>	<b>(1,571,864)</b>	<b>(1,724,887)</b>	<b>(6,439,193)</b>	<b>(2,088,886)</b>
<b>Cash flows from financing activities</b>				
Borrowings net of costs	8,062,318	5,427,489	7,067,093	4,586,555
Repayment of principal of borrowings, financing, and derivatives	(4,932,933)	(1,094,072)	(4,980,381)	(1,095,808)
Cash and cash equivalents acquired by merger	461,837		4,930,186	
Licenses and concessions		(70,949)	(319,667)	(79,926)
Tax refinancing program	(52,034)	(23,991)	(153,227)	(29,887)
Capital increase in subsidiaries		(1,468,225)		
Payment of dividends and interest on capital	(2,404,370)	(462,223)	(2,405,419)	(462,223)
Share reimbursement	(2,008,325)		(2,008,325)	
Bonus shares	(1,155,811)		(1,155,811)	
<b>Net cash generated by (used in) financing activities</b>	<b>(2,029,318)</b>	<b>2,308,029</b>	<b>974,449</b>	<b>2,918,711</b>
<b>Foreign exchange differences on cash equivalents</b>	<b>805</b>	<b>118,443</b>	<b>14,346</b>	<b>118,443</b>
<b>Cash flows for the year</b>	<b>(3,310,333)</b>	<b>2,566,316</b>	<b>(1,591,464)</b>	<b>2,787,569</b>
<b>Cash and cash equivalents</b>				
Cash and cash equivalents at beginning of year	1,043,984	4,354,317	4,413,042	6,004,506
Cash and cash equivalents at yearend	4,354,317	1,788,001	6,004,506	3,216,937
<b>Increase in cash and cash equivalents</b>	<b>(3,310,333)</b>	<b>2,566,316</b>	<b>(1,591,464)</b>	<b>2,787,569</b>

The accompanying notes are an integral part of these financial statements.

## Oi S.A. and Subsidiaries

### Statements of Cash Flows for the Years Ended December 31, 2012 and 2011 (In thousands of Brazilian reais - R\$, unless otherwise stated)

#### Additional disclosures relating to the statement of cash flows

#### Non-cash transactions

	COMPANY		CONSOLIDATED	
	2012 Restated	2011	2012 Restated	2011
Variance between economic and financial investment (PP&E and intangible assets)	457,318	500,395	1,146,565	413,460
Reduction in the investment in BrT Celular through settlement of Company loan and debentures payable to the subsidiary (Note 15, (ii))	3,763,789			
Dividends declared and not paid	446,222	251,433	446,222	251,433
Dividends declared by subsidiaries and not received	663,884	430,377		
Redeemable bonus shares	99,967	1,501,984	99,967	1,501,984
Partial redemption of investees' shares	1,210,302			
Offset of judicial deposits against provisions	246,887	253,021	378,693	254,693
Offset of judicial deposits against taxes		158,281		158,281

#### Corporate reorganization

The assets acquired and the liabilities assumed on February 27, 2012 after the corporate reorganization commented in Note 1 are summarized below.

	COMPANY Restated	CONSOLIDATED Restated
Cash and cash equivalents	461,837	4,930,186
Recoverable taxes	199,060	5,084,467
Investments	20,365,629	60,307
Property, plant and equipment	7,250	15,011,937
Intangible assets	829	2,693,297
Borrowings and financing	(17,795,900)	(21,101,747)
Taxes payable	(13,463)	(2,288,777)
Other assets and liabilities	920,793	(243,635)
<b>Merged net assets</b>	<b>4,146,035</b>	<b>4,146,035</b>

## Oi S.A. and Subsidiaries

### Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)

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#### 1. GENERAL INFORMATION

Oi S.A. (“Company” or “Oi”), former Brasil Telecom S.A. or “BrT”, is a Switched Fixed-line Telephony Services (“STFC”) concessionaire, operating since July 1998 in Region II of the General Concession Plan (“PGO”), which covers the Brazilian states of Acre, Rondônia, Mato Grosso, Mato Grosso do Sul, Tocantins, Goiás, Paraná, Santa Catarina and Rio Grande do Sul, and the Federal District, in the provision of STFC as a local and intraregional long-distance carrier. Since January 2004, the Company also provides domestic and international long-distance services in all Regions and local services outside Region II started to be provided in January 2005. These services are provided under concessions granted by Agência Nacional de Telecomunicações - ANATEL (National Telecommunications Agency), the regulator of the Brazilian telecommunications industry.

The Company is headquartered in Brazil, in the city of Rio de Janeiro, at Rua Humberto de Campos, 425 – 8<sup>th</sup> floor.

The Company also holds: (i) through its wholly-owned subsidiary Telemar Norte Leste S.A. (“TMAR”) a concession to provide fixed telephone services in Region I and nationwide International Long-distance services; (ii) through its indirect subsidiary TNL PCS S.A. (“TNL PCS”) a license to provide mobile telephony services in Regions I and III; (iii) through its wholly-owned subsidiary 14 Brasil Telecom Celular S.A. (“BrT Celular”) a license to provide mobile telephony services in Region II.

The terms of the concession agreements and licenses above are disclosed in Note 17.

The Company is registered with the Brazilian Securities and Exchange Commission (“CVM”) and the U.S. Securities and Exchange Commission (“SEC”). Its shares are traded on the São Paulo Mercantile and Stock Exchange (“BM&FBOVESPA”) and its American Depositary Receipts (“ADRs”) are traded on the New York Stock Exchange (“NYSE”).

The Company’s financial statements, originally presented, were analyzed and approved by the Board of Directors, and authorized for issuance at the meeting held on February 18, 2013. The financial statements restated were approved by the Board of Directors at the meeting held on April 25, 2013

The interests held in Company subsidiaries, less treasury shares, are as follows:

Company	Business	Direct 2012	Indirect 2012	Direct 2011	Indirect 2011
14 Brasil Telecom Celular S.A. (“BrT Celular”)	Mobile telephony – Region II	100%		100%	
Brasil Telecom Comunicação Multimídia Ltda. (“BrT Multimídia”)	Data traffic	99.99%	100%	90.46%	100%
BrT Card Serviços Financeiros Ltda. (“BrT Card”)	Financial services	100%		100%	
Vant Telecomunicações S.A. (i)	Multimedia communication			99.99%	100%
Brasil Telecom Call Center S.A. (“BrT Call Center”)	Call center and telemarketing services	100%		100%	

(Convenience Translation into English from the Original Previously Issued in Portuguese)

## Oi S.A. and Subsidiaries

### Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)

BrT Serviços de Internet S.A. (“BrTI”)	Holding company	100%		100%	
Agência O Jornal da Internet Ltda. (“JINT”)	Internet			30%	
(i)					
iG Participações S.A. (“iG Part”) (ii)	Holding company			0.16%	100%
Internet Group do Brasil S.A. (“iG Brasil”)	Internet		100%	13.64%	100%
Nova Tarrafa Participações Ltda. (“NTPA”)	Holding company			100%	
(ii)					
Brasil Telecom Cabos Submarinos Ltda. (“BrT CS”)	Data traffic	99.99%	100%	99.99%	100%
Brasil Telecom Subsea Cable Systems (Bermuda) Ltd. (“BrT SCS Bermuda”) (1)	Data traffic		100%		100%
Brasil Telecom of America Inc. (“BrT of America”) (2)	Data traffic		100%		100%
Brasil Telecom de Venezuela, S.A. (“BrT Venezuela”) (3)	Data traffic		100%		100%
Brasil Telecom de Colombia, Empresa Unipersonal (“BrT Colombia”) (4)	Data traffic		100%		100%
Oi Paraguay Comunicaciones SRL (“Oi Paraguay”) (5)	Data traffic		100%		100%
Sumbe Participações S.A. (“Sumbe”)	Property Investments			100%	
Rio Alto Participações S.A.	Property Investments	100%		100%	
Copart 5 Participações S.A. (“Copart 5”)	Property Investments	100%		100%	
Telemar Norte Leste S.A. (“TMAR”)	Fixed-line telephony – Region I	100%			
TNL PCS S.A. (“TNL PCS”)	Mobile Telephony – Regions I and III		100%		
Paggo Empreendimentos S.A. (“Paggo”)	Payment and credit systems		100%		
Paggo Acquirer Gestão de Meios de Pagamentos Ltda. (“Paggo Acquirer”)	Payment and credit systems		100%		
Paggo Administradora de Crédito Ltda. (“Paggo Administradora”)	Payment and credit systems		100%		
Oi Serviços Financeiros S.A.	Property Investments	99.87%	100%		
Copart 4 Participações S.A. (“Copart 4”)	Property Investments		100%		
Telemar Internet Ltda. (“Oi Internet”)	Internet		100%		
Dommo Empreendimentos Imobiliários S.A. (“Dommo”)	Purchase and sale of real estate		100%		
SEREDE – Serviços de Rede S/A (“Serede”)	Network services		100%		
Pointer Networks S.A. (“Pointer”)	Wi-Fi internet		100%		
VEX Wifi Tec España S.L (6)	Wi-Fi internet		100%		
VEX Venezuela C.A (3)	Wi-Fi internet		100%		
VEX Wifi S.A. (7)	Wi-Fi internet		100%		
VEX Ukraine LLC (8)	Wi-Fi internet		100%		
VEX USA Inc (2)	Wi-Fi internet		100%		
VEX Bolivia (9)	Wi-Fi internet		100%		
Pointer Networks S.A. – SUC Argentina (10)	Wi-Fi internet		100%		
VEX Wifi Canada Ltd (11)	Wi-Fi internet		100%		
VEX Chile Networks Serv Tec Ltda. (12)	Wi-Fi internet		100%		
VEX Colombia Ltda (4)	Wi-Fi internet		100%		
VEX Paraguay S.A. (5)	Wi-Fi internet		100%		
Pointer Peru S.A.C. (13)	Wi-Fi internet		100%		
VEX Portugal S.A. (14)	Wi-Fi internet		100%		
VEX Panama S.A. (15)	Wi-Fi internet		100%		
Oi Brasil Holdings Cooperatief UA (16)	Payment and credit systems	100%			
Circuito das Águas Telecom S.A.	Property Investments		100%		
Caryopoceae Participações S.A.	Property Investments		100%		
Bryophyta SP Participações S.A.	Property Investments		100%		

## Oi S.A. and Subsidiaries

### Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)

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- (i) Subsidiary merged as disclosed in this Note, in the topic Other mergers conducted in 2012.
- (ii) Subsidiary merged as disclosed in this Note, in the topic iG Group Corporate Reorganization in October 2012.

All Company subsidiaries are headquartered in Brazil except for the following:

- 1) Headquartered in the Bermuda
- 2) Headquartered in the United States of America
- 3) Headquartered in Venezuela
- 4) Headquartered in Colombia
- 5) Headquartered in Paraguay
- 6) Headquartered in Spain
- 7) Headquartered in Uruguay
- 8) Headquartered in Ukraine
- 9) Headquartered in Bolivia
- 10) Headquartered in Argentina
- 11) Headquartered in Canada
- 12) Headquartered in Chile
- 13) Headquartered in Peru
- 14) Headquartered in Portugal
- 15) Headquartered in Panama
- 16) Headquartered in The Netherlands

The interests in joint ventures are as follows:

Company	Business	Direct 2012	Indirect 2012	Direct 2011	Indirect 2011
Companhia AIX de Participações ("AIX")	Data traffic		50%		
Paggo Soluções e Meios de Pagamento S.A. ("Paggo Soluções")	Financial company		50%		

The assets and liabilities of jointly controlled entities have been combined on a per line item basis in the Company's financial statements by the proportionate consolidation method, as follows:

AIX	2012	2011
Current assets	6,707	
Non-current assets	60,012	
Current liabilities	1,640	
Non-current liabilities	2,895	
Equity	62,184	
Revenue	23,837	
Expenses	(24,112)	

## Oi S.A. and Subsidiaries

### Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)

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<b>Paggo Soluções</b>	<b>2012</b>	<b>2011</b>
Current assets	1,281	
Non-current assets	38,264	
Current liabilities	2,847	
Equity	36,698	
Revenue	306	
Expenses	(15,579)	

#### Amendment of Company Bylaws

The Company's Extraordinary Shareholders' Meeting held on November 7, 2012 approved the amendment to the Company's Bylaws to adapt them to the new rules of BM&F/BOVESPA's (São Paulo Stock Exchange) Level 1 of Corporate Governance Listing Regulations to allow the Company to enter said corporate governance level.

#### Corporate Reorganizations in 2012

##### Corporate Reorganization of the Oi Group undertaken in February 2012

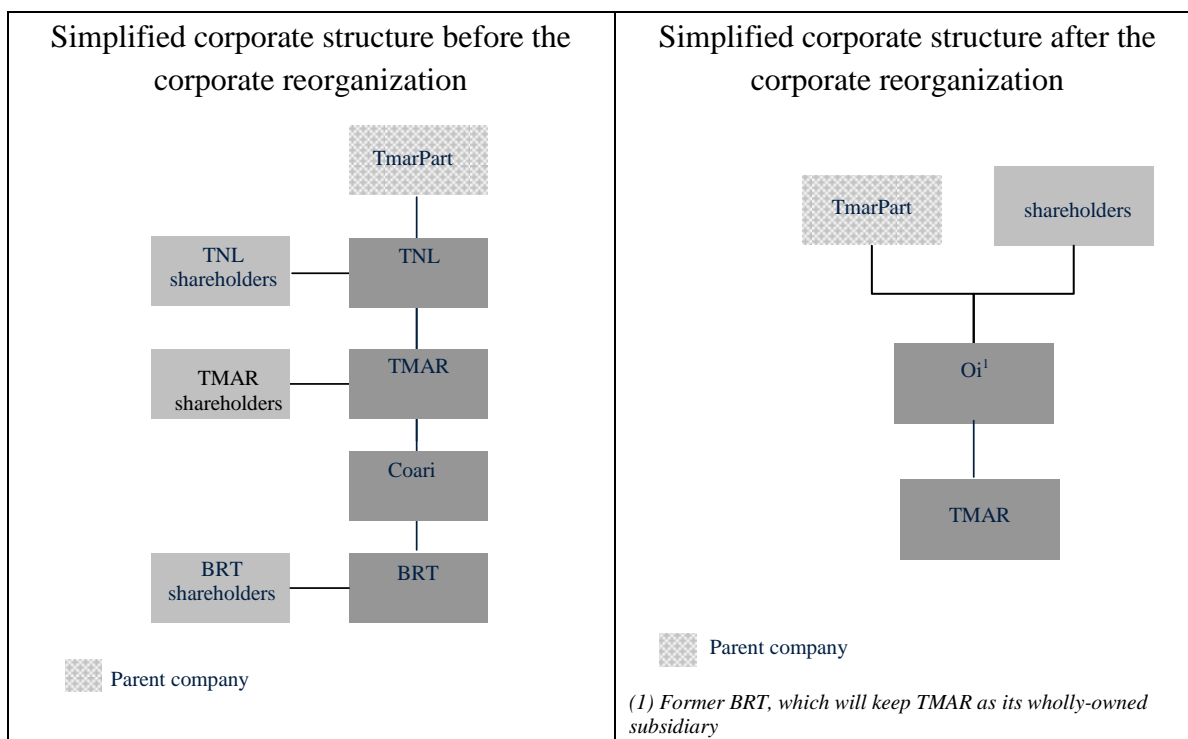
The shareholders of the Oi companies (Tele Norte Leste Participações S.A. ("TNL"), TMAR, Coari Participações S.A. ("Coari") and Oi) approved at the shareholders' meetings held on February 27 2012 the corporate reorganization that consisted of the partial split-off of TMAR with the merger of the split-off portion by Coari followed by the merger of TMAR shares by Coari and the mergers of Coari and TNL with and into Oi, the company that now concentrates all the shareholdings in Oi companies and is the only Oi company listed in a stock exchange, and whose corporate name was changed to Oi S.A. at the time of the same shareholders' meetings.

As a result, 395,585,453 new common shares and 798,480,405 new preferred shares of Oi S.A. (former Brasil Telecom S.A.) were issued, and its subscribed, fully paid-in capital increased to R\$6,816,468, represented by 599,008,629 common shares and 1,198,077,775 preferred shares, all registered and without par value.

The simplified organization chart below shows the corporate structure before and after the corporate reorganization:

## Oi S.A. and Subsidiaries

### Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)



The purpose of the corporate reorganization was to definitely simplify the corporate structure and the corporate governance of the Oi companies, resulting in the creation of value for the shareholders by, but not limited to:

- simplify the corporate structure, which previously included three publicly-held companies with seven different classes of publicly traded shares, by consolidating our shareholder bases in one public company with two classes of shares that will be traded in Brazil and abroad;
- reduce operational, administrative and financial costs following the consolidation of the general management of the Oi companies, the simplification of their capital structure, and the improvement of their ability to attract investments and access the capital markets;
- align the interests of the shareholders of TNL, TMAR and Oi;
- enhance the liquidity of the shares issued by Oi; and
- eliminate the costs of separate listings of the shares of TNL, TMAR and Oi, as well as costs arising from separately complying with the public disclosure requirements applicable to TNL, TMAR and Oi.

Oi's Extraordinary Shareholders' Meeting held on February 27, 2012 also approved the Oi redeemable bonus preferred shares proposal attributed exclusively to BrT shareholders prior to the

## Oi S.A. and Subsidiaries

### Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)

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merger, totaling R\$1.5 billion. The base date of the bonuses payable to shareholders whose shares are traded on the BM&FBOVESPA and shareholders whose shares are traded on the NYSE was March 29, 2012 (deadline to exercise withdrawal rights). Accordingly, beginning March 30, 2012, these shares were traded ex-bonus on the stock exchange. On April 9, 2012, the redemption amount of the redeemable shares was paid proportionally to the each shareholder's interest in share capital social and on the same date the reimbursement amount was paid to any withdrawing TNL and TMAR shareholders, which totaled R\$1,999,300. The amount of the redeemed shares above was deducted from the calculation of the approved share exchange ratios.

The table below shows the exchange ratios resulting from the mergers of TNL and Coari with and into Oi:

Original share/Replacement share	Exchange ratio
TNLP3 / BRTO3	2.3122
TNLP4 / BRTO4	2.1428
TNLP4 / BRTO3	1.8581
TMAR3 / BRTO3	5.1149
TMAR5 and TMAR6 / BRTO4	4.4537
TMAR5 and TMAR6 / BRTO3	3.8620

The common and preferred shares of Oi S.A. started to be traded, under their new tick code OIBR3 and OIBR4, respectively, on April 9, 2012.

In addition to the relevant corporate approvals, the corporate reorganization was approved by the ANATEL on October 27, 2011. In addition, the shares to be issued by Oi S.A. in this context were registered with the SEC, and we obtained the consent of Oi companies' creditors to implement the corporate reorganization, where applicable.

The impacts of all stages of the corporate reorganization were prospectively accounted for based on the book net assets of each company. The resulting increase in the Company's equity and its consolidated financial statements amounts to R\$4,146,035.

As a result of the corporate reorganization, the balance sheet and income statement of the Company and its consolidated financial statements have been affected as from the date the transaction was approved, on February 27, 2012, and with respect to income statement as from February 28, 2012, when it started to include the balances and transactions arising from the operations of TMAR and its subsidiaries.

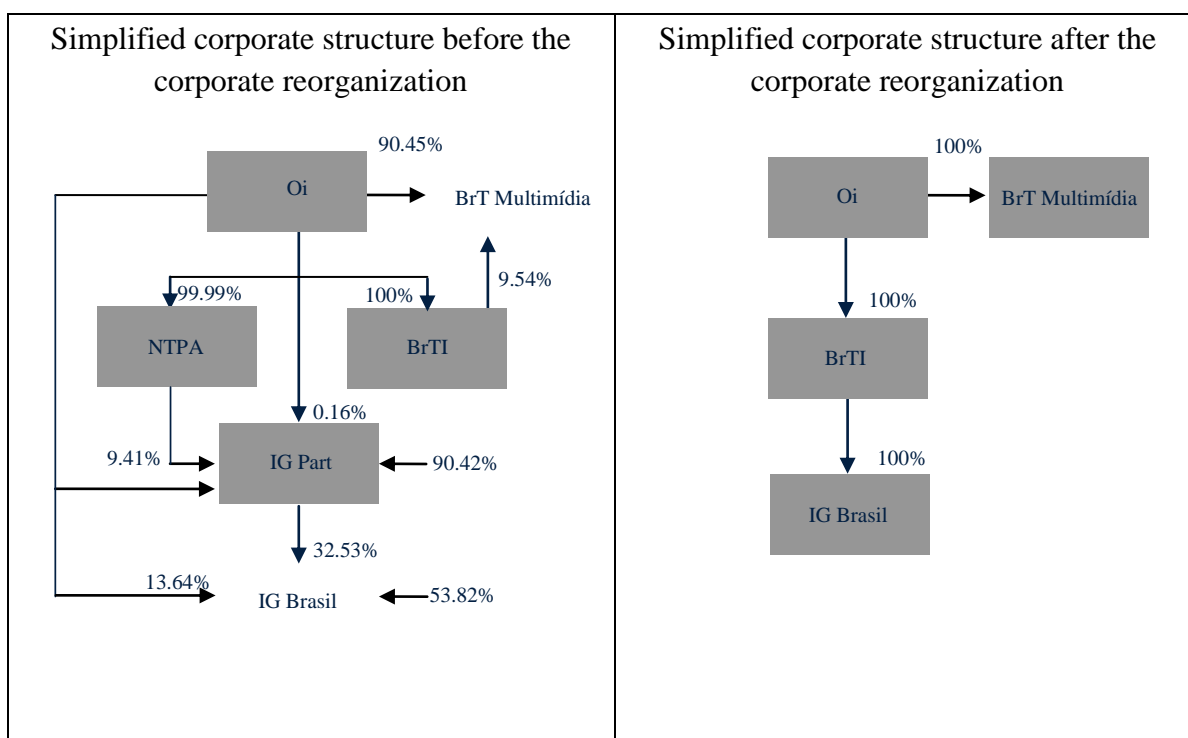
### Corporate Reorganization of the iG Group undertaken in October 2012

On October 24, 2012, our Board of Directors approved the corporate reorganization of the iG Group's subsidiaries by undertaking the following steps: (i) BrTI capital increase, by the Company, amounting to R\$51,828, paid in by transferring our stakes in NTPA (99.99%), iG Part (0.16%), and iG Brasil (13.64%); (ii) BrTI capital reduction, amounting to R\$48,807, by transferring the investment held in BrT Multimídia to the Company, and (iii) mergers of iG Part with and into iG

## Oi S.A. and Subsidiaries

### Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)

Brasil and NTPA with and into BrTI, at their carrying amounts. As a result iG Brasil became a wholly-owned subsidiary of BrTI.



#### Other mergers undertaken in 2012

During October, November and December 2012, several mergers were undertaken involving Oi Group holding companies and dormant companies to streamline the corporate structure. The equity of the merged companies was valued at their carrying amounts.

- i. Merger of Vant with and into BrT Multimídia on October 30, 2012;
- ii. Merger of TNL.Net, TNL Trading, TNL Exchange, and JINT with and into BrTI on November 1, 2012;
- iii. Merger of Tomboa, Tete, and Carpi with and into TMAR on November 30, 2012;
- iv. Merger of Blackpool with and into Oi Internet on December 1, 2012; and
- v. Merger of TNCP (wholly-owned subsidiary) with and into TMAR on December 31, 2012.

## **Oi S.A. and Subsidiaries**

### **Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)**

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#### **2. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies detailed below have been consistently applied in all fiscal years presented in these Individual and Consolidated financial statements, and have been consistently applied both by the Company and its subsidiaries.

##### **(a) Reporting basis**

The financial statements have been prepared based on the historic cost, except for certain financial instruments measured at their fair values, as described in the accounting policies in (b) below.

The preparation of financial statements requires the use of certain critical accounting estimates and the exercise of judgment by the Company's management in the application of the Group's accounting policies. Those areas that involve a higher degree of judgment or complexity or areas where assumptions and estimates are significant are disclosed in note (c) below.

##### **Consolidated Financial Statements**

The Company's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), and the accounting practices adopted in Brazil, including the pronouncements, guidelines and interpretations issued by the Accounting Pronouncements Committee (CPC), approved by the CVM.

##### **Individual Financial Statements**

The individual financial statements of the parent company have been prepared and are presented in accordance with accounting practices adopted in Brazil, based on the provisions of the Brazilian Corporate Law, pronouncements, guidelines and interpretations issued by the CPC and approved by the CVM.

The statutory individual financial statements present the measurement of investments in subsidiaries by the equity of accounting method, in accordance with the prevailing Brazilian law. Therefore, these individual financial statements are not considered to be in conformity with IFRSs, which require the measurement of these investments in the parent's separate financial statements at their fair value or cost.

As there is no difference between consolidated equity and profit attributable to owners of the Company, included in the consolidated financial statements prepared in accordance with IFRSs and accounting practices adopted in Brazil, and parent company equity and profit included in the individual financial statements prepared in accordance with accounting practices adopted in Brazil, the Company elected to present these individual and consolidated financial statements as a single set, using a side-by-side format.

## **Oi S.A. and Subsidiaries**

### **Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)**

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#### **(b) Significant accounting policies**

##### **Consolidation criteria of subsidiaries by the full consolidation method**

Full consolidation was prepared in accordance with IAS 27/CPC 36 (R1) *Consolidated Financial Statements* and incorporates the financial statements of the Company's direct and indirect subsidiaries. The main consolidation procedures are as follows:

- the balances of assets, liabilities, income and expenses, according to their accounting nature, are added up;
- intragroup assets and liabilities and material income and expenses are eliminated;
- investments and related interests in the equity of subsidiaries are eliminated;
- non-controlling interest in equity and income statement for the year are separately stated; and
- exclusive investment funds (Note 9) are consolidated.

##### **Consolidation criteria of jointly controlled entities by the proportionate consolidation method**

The Company elected to recognize interests held in joint ventures by the proportionate consolidation method, in accordance with IAS 31/CPC 39 (R1) *Joint Ventures*. The method used consists of consolidating the Company's interests in each joint venture's assets, liabilities, income and expenses, on a per line item basis, in its financial statements.

#### **Foreign currency translation**

##### **Functional and presentation currency**

The Company and its subsidiaries operate mainly as telecommunications industry operators in Brazil, respectively, and engage in activities typical of this industry (see Note 1), and the Brazilian real (R\$) is the currency used in their transactions.

To define its functional currency, management considered the currency that influences:

- the sales prices of its goods and services;
- the costs of services and sales;
- the cash flows arising from receipts from customers and payments to suppliers;
- interest, investments and financing.

Consequently, the functional currency of the Company and its subsidiaries is the Brazilian real (R\$), the same currency used in the presentation of these financial statements.

## **Oi S.A. and Subsidiaries**

### **Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)**

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#### **Transactions and balances**

Foreign currency-denominated transactions are translated into the functional currency using the exchange rate prevailing on the transaction date. The foreign exchange differences resulting on translation is recognized in the income statement.

#### **Group companies**

The Company holds investments in companies with registered head offices abroad, none of which uses a functional currency other than the Brazilian real (R\$).

The Company has a subsidiary in Venezuela whose economy is considered a hyperinflationary economy under IAS 29.

The Company's management analyzed the effect of hyperinflation of the consolidated financial statements and concluded that the impact of inflation adjustment for the period is immaterial, as this subsidiary's equity (equity deficiency) (base for the hyperinflationary effects) as at December 31, 2012, is R\$(2,563) (R\$2,658 in 2011).

#### **Non-monetary items indexed to a foreign currency**

The Company and its subsidiaries do not have non-monetary items indexed to a foreign currency (other than the functional and presentation currency) as foreign subsidiaries are an extension of the operations of their Brazilian parent.

#### **Segment information**

Reporting on operating segments is consistent with the internal report provided to the chief operating decision maker of the Company, its management. All operating results are regularly reviewed by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and assess its performance.

Segment results that are reported to the management include items directly attributable to the segment and those that can be allocated on a reasonable basis.

Capital expenditures by segment are the total costs incurred during the period to acquire property, plant and equipment and intangible assets other than goodwill.

#### **Business combinations**

The Company elected to adopt the exemption from the remeasurement of business combinations undertaken before the date of transition to IFRSs and CPCs—January 1, 2009—pursuant to IFRS 1/CPC 37. The excess amounts paid, therefore, are measured and classified using their

## **Oi S.A. and Subsidiaries**

### **Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)**

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original bases. The Company depreciates amounts recognized based on the appreciation of the acquired assets, according to the useful lives of the underlying assets, and tests such assets to determine any asset impairment losses when there is evidence of impairment; on the other hand, the Company tests goodwill for impairment on an annual basis.

#### **Cash and cash equivalents**

Comprise cash and imprest cash fund, banks, and highly liquid short-term investments (usually maturing within less than three months), immediately convertible into a known cash amount, and subject to an immaterial risk of change in value, which are stated at fair value at the end of the reporting period and which do not exceed their market value, and whose classification is determined as shown below.

#### **Cash investments**

Classified according to their purpose as: (i) held for trading securities; (ii) held to maturity; and (iii) available for sale.

Trading securities are measured at fair value and their effects are recognized in income statement. Held-to-maturity investments are measured at cost plus income earned, less the allowance for adjustment to probable recoverable amount, when applicable, and its effects are recognized in income statement. Available-for-sale investments are measured at fair value and their effects are recognized in valuation adjustments to equity, when applicable.

#### **Trade receivables**

Receivables from telecommunications services provided are stated at the tariff or service amount on the date they are provided and do not differ from their fair values.

These receivables also include receivables from services provided and not billed by the end of the reporting period and receivables related to handset, SIM cards, and accessories. The allowance for doubtful accounts estimate is recognized in an amount considered sufficient to cover possible losses on the realization of these receivables. The allowance for doubtful accounts estimate is prepared based on a history of default.

#### **Inventories**

Inventories are segregated and classified as described below:

- Maintenance material inventories classified in current assets in accordance with the period in which they will be used are stated at average cost, not exceeding replacement cost.
- Inventories for expansion, classified in property, plant and equipment, are stated at average cost and are used to expand the telephone plant.
- Inventories of merchandise for resale classified in current assets are stated at average cost and are basically represented by handsets and accessories. Adjustments to net realizable value are

## **Oi S.A. and Subsidiaries**

### **Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)**

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recognized for handsets and accessories purchased for amounts that exceed their sales prices. Impairment losses are recognized for obsolete inventories.

#### **Available-for-sale financial asset**

Available-for-sale financial assets are non-derivative financial assets that are designated as available for sale or that are not classified as (a) loans and receivables, (b) held-to-maturity investments, or (c) financial assets at fair value through profit or loss. The Company initially records available-for-sale financial assets at their fair value plus any costs directly attributable to the transaction. After their initial recognition, they are measured at fair value and any changes, other than impairment losses and foreign currency differences on translating available-for-sale debt instruments, are recognized in other comprehensive income and presented as part of equity. When an investment is derecognized, the gains or losses accumulated in other comprehensive income are transferred to income statement.

#### **Investments**

Financial information of subsidiaries and joint ventures is recognized in the individual financial statements of the Company by the equity method. Other investments are carried at cost, less an allowance for write-down to realizable value, when applicable.

The financial statements of the subsidiaries and joint ventures are included in the consolidated financial statements from the time control or joint control is obtained until the date it no longer exists. The accounting policies of the subsidiaries and jointly controlled entities are aligned with the policies adopted by the Company.

#### **Property, plant and equipment**

Property, plant and equipment are stated at cost of purchase or construction, less accumulated depreciation. Historical costs include expenses directly attributable to the acquisition of assets. They also include certain costs on facilities, when it is probable that the future economic benefits related to such costs will flow into the Company, and asset dismantlement, removal and restoration costs. Financial charges on obligations financing assets and construction works in progress are capitalized.

Subsequent costs are added to the carrying amount as appropriate, when, and only when, these assets generate future economic benefits and can be reliably measured. The residual balance of the replaced asset is written off. Maintenance and repair costs are recorded in profit or loss for the period when they are incurred, and they are capitalized when, and only when, they clearly represent an increase in installed capacity or the useful lives of assets.

Assets under finance leases are recorded in property, plant and equipment at the lower of fair value or the present value of the minimum lease payments, from the initial date of the agreement.

Depreciation is calculated on a straight-line basis, based on the estimated useful lives of the assets, which are annually reviewed by the Company.

## **Oi S.A. and Subsidiaries**

### **Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)**

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#### **Intangible assets**

Separately acquired intangible assets with finite useful lives are carried at cost less accumulated amortization and impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each annual reporting period, and the effect of any changes in estimates is accounted for on a prospective basis. Intangible assets with indefinite useful lives are carried at cost less accumulated impairment losses.

Software licenses purchased are capitalized based on the costs incurred to purchase the software and make it ready for use.

Software maintenance costs are recognized as expenses when incurred. The development costs that are directly attributable to the project and the tests of identifiable and exclusive software, controlled by the Company, are recognized as intangible assets when the following criteria are met:

- Completing the software so that it will be available for use is technically feasible.
- Management has the intention to complete the software and use or sell it.
- The Company has the ability to use or sell the software.
- It can be demonstrated that the software will generate probable future economic benefits.
- There are adequate technical, financial and other resources available to complete the development and to use or sell the software.
- The expenditure attributable to the software during its development can be measure reliably.

Directly attributable costs that are capitalized as part of software include the costs on the employees allocated to software development and an adequate portion of the applicable direct expenditure. Costs also include borrowings costs incurred during the software development period.

Other development expenditure that does not meet these criteria is recognized as expenses, when incurred. Development costs previously recognized as expenses are not recognized as assets in a subsequent period.

#### **Impairment of long-lived assets**

Assets are tested for impairment annually or whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets might be impaired. Long-lived assets may be identified as assets which have indefinite useful lives and assets subject to depreciation and amortization (property, plant and equipment and intangible assets). Impairment losses, if any, are recognized in the amount by which the carrying amount of an asset exceeds its recoverable value. Recoverable value is the higher of fair value less cost to sell and the value in use. In order to be tested for impairment, assets are grouped into the smallest identifiable group for which there are

## **Oi S.A. and Subsidiaries**

### **Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)**

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cash-generating units (CGUs), and projections are made based on discounted cash flows, supported by expectations on the Company's operations.

The CGUs are the Company's operating segments as they are the smallest separable cash-generating units.

Net Present Value (NPV) projections for the CGUs are prepared taking into consideration the following assumptions:

- Entity-specific inputs: evidence of obsolescence or damage, discontinuation plans, performance reports, etc.;
- External sources of inputs: market prices of the assets, technologic environment, market environment, economic environment, regulatory environment, legal environment, interest rates, return rates on investments, market value of Company shares, etc.

Said projections support the recovery of assets with indefinite useful lives. Additionally, Company tests did not show any evidences of impairment that would result in the realization of projections for assets with finite useful lives.

#### **Discount to present value**

The Company values its financial assets and financial liabilities to identify instances of applicability of the discount to present value. Leased assets are discounted to present value.

Generally, when applicable, the discount rate used is the average return rate on investments for financial assets or interest charged on Company borrowings for financial liabilities. The balancing item is the asset or liability that has originated the financial instrument, when applicable, and the deemed borrowing costs are allocated to the Company's profits over the transaction term.

The Company believes that none of the assets and liabilities as at December 31, 2012 and 2011 is subject to the discount to present value, in view of the following factors: (i) their nature; (ii) short-term realization of certain balances and transactions; (iii) absence of monetary assets and monetary liabilities with observable or unobservable embedded interest. Financial instruments measured at the amortized costs are adjusted for inflation using relevant contractual indices.

#### **Impairment of financial assets**

The Company assesses at the yearend whether there is objective evidence that financial assets or a group of financial assets is impaired. A financial asset or group of financial assets is considered impaired when there is objective evidence, as a result of one or more events that occurred after the initial recognition of the asset, that its recoverable amount has been reduced and when the estimated future cash flows have been impacted.

In the case of equity investments classified as available for sale, a significant or prolonged decline in their fair value below cost is also objective evidence of impairment.

## **Oi S.A. and Subsidiaries**

### **Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)**

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#### **Borrowings and financing**

Carried at amortized cost, plus inflation adjustment or foreign exchange differences and interest incurred through the end of the reporting period.

Transaction costs incurred are measured at amortized cost and recognized in liabilities, as a reduction to the balance of borrowings and financing, and are expensed over the relevant agreement term.

#### **Derivative financial instruments**

Derivative instruments are contracted to mitigate exposure to market risks arising from changes in exchange rates on foreign currency-denominated debts and short-term investments held abroad, and also from changes in the floating rates of debt.

Derivatives are initially recognized at cost at the inception of the derivative contract and are subsequently measured at fair value. Changes in the fair value of any of these derivatives are recorded directly in the income statement.

#### **Financial liabilities and equity instruments**

Debt or equity instruments issued the Company and its subsidiaries are classified as financial liabilities or equity instruments, according to the contractual substance of the transaction.

Beginning February 27, 2012, the Company started to adopt hedge accounting for its derivative financial instruments, which had been adopted by subsidiary TMAR since January 1, 2011. The purpose of this practice is to reduce the volatility of the gains or losses recognized due to changes in the fair values of these derivative financial instruments. Derivative financial instruments that qualify for hedge accounting are submitted to periodic prospective and retrospective effectiveness tests using the dollar offset method.

Derivative instruments contracted and designated for hedge accounting are formally identified through initial designation documentation prepared in accordance with the requirements of CPC 38 (IAS 39). Derivative financial instruments classified as cash flows hedges were designated for hedge accounting.

The effective portion, as defined in CPC 38 (IAS 39), is recognized is an equity line item called 'Other comprehensive income', net of taxes, and is reclassified to financial income (expenses) using the effective rate. The ineffective portion, measured after the quarterly effectiveness tests, is recognized in financial income (expenses) in the same period it occurs.

Changes in the fair values of derivative financial instruments that are not designated for purposes of hedge accounting are accounted as financial income or expenses in the income statement for the period they occur.

## **Oi S.A. and Subsidiaries**

### **Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)**

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The hedge relationship expires and the designation is removed when:

- (i) The derivative contract is exercised, terminated or settled, or if the Company or its subsidiary TMAR voluntarily removes the designation, according to the criteria set out in CPC 38 (IAS 39). If the hedged item continues to exist, the balances accumulated in other comprehensive income related to the changes in the fair value of the derivative are allocated to profit or loss for the period in which the hedged interest expenses and foreign exchange fluctuations are allocated.
- (ii) The debt is prepaid or extinguished. In this case, the balance accumulated in other comprehensive income is immediately allocated to financial income or expenses in profit or loss for the period their designation is terminated.

The required information on derivative instruments and the effects recognized by the Company and its subsidiary TMAR for the year ended December 31, 2012 are described in Note 3.

#### **Provisions**

The amount recognized as provision is the best estimate of the disbursement required to settle the present obligation at the end of the reporting period, based on the opinion of the management and its in-house and external legal counsel, and the amounts are recognized based on the cost of the expected outcome of ongoing lawsuits.

The increase in the obligation as a result of the passage of time is recognized as financial expenses.

#### **Employee benefits**

- Pension plans: private pension plans and other postretirement benefits sponsored by the Company and its subsidiaries for the benefit of their employees are managed by two foundations. Contributions are determined based on actuarial calculations, when applicable, and charged to profit or loss on the accrual basis.

The Company and its subsidiaries have defined benefit and defined contribution plans.

In the defined contribution plan, the sponsor makes fixed contributions to a fund managed by a separate entity. The contributions are recognized as employee benefit expenses as incurred. The sponsor does not have the legal or constructive obligation of making additional contributions, in the event the fund lacks sufficient assets to pay all employees the benefits related to the services provided in the current year and prior years.

The defined benefit plan recognized gains and losses under the corridor approach. The defined benefit is annually calculated by independent actuaries, who use the projected unit credit method. The present value of the defined benefit is determined by discounting the estimated future cash outflows, using the projected inflation rate plus long-term interest. The obligation recognized in the balance sheet as regards the defined benefit pension plans

## **Oi S.A. and Subsidiaries**

### **Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)**

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presenting a deficit, corresponds to the present value of the benefits defined at the balance sheet date, less the fair value of the plan's assets.

The asset recognized in balance sheet corresponds to the present value of available economic benefits, consisting of refunds or reductions in future contributions to the plan.

- Stock option plan: the Company had a stock option plan for its management and employees, and options granted are settled in shares. The fair value of the services received from employees in exchange for stock options is determined based on the fair value of the stock options, established on grant date.
- Employee profit sharing: the accrual includes the employee profit sharing plan is accounted for on the accrual basis and involves all eligible employees, proportionately to the period of time worked in the year, according to the Plan's rules. The amount, which is paid by April of the year subsequent to the year profit sharing is accrued, is determined based on the target program established with the employees' unions, under a specific collective bargaining agreement.

#### **Revenue recognition**

Revenues correspond basically to the amount of the payments received or receivable from sales of services in the regular course of the Company's and its subsidiaries' activities.

Revenue is recognized when it can be reliably measured, it is probable that future economic benefits will be transferred to the Company, the transaction costs incurred can be measured, the risks and rewards have been substantially transferred to the buyer, and certain specific criteria of each of the Company's activities have been met.

Service revenue is recognized when services are provided. Local and long distance calls are charged based on time measurement according to the legislation in effect. The services charged based on monthly fixed amounts are calculated and recorded on a straight-line basis. Prepaid services are recognized as unearned revenues and recognized in revenue as services are used by customers.

Revenue from sales of handsets and accessories is recognized when these items are delivered and accepted by the customers. Discounts on services provided and sales of cell phones and accessories are taken into consideration in the recognition of the related revenue. Revenues involving transactions with multiple elements are identified in relation to each one of their components and the recognition criteria are applied on an individual basis. Revenue is not recognized when there is significant uncertainty as to its realization.

Revenue from sales of payphone cards—Public Use Telephony (TUP) is recognized when the credits are effectively consumed by the customers.

- Customer loyalty program (“Oi Pontos”)

## **Oi S.A. and Subsidiaries**

### **Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)**

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The subsidiaries BrT Celular and TNL PCS implemented a customer loyalty program (“Oi Pontos”), under which mobile telephony customers accumulate points related to the amounts paid for mobile telephony, fixed telephony, internet and pay TV services, which can be exchanged for mobile telephony service packages, handset discounts, events available at “Oi experiences” and/or transferred to the Multiplus Fidelidade Program (partner of said subsidiaries) to be exchanged for several other awards of this program, such as air tickets, fuel in gas stations, etc.

The Company accounts for the points awarded under the program as a separately identifiable component of the sales transaction in which they are granted. The fair value of the consideration received or receivable in respect of the initial sale is allocated between the award credits and the other components of the sale. The consideration allocated to the points is measured by reference to their fair value, i.e., the amount for which the award credits could be sold separately. This amount is deferred and the related revenue is recognized when, and only when, the points are redeemed or transferred to partner programs. Revenue recognition is based on the number of points that have been redeemed in exchange for awards relative to the total number expected to be redeemed. This program began its effective operations in the first quarter of 2011 and its balance is recognized in liabilities, in line item ‘Unearned revenues’.

#### **Expense recognition**

Expenses are recognized on the accrual basis, considering their relation with revenue realization. Prepaid expenses attributable to future years are deferred over the related periods.

#### **Financial income and expenses**

Financial income is recognized on the accrual basis and comprises interest on receivables settled after due date, gains on short-term investments and gains on derivative instruments. Financial expenses represent interest effectively incurred and other charges on borrowings, financing, derivative contracts, and other financial transactions.

#### **Current and deferred income tax and social contribution on profit**

Income tax and social contribution on profit are recorded on the accrual basis. Said taxes attributed to temporary differences and tax loss carryforwards are recorded in assets or liabilities, as applicable, only under the assumption of future realization or payment. The Company prepares technical studies that consider the future generation of taxable income, according to management expectations, considering the continuity of the companies as going concerns. The Company writes down the carrying amount of deferred tax assets when it is not longer probable that sufficient taxable income will be available to allow the utilization of the whole or part of the deferred tax assets.

Any write-down to deferred tax assets is reversed when it is probable that sufficient taxable income will be available. The technical studies are updated annually, approved by the Board of Directors and reviewed by the Supervisory Board, and the tax credits are adjusted based on the results of these reviews. Deferred tax assets and liabilities are measured using the tax rates applicable for the period in which the liability is expected to be settled or the asset is expected to be realized, based

## **Oi S.A. and Subsidiaries**

### **Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)**

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on the tax rates set forth in the tax law prevailing at the end of each reporting period, or when new legislation has been substantially approved. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Company expects, at the end of each reporting period, to recover or settle the carrying amount of these assets and liabilities.

#### **Government grants and government assistance**

Government grants are initially recognized as deferred revenue at fair value when there is reasonable assurance that they will be received and that the Company will comply with the conditions attaching to them. Government grants received as compensation for Company's expenses incurred are recognized as income on a systematic basis in the same periods when such expenses are recognized, and grants received as compensation for the cost on an asset are recognized as income on a systematic basis over the useful life of the asset.

#### **Earnings per share**

Basic earnings per share are calculated using profit for the period attributable to the owners of the Company and non-controlling interests and the weighted average number of common and preferred shares outstanding in the period. Diluted earnings per share are calculated using said weighted average number of outstanding shares adjusted by potentially dilutive convertible instruments in the reporting periods, pursuant to CPC 41 and IAS 33.

#### **Statements of value added**

The Company prepared the individual and consolidated statements of value added ("DVA") as required by CPC 09 Statements of Value Added, which are presented as an integral part of the financial statements in accordance with the accounting practices adopted in Brazil applicable to publicly-traded companies, while under the IFRSs these statements represent additional disclosures.

#### **Statements of cash flows**

The statement of cash flows is prepared in accordance with CPC03 (R2)/IAS 7, under the indirect method. The Company classifies in line item 'Cash and cash equivalents' the balances amounts immediately convertible into cash and highly-liquid investments (usually with maturities of less than three months) subject to an immaterial risk of change in value.

Cash flows are classified in the statements of cash flows, depending of their nature, as (i) operating activities; (ii) investing activities; and (iii) financing activities. Cash flows arising from operating activities basically comprise trade receivables, trade payables, personnel expenses, financial charges, and losses on lawsuits. Cash flows arising from investing activities basically comprise the acquisition and disposal of investments, escrow deposits and withdrawals, and cash payments and cash receipts from the purchase and sale of property, plant and equipment, intangibles and other long-term assets. Cash flows arising from financing activities basically comprise cash payments and cash proceeds related to borrowings and financing, loans, derivatives, and dividends and interest on capital.

## **Oi S.A. and Subsidiaries**

### **Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)**

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#### **(c) Estimates and critical accounting judgments**

In preparing the financial statements, the Company's management uses estimates and assumptions based on historical experience and other factors, including expected future events, which are considered reasonable and relevant. The use of estimates and assumptions frequently requires judgments related to matters that are uncertain with respect to the outcomes of transactions and the amount of assets and liabilities. Actual results of operations and the financial position may differ from these estimates. The estimates that represent a significant risk of causing material adjustments to the carrying amounts of assets and liabilities are as follows:

#### **Revenue recognition and trade receivables**

The Company's revenue recognition policy is significant as it is a material component of operating results. Pricing undertaken by management, collection ability, and the right to receive certain network usage revenue are based on judgment related to the nature of the tariff collected for the services provided, the price of certain products, and the right to collect this revenue. If changes in conditions cause management to conclude that such criteria are not met in certain operations, the amount of trade receivables might be affected. In addition, the Company depends on guidelines to measure certain revenue set by the ANATEL (Brazilian telecommunications industry regulator).

#### **Allowance for doubtful accounts**

The allowance for doubtful accounts is set to recognize probable losses on receivables, as described in note 2, taking into account the actions taken to restrict the provision of services to and collect default customers.

The Company's management includes government entities, corporate customers, and other providers of telecommunications services in the base to calculate the allowance. There are cases of agreements with certain customers to collect past-due receivables, including agreements that allow customers to settle their debts in installments. The actual amounts not received may be different from the allowance recognized, and additional accruals might be required.

#### **Depreciation and amortization of assets with finite useful lives**

Property, plant and equipment items and intangible assets with finite useful lives are depreciated and amortized, respectively, on a straight-line basis, over the useful lives of the related asset. The depreciation and amortization rates of the most significant assets are shown in Notes 16 and 17, respectively.

The useful lives of certain assets may vary as they are used in the fixed-line or mobile telephony segments. The Company reviews the useful lives of assets on annual basis.

#### **Impairment of long-lived assets**

## **Oi S.A. and Subsidiaries**

### **Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)**

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The Company tests property, plant and equipment items and intangible assets for impairment either in light of decisions to discontinue activities where such assets are used or when there are evidences that the future operating revenue will not be sufficient to assure their realization.

Assets with finite useful lives are tested for impairment whenever events or changes in circumstances indicate that the asset might be impaired. The Company tests assets with indefinite useful lives (goodwill) for impairment annually in accordance with the accounting policy described in note 2 (b).

The recoverable amounts of assets are determined by comparing the calculations of their value in use and their sales prices. These calculations require the use of judgments and assumptions. The determination of fair values and discounted future operating cash flows requires that the Company makes certain assumptions and estimates with respect to projected cash inflows and cash outflows related to future revenue, costs and expenses. These assumptions and estimates may be influenced by different external and internal factors, such as economic trends, industry trends and interest rates, changes in business strategies, and changes in the type of services and products sold by the Company to the market. The use of different assumptions can significantly change our financial statements.

#### **Provisions**

The Company recognizes provisions for losses in labor, tax and civil lawsuits, as administrative proceedings, as presented in note 23. The recognition of a provision for contingent liabilities is based on the assessment of the risk of loss made for each proceeding, which includes assessing available evidences and recent decisions, and reflects a reasonable estimate as assessed by management, the General Counsel, and the outside legal counsel. It is possible that the assumptions used to estimate the provision for contingent liabilities change, which can, therefore, result in changes in future provisions for contingent liabilities.

#### **Derivative financial instruments**

Derivative financial instruments are recognized at fair value based on future cash flow estimates associated to each instrument contracted. The estimates presented may not necessarily be indicative of the amounts that could be obtained in the current market. The use of different assumptions to measure the fair value could have a material effect on the amounts obtained and not necessarily be indicative of the cash amounts that the Company would receive or to settle such transactions.

#### **Deferred income tax and social contribution**

The Company recognizes and settles taxes on income based on the results of operations determined in accordance with the Brazilian corporate law, taking into consideration the provisions of the tax law, which are materially different from the amounts calculated for CPC and IFRS purposes. Pursuant to CPC 32 (IAS 12), the Company recognizes deferred tax assets and liabilities based on the differences between the carrying amounts and the taxable bases of the assets and liabilities.

The Company regularly tests deferred tax assets for impairment and recognizes an allowance for impairment losses when it is probable that these assets may not be realized, based on the history of

## **Oi S.A. and Subsidiaries**

### **Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)**

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taxable income, the projection of future taxable income, and the time estimated for the reversal of existing temporary differences. These calculations require the use of estimates and assumptions. The use of different estimates and assumptions could result in the recognition of an allowance for impairment losses for the entire or a significant portion of the deferred tax assets.

#### **Employee benefits**

The actuarial valuation is based on assumptions and estimates related to interest rates, return on investments, inflation rates for future periods, mortality indices, and an employment level projection related to the pension fund benefit liabilities. The accuracy of these assumptions and estimates will determine the creation of sufficient reserves for the costs of accumulated pensions and healthcare plans, and the amount to be disbursed annually on pension benefits. These assumptions and estimates are subject to significant fluctuations due to different internal and external factors, such as economic trends, social indicators, and our capacity to create new jobs and retain our employees. All assumptions are reviewed at the end of the reporting period. If these assumptions and estimates are not accurate, there may be the need to revise the reserves for pension benefits, which could significantly impact Company results.

#### **(d) New and revised standards and interpretations**

##### **New standards that became effective in 2012 but that did not affect the individual and consolidated financial statements**

The adoption of new and revised IFRSs that became effective in 2012 had no impact, individually or in aggregate, on the amounts reported and/or disclosed for the current and prior years; however, they could affect the accounting of future transactions or arrangements.

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income (iii): permit presenting the income statement and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that will be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis.

Amendments to IAS 12 – Clarifies the tax treatment of investment property values at fair value.

##### **Standards and interpretations not yet effective and not yet adopted**

IFRS 9 *Financial Instruments* (iii): introduces new requirements for the classification, measurement and derecognition of financial assets. The most significant effect of the new standard relates to the accounting for changes in the fair value of a financial liability (designated as at fair value through income statement) attributable to changes in the credit risk of that liability. Thus, the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in 'Other comprehensive income', unless the recognition of the effects of

## Oi S.A. and Subsidiaries

### Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)

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changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss.

IFRS 10 *Consolidated Financial Statements* (i): replaces the parts of IAS 27 Consolidated and Separate Financial Statements that deal with consolidated financial statements. SIC-12 *Consolidation - Special Purpose Entities* has been withdrawn upon the issuance of IFRS 10. Under IFRS 10, there is only one basis for consolidation, that is control. In addition, IFRS 10 includes a new definition of control.

IFRS 11 *Joint Arrangements* (i): replaces IAS 31 *Interests in Joint Ventures* and deals with how a joint arrangement of which two or more parties have joint control should be classified. In June 2012, the IASB revised the transition guidelines to limit the comparative application requirement only for the immediately previous year.

IFRS 12 *Disclosure of Interests in Other Entities* (i): is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in IFRS 12 are more extensive than those in the current standards. In June 2012, the IASB revised the transition guidelines to limit the comparative application requirement only for the immediately previous year.

IFRS 13 *Fair Value Measurement* (i): establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The standard defines fair value, establishes a framework for measuring fair value, and requires disclosures about fair value measurements. In June 2012, the IASB revised the transition guidelines to limit the comparative application requirement only for the immediately previous year.

Amendments to IAS 19 *Employee Benefits* (i): the amendments to IAS 19 change the accounting for defined benefit plans and termination benefits. The revised standard eliminates the possibility of using the corridor approach to recognize actuarial gains and losses of defined benefit plans and prescribes that actuarial gains and losses shall be recognized directly in equity (other comprehensive income). The Company estimates that the new standard will have a negative impact on its individual and consolidated equity (other comprehensive income) by R\$315,983 and R\$314,056, respectively, on transition date.

Amendments to IAS 27 *Separate Financial Statements* (i): the amendments reflect the changes in the accounting for non-controlling interests (minority interests) and relate primarily to accounting for increases and decreases in ownership interests in subsidiaries after control is obtained, accounting for loss of control of subsidiaries, and the allocation of profit or loss to controlling and non-controlling interests in a subsidiary.

Amendments to IAS 28 *Investments in Associates and Joint Ventures* (i): the objective of the amendment to IAS 28 was to clarify that: (a) an investment in an associate is treated as a single asset for impairment testing in accordance with IAS 36 *Impairment of Assets*; (b) any impairment recognized is not allocated to any specific assets (notable goodwill); (c) reversed impairment losses are recognized as an adjustment to the carrying amount of the associate provided and to the extent that the recoverable amount of the investment increases; and (d) transition from proportionate

## Oi S.A. and Subsidiaries

### Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)

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consolidate to the equity method to account for joint ventures. The company estimates that applying this standard will reduce by immaterial amounts the assets, liabilities, revenue and expenses presented in the consolidated financial statements.

Amendments to IFRS 7 *Financial Instruments: Disclosure* (i) and IAS 32 *Financial Instruments: Recognition* (ii): the amendments require more extensive disclosures on the financial items that are in presented net amounts in the balance sheet.

Amendments to IFRS 1 *First Time Adoption of IFRSs* (i): The amendments do not impact the Company.

- (i) Effective for annual periods beginning on or after January 1, 2013.
- (ii) Effective for annual periods beginning on or after January 1, 2014.
- (iii) Effective for annual periods beginning on or after January 1, 2015.

#### **New accounting pronouncements issued by the CPC**

During 2012 the CPC issued the pronouncements and revised pronouncements equivalent to the new IFRSs that become effective in 2013. Because of the CPC's and the Brazilian Securities and Exchange Commission's (CVM) commitment to keep the set of standards issued updated according to the changes made by the IASB, we expect that all new pronouncements and revised pronouncements be issued by the CPC and approved by the CVM by the date they become effective.

#### **(e) Restatement of the Financial Statements (DFPs) for the Year Ended December 31, 2012**

As a result of the corporate reorganization undertaken on February 27, 2012, as described in Note 1, through the mergers of Coari and TNL and their net assets, the Company recognized in its accounting books the appreciation of property, plant and equipment items and intangible assets originating from the Brasil Telecom S.A. (current Oi S.A.) control acquisition process. The impacts of all stages of the corporate reorganization were prospectively accounted for based on the book net assets of each company.

Subsequently, the Company made a consultation to the CVM on the adopted accounting treatment that, based on management's judgment, represents better the substance of the transaction, with regard to the recognition of the assets' appreciation originating from the acquisition of control in Brasil Telecom S.A. (current Oi S.A.) taking into account the Oi Group's corporate structure, whose ultimate controlling shareholder is Telemar Participações S.A., as the accounting practices adopted in Brazil and the IFRSs do not provide for any accounting treatment for corporate restructuring transactions of companies under common control. The adopted accounting treatment addressed the corporate reorganization from the standpoint of Brasil Telecom S.A. (current Oi S.A.), which is the remaining entity and, therefore, does not take into account the appreciation of own net assets, while the previously adopted and hereby revised accounting treatment, addressed the corporate reorganization from the standpoint of Tele Norte Leste Participações S.A. (TNL) and, therefore, took into account the appreciation of Brasil Telecom S.A.'s net assets.

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On April 24, 2013, the CVM's Board unanimously decided to grant the Company's request, which consists of adopting the accounting policy that entails reversing asset appreciation and allocating such appreciation to Telemar Participações S.A., Oi S.A.'s parent company, as this Board understands that the adopted alternative appears to be more appropriate to the specific case presented, as it provides more significant and more reliable information to investors. This decision was notified through Official Letter CVM/SEP/GEA-5/No. 119/2013, of April 25, 2013.

As a result, the financial statements for the year ended December 31, 2012 are being restated to reflect said change in accounting policy.

The effects of the restatement of these financial statements are the following:

	Company			Consolidated		
	Originally presented	Ajustment	Restated	Originally presented	Ajustment	Restated
<b>ASSETS:</b>	56,554,555	(8,714,377)	47,840,178	77,791,271	(8,714,377)	69,076,894
Deferred taxes – non-current	198,365	4,134,907	4,333,272	4,075,999	4,134,907	8,210,906
Held-for-sale assets - non-current	42,838	(18,330)	24,508	112,852	(18,330)	94,522
Investments	24,398,093	64,823	24,462,916			
Property, plant and equipment	6,432,615	(1,709,052)	4,723,563	24,819,113	(1,709,052)	23,110,061
Intangible assets	11,471,695	(11,186,725)	284,970	15,359,054	(11,121,902)	4,237,152
Total non-current assets	49,185,340	(8,714,377)	40,470,963	56,646,485	(8,714,377)	47,932,108
<b>LIABILITIES:</b>	36,727,937	(204,313)	36,523,624	57,964,653	(204,313)	57,760,340
Dividends and interest on capital – current	613,097	29,536	642,633	625,770	29,536	655,306
Total current liabilities	7,269,820	29,536	7,299,356	17,066,887	29,536	17,096,423
Deferred taxes – non-current	233,849	(233,849)		233,849	(233,849)	
Total non-current liabilities	29,458,117	(233,849)	29,224,268	40,897,766	(233,849)	40,663,917
<b>EQUITY</b>	19,826,618	(8,510,064)	11,316,554	19,826,618	(8,510,064)	11,316,554
Capital reserves	13,730,513	(9,427,978)	4,302,535	13,730,513	(9,427,978)	4,302,535
Income reserves	383,527	947,450	1,330,977	383,527	947,450	1,330,977
Reserve for additional dividends	420,858	(29,536)	391,322	420,858	(29,536)	391,322
<b>ACUMULATED INCOME STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2012:</b>						
Cost of sales and services	(4,741,402)	1,292,740	(3,448,662)	(13,965,993)	1,292,740	(12,673,253)
General and administrative expenses	(1,092,395)	70,968	(1,021,427)	(3,069,405)	70,968	(2,998,437)
Other operating expenses	(796,190)	71,823	(724,367)	(1,958,049)	71,823	(1,886,226)
Income before taxes	143,667	1,435,531	1,579,198	1,109,081	1,435,531	2,544,612
Deferred Income tax and social contribution	768,140	(488,081)	280,059	662,475	(488,081)	174,394
Net income for the year	837,440	947,450	1,784,890	837,477	947,450	1,784,927
Net income attributed to controlling shareholders	837,440	947,450	1,784,890	837,440	947,450	1,784,890
Basic and diluted earnings per share (R\$):						
Common shares – basic and diluted	0.51	0.58	1.09	0.51	0.58	1.09
Preferred shares – basic and diluted	0.51	0.58	1.09	0.51	0.58	1.09
<b>STATEMENTS OF CHANGES IN EQUITY</b>						
Corporate reorganization	13,574,013	(9,427,978)	4,146,035	13,614,107	(9,427,978)	4,186,129
Net income for the year	837,440	947,450	1,784,890	837,477	947,450	1,784,927
Declared dividends	(416,686)	(29,536)	(446,222)	(416,686)	(29,536)	(446,222)
<b>STATEMENTS OF CASH FLOWS</b>						
Income (loss) before taxes	143,667	1,435,531	1,579,198	1,109,081	1,435,531	2,544,612

**Oi S.A. and Subsidiaries****Notes to the Financial Statements  
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	Company			Consolidated		
	Originally presented	Ajustment	Restated	Originally presented	Ajustment	Restated
Depreciation and amortization	2,063,745	(1,363,708)	700,037	4,591,808	(1,363,708)	3,228,100
Loss on disposal of permanent assets	83,539	(71,823)	11,716	339,096	(71,823)	267,273
STATEMENTS OF VALUE ADDED						
Other income	810,158	71,823	881,981	1,896,825	71,823	1,968,648
Revenue	10,206,891	71,823	10,278,714	35,396,127	71,823	35,467,950
Gross value added	6,020,133	71,823	6,091,956	20,948,386	71,823	21,020,209
Depreciation and amortization	(2,063,745)	1,363,708	(700,037)	(4,591,808)	1,363,708	(3,228,100)
Retentions	(2,582,672)	1,363,708	(1,218,964)	(5,394,274)	1,363,708	(4,030,566)
Wealth created by the Company	3,437,461	1,435,531	4,872,992	15,554,112	1,435,531	16,989,643
Wealth for distribution	7,070,103	1,435,531	8,505,634	17,829,484	1,435,531	19,265,015
Taxes and fees - federal	364,744	(488,081)	(123,337)	(1,611,196)	(488,081)	(2,099,277)
Taxes and fees	(1,730,171)	(488,081)	(2,218,252)	(9,070,971)	(488,081)	(9,559,052)
Retained earnings	(420,754)	(947,450)	(1,368,204)	(420,754)	(947,450)	(1,368,204)
Shareholders	(837,440)	(947,450)	(1,784,890)	(837,477)	(947,450)	(1,784,927)
Wealth distributed	(7,070,103)	(1,435,531)	(8,505,634)	(17,829,484)	(1,435,531)	(19,265,015)
STATEMENTS OF COMPREHENSIVE INCOME						
Net income for the year	837,440	947,450	1,784,890	837,477	947,450	1,784,927
Total comprehensive income for the year	977,624	947,450	1,925,074	977,661	947,450	1,925,111
Comprehensive income attributable to controlling shareholders	977,624	947,450	1,925,074	977,624	947,450	1,925,074

Additionally, the Annual Report, and Other Information deemed material by the Company, as well as Nota 1 (General Information), Note 2 (Significant Accounting Policies), Note 5 (Expenses by Nature), Note 6 (Other Operating Income and Expenses), Note 8 (Income Tax and Social Contribution), Note 12 (Current and Deferred taxes on Income), Note 15 (Investments), Note 16 (Property, Plant and Equipment), Note 17 (Intangible Assets), Note 24 (Equity), and Note 26 (Segment Information), for the year ended December 31, 2012, are being voluntarily restated to state the carrying amounts and the adjusted disclosures after the corrections referred to in the paragraphs and table above.

**3. DERIVATIVE FINANCIAL INSTRUMENTS AND RISK ANALYSIS****Financial risk management**

The Company's and its subsidiaries' activities expose them to several financial risks, such as: market risk (including currency fluctuation risk, interest rate risk on fair value, interest rate risk on cash flows, and price risk), credit risk, and liquidity risk. The Company and its subsidiaries use derivative financial instruments to protect them against certain exposures to these risks.

Risk management is carried out by the Company's treasury officer, in accordance with the policies approved by management.

The Financial Risk Management Policy (the "Policy"), approved by the Board of Directors, documents the management of exposures to market risk factors generated by the financial transactions of the Oi Group companies. Under the Policy, market risks are identified based on the features of financial transactions contracted and to be contracted during the year. Several scenarios

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are then simulated for each of the risk factors using statistical models, used as basis to measure the impacts the on Group's financial income (expenses). Based on this analysis, the Executive Committee annually agrees with the Board of Directors the Risk Guideline to be followed in each financial year. The Risk Guideline is equivalent to the worst expected impact of financial income (expenses) on the Group's net income, with 95% of level of confidence. To ensure a proper risk management, according to the Risk Guideline, the treasury can contract hedging instruments, including derivative transactions such as swaps and currency forwards. The Company and its subsidiaries do not use derivative financial instruments for other purposes.

With the approval of the Policy, a Financial Risk Management Committee that meets monthly was created, currently consisting of the CEO, the CFO, the Regulatory Affairs Officer, the Planning and Development Officer, the Tax Officer, the General Controller, and the Treasury Officer, and the Internal Audit Officer as observer.

According to their nature, financial instruments may involve known or unknown risks, and it is important to assess to the best judgment the potential of these risks.

#### **(a) Fair value of financial instruments**

The Company and its subsidiaries have measured their financial assets and financial liabilities at their market or actual realizable values (fair value) using available market inputs and valuation techniques appropriate for each situation. The interpretation of market inputs for the selection of such techniques requires considerable judgment and the preparation of estimates to obtain an amount considered appropriate for each situation. Accordingly, the estimates presented may not necessarily be indicative of the amounts that could be obtained in an active market. The use of different assumptions for the calculation of the fair value may have a material impact on the amounts obtained.

The method used for calculation of the fair value of derivative instruments was the future cash flows associated to each instrument contracted, discounted at market rates prevailing at December 31, 2012.

The fair value of securities traded in active markets is equivalent to the amount of the last closing quotation available at the end of the reporting period, multiplied by the number of outstanding securities.

For the remaining contracts, the Company carries out an analysis comparing the current contractual terms and conditions with the terms and conditions effective for the contract when they were originated. When terms and conditions are dissimilar, fair value is calculated by discounting future cash flows at the market rates prevailing at yearend, and when similar, fair value is similar to the carrying amount on the reporting date.

#### **Fair value measurement hierarchy**

CPC 40/IFRS 7 defines fair value as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on

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measurement date. The standard clarifies that the fair value must be based on the assumptions that market participants would consider in pricing an asset or a liability, and establishes a hierarchy that prioritizes the information used to build such assumptions. The fair value measurement hierarchy attaches more importance to available market inputs (i.e., observable data) and a less weight to inputs based on data without transparency (i.e., unobservable data). Additionally, the standard requires that an entity consider all nonperformance risk aspects, including the entity's credit, when measuring the fair value of a liability.

CPC 40/IFRS 7 establishes a three-level hierarchy to measure and disclose fair value. The classification of an instrument in the fair value measurement hierarchy is based on the lowest level of input significant for its measurement. We present below a description of the three-level hierarchy:

Level 1 — inputs are determined using quoted prices in an active market for identical assets or liabilities on measurement date. Additionally, an entity must have the possibility of trading in such active market and the quoted price cannot be adjusted by the entity.

Level 2 — Inputs other than the quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 2 inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities in markets that are not active; or inputs that are observable for the asset or liability or that can support the observed market inputs by correlation or otherwise for substantially all the asset or liability.

Level 3 — unobservable inputs are inputs based on little or no market activity. These inputs represent management's best estimates of how market participants could attribute a price to an asset or liability. Generally, Level 3 assets and liabilities are measured using pricing models, discounted cash flows, or similar methodologies that require significant judgment or estimates.

Under CPC 40/IFRS 7, the Company measures its cash equivalents, cash investments, derivative financial instruments and the available-for-sale financial asset at their fair values. Cash equivalents, cash investments, and derivative financial instruments are classified as Level 2 since they are measured using market prices for similar instruments. The available-for-sale financial asset is classified as Level 1.

There were no transfers between levels and/or allocations to Level 3 between December 31, 2011 and December 31, 2012.

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The table below summarizes our financial assets and financial liabilities carried at fair value at December 31, 2012 and 2011. We also show the corresponding hierarchy levels for financial assets and financial liabilities recognized at fair value:

	Accounting measurement	Fair value measurement hierarchy	COMPANY		CONSOLIDATED	
			2012			
			Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets</b>						
Cash equivalents	Fair value	Level 2	1,020,224	1,020,224	4,066,168	4,066,168
Cash investments	Fair value	Level 2	867,554	867,554	2,489,599	2,489,599
Accounts receivable (iv)	Amortized cost		1,756,800	1,756,800	7,018,497	7,018,497
Derivative financial instruments	Fair value	Level 2	628,030	628,030	989,099	989,099
Dividends and interest on capital receivable	Amortized cost		663,884	663,884		
Due from related parties	Amortized cost		1,501	1,501		
Available-for-sale financial asset (i)	Fair value	Level 1			905,829	905,829
<b>Liabilities</b>						
Trade payables (iv)	Amortized cost		1,567,710	1,567,710	4,658,849	4,658,849
Borrowings and financing						
Borrowings and financing (iii)	Amortized cost		12,828,637	13,466,814	25,169,701	25,807,878
Debentures	Amortized cost		13,602,838	14,548,228	8,176,388	8,457,517
Derivative financial instruments	Fair value	Level 2	319,726	319,726	514,297	514,297
Dividends and interest on capital	Amortized cost		642,633	642,633	655,306	655,306
Licenses and concessions payable (ii)	Amortized cost		49,426	49,426	2,157,997	2,157,997
Tax refinancing program (ii)	Amortized cost		542,658	542,658	1,085,099	1,085,099

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	Accounting measurement	Fair value measurement hierarchy	COMPANY		CONSOLIDATED	
			2011			
			Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets</b>						
Cash equivalents	Fair value	Level 2	4,264,765	4,264,765	5,868,374	5,868,374
Cash investments	Fair value	Level 2	102,658	102,658	1,097,354	1,097,354
Accounts receivable (iv)	Amortized cost		1,705,213	1,705,213	2,010,487	2,010,487
Derivative financial instruments	Fair value	Level 2	7,186	7,186	7,186	7,186
Dividends and interest on capital receivable	Amortized cost		430,377	430,377		
Due from related parties	Amortized cost		6,703	6,703	2,217,682	2,331,243
<b>Liabilities</b>						
Trade payables (iv)	Amortized cost		1,543,703	1,543,703	1,840,552	1,840,552
Borrowings and financing						
Borrowings and financing (iii)	Amortized cost		4,712,170	4,642,398	3,996,588	3,926,816
Debentures	Amortized cost		4,108,623	4,145,270	4,108,623	4,145,270
Derivative financial instruments	Fair value	Level 2	25,698	25,698	25,698	25,698
Dividends and interest on capital	Amortized cost		307,720	307,720	307,720	307,720
Licenses and concessions payable (ii)	Amortized cost				676,481	676,481
Redeemable bonus shares	Amortized cost		1,501,984	1,501,984	1,501,984	1,501,984
Tax refinancing program (ii)	Amortized cost		419,131	419,131	446,428	446,428

(i) On March 4, 2011, TMAR initiated the process to acquire equity interest in PT - Portugal Telecom, as disclosed in the Material Fact Notice of January 25, 2011. On March 31, 2012, TMAR held a 7.4% stake in PT's capital for which it had paid a total of R\$1,366,910, already including transaction costs and taxes totaling R\$157,735.

After successive acquisitions during April and May 2012, TMAR completed the acquisition of a 10% stake in PT, for which it paid R\$250,186, included in the transactions costs, and taxes totaling R\$951.

## **Oi S.A. and Subsidiaries**

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Management considers that (i) TMAR's 10% stake in PT's capital and (ii) its two (2) representatives appointed on April 6, 2011 to PT's Board of Directors do not grant it a significant influence on the financial, operating, and strategic policies of PT. Accordingly, this investment was recognized as an available-for-sale financial asset, as required by CPC 38/IAS 32 and 39.

In the year ended December 31, 2012, TMAR recognized an impairment of the fair value of PT shares the impact on the Company's consolidated amounting to R\$82,991, or R\$54,774 net of taxes.

Because of its materiality and in accordance with CPC 38/IAS 32 and 39, direct subsidiary TMAR recognized the financial expense loss.

(ii) There is no market for licenses and concessions payable and the tax refinancing program, and, therefore, they are not adjusted to fair value.

(iii) A significant portion of this balance consists of loans and financing granted by the BNDES, export credit agencies, and other related parties, which correspond to exclusive markets and, therefore, their fair values are similar to their carrying amounts.

(iv) The balances of trade receivables and trade payables have near terms and, therefore, they are not adjusted to fair value.

#### **(b) Measurement of financial assets and financial liabilities at amortized cost**

We concluded that the discount to present value of financial assets and financial liabilities under the amortized cost method does not apply, based on the valuation made for this purpose, for the following main reasons:

- Trade receivables: near-term maturity of bills.
- Trade payables, dividends and interests on capital: all obligations are due to be settled in the short term.
- Borrowings and financing: all transactions are adjusted for inflation based on contractual indices.
- Licenses and concessions payable: all obligations arising from licenses are adjusted for inflation based on contractual indices.

#### **(c) Foreign exchange risk**

##### **Assets**

Foreign currency-denominated cash equivalents and cash investments are basically maintained in investment funds exclusively managed for the Company and its subsidiaries, and time deposits.

The risk associated to these assets arises from the possible exchange rate fluctuations that may reduce the balance of these assets. The Company's and its subsidiaries' assets subject to this risk

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represent approximately 6.71% (26.5% in 2011) of our total cash and cash equivalents and cash investments.

Additionally, subsidiary TMAR has an available-for-sale financial asset related to the investment in Portugal Telecom's shares.

These assets are presented in the balance sheet as follows:

	COMPANY			
	2012		2011	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets</b>				
Cash equivalents	27,565	27,565	1,235,754	1,235,754
Cash investments	140	140		

	CONSOLIDATED			
	2012		2011	
	Carrying amount	Fair value	Carrying amount	Fair value
<b>Assets</b>				
Cash equivalents	449,791	449,791	1,299,466	1,299,466
Cash investments	13,246	13,246		
Available-for-sale financial asset	905,829	905,829		

**Liabilities**

The Company and its subsidiaries have foreign currency-denominated borrowings and financing. The risk associated with these liabilities is related to the possibility of fluctuations in foreign exchange rates that could increase the balance of such liabilities. The Company's and subsidiaries' borrowings and financing exposed to this risk represent approximately 39.1% (0.01% in 2011) of total liabilities from borrowings and financing, less the currency hedging transactions contracted. In order to minimize this type of risk, we enter into foreign exchange hedges with financial institutions. Out of the consolidated foreign currency-denominated debt, 97% (100% in 2011) is protected by exchange *swaps*, currency forwards, and cash investments in foreign currency. The unrealized gains or losses on hedging transactions are measured at fair value, as described in (a) above.

As at December 31, 2012 and 2011, the amounts shown below were recorded as gain or loss on derivatives (see note 7):

	COMPANY		CONSOLIDATED	
	2012	2011	2012	2011
Gain/(loss) on currency swaps	152,555	(2,434)	458,774	(2,434)
Currency forwards	407,574	(46,817)	467,041	(46,817)
<b>Total</b>	<b>560,129</b>	<b>(49,251)</b>	<b>925,815</b>	<b>(49,251)</b>

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As at December 31, 2012, we recognized the changes below in other comprehensive income referring to foreign exchanges hedges designated for hedge accounting treatment:

<b>Table of changes in hedge accounting effects in other comprehensive income</b>		
	<b>COMPANY</b>	<b>CONSOLIDATED</b>
<b>Balance at 2011</b>		
Corporate reorganization:		
. Gain on designated hedges	119,907	119,907
. Deferred taxes on hedge accounting	(40,768)	(40,768)
. Share of subsidiary's hedge accounting	10,103	15,307
. Deferred taxes on share of subsidiary's hedge accounting		(5,204)
Loss on designated hedges	25,271	47,872
Transfer on ineffective portion to profit or loss	(495)	1,055
Amortization of hedges to profit or loss at effective rate	8,483	9,990
Deferred taxes on hedge accounting	(11,308)	(20,032)
Share of subsidiary's hedge accounting – after Feb 27, 2012	16,934	
<b>Balance at 2012</b>	<b>128,127</b>	<b>128,127</b>

Swap derivative financial instruments are summarized as follows:

	<b>Derivatives designated for hedge accounting</b>					
	<b>COMPANY</b>					
	<b>Index</b>	<b>Maturity</b>	<b>Notional amount</b>		<b>Fair value</b>	
			<b>2012</b>	<b>2011</b>	<b>Amounts (payable)/receivable</b>	
				<b>2012</b>	<b>2011</b>	
<b>Cross currency swap contracts US\$/R\$ (i)</b>						
Asset position	US\$4.75% to 5.50%	Apr 2019 to Oct 2020	1,266,970		1,445,505	
Liability position	CDI 83.55% to 103.52%	Apr 2019 to Oct 2020	(1,266,970)		(1,098,222)	
<b>Net amount</b>					<b>347,283</b>	
<b>Cross currency swap contracts US\$/Fixed rate (ii)</b>						
Asset position	US\$3.32% to 5.50%	Oct 2020	1,430,450		1,610,741	
Liability position	R\$6.15% to 12.82%	Oct 2020	(1,430,450)		(1,536,258)	
<b>Net amount</b>					<b>74,483</b>	

Counterparty:

(i) - Deutsche, Goldman Sachs, JP Morgan, Merrill Lynch, Morgan Stanley and Santander.

(ii) - Goldman Sachs, Merrill Lynch and Morgan Stanley

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	Derivatives designated for hedge accounting					
	CONSOLIDATED					
	Index	Maturity	Notional amount		Fair value Amounts (payable)/receivable	
			2012	2011	2012	2011
<b>Cross currency swap contracts US\$/R\$ (i)</b>						
Asset position	US\$2.21% to 5.50%	Jul 2015 to Mar 2021	1,703,023		1,916,017	
Liability position	CDI 70.40% to 103.52%	Jul 2015 to Mar 2021	(1,703,023)		(1,632,472)	
<b>Net amount</b>					<b>283,545</b>	
<b>Cross currency swap contracts US\$/Fixed rate (ii)</b>						
Asset position	US\$3.32% to 5.50%	Oct 2020	1,430,450		1,610,742	
Liability position	R\$6.15% to 12.82%	Oct 2020	(1,430,450)		(1,536,258)	
<b>Net amount</b>					<b>74,484</b>	
<b>Cross currency swap contracts US\$/R\$ (iii)</b>						
Asset position	6M US\$ LIBOR + 1.07% to 2.50%	Feb 2016 to Aug 2020	1,836,024		1,865,155	
Liability position	CDI 88.65% to 109.54%	Feb 2016 to Aug 2020	(1,836,024)		(1,678,765)	
<b>Net amount</b>					<b>186,390</b>	

Counterparty:

(i) - Deutsche, Goldman Sachs, JP Morgan, Merrill Lynch, Morgan Stanley, Santander, Itaú BBA and Citibank

(ii) - Goldman Sachs, Merrill Lynch and Morgan Stanley

(iii) - Credit Agricole, JP Morgan, Merrill Lynch, Morgan Stanley, Santander, BNP Paribas and HSBC.

	Derivatives not designated for hedge accounting					
	CONSOLIDATED					
	Index	Maturity	Notional amount		Fair value Amounts (payable)/receivable	
			2012	2011	2012	2011
<b>Cross currency swap contracts US\$/R\$ (i)</b>						
Asset position	US\$3.00% to 5.58%	Nov 2014 to Feb 2016	307,203		340,674	
Liability position	CDI 100.00% to 110.00%	Nov 2014 to Feb 2016	(307,203)		(344,928)	
<b>Net amount</b>					<b>(4,254)</b>	
<b>Cross currency swap contracts R\$/US\$ (ii)</b>						
Asset position	CDI 100.00%	Feb 2016	197,318		200,162	
Liability position	US\$4.13% to 4.68%	Feb 2016	(197,318)		(218,733)	
<b>Net amount</b>					<b>(18,571)</b>	

Counterparty:

(i) - Citibank, Deutsche and Santander

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(ii) - Merrill Lynch

**Cross currency swap contracts (plain vanilla)**

US\$/R\$: Refer to foreign exchange swaps to protect its US dollar-denominated debt payments. Under these contracts, the asset position is in US dollars plus a fixed interest rate or in US LIBOR plus a fixed interest rate, and the liability position a percentage of interbank deposit rate (CDI) or a fixed rate in real. The main risk of loss in the asset position of these instruments is the US dollar exchange rate fluctuation; however, such losses would be fully offset by the US dollar-denominated debt's maturities.

R\$/US\$: Refer to foreign exchange swaps to reverse swap contracts. Under these contracts, the asset position is in US dollar plus a fixed rate and the liability position is a percentage of CDI. The main risk of loss in the liability position of these instruments is the US dollar exchange rate fluctuation; however, such possible losses would be fully offset by the maturities of the reversed US dollar-denominated swaps.

The amounts of NDF derivative financial instruments are summarized as follows:

	COMPANY						
	Index	Forward	Maturity	Notional amount		Fair value	
						Amounts	
				2012	2011	(payable)/receivable	
			2012	2011	2012	2011	
US\$/R\$ NDFs (i)	US\$	2.0476 to 2.1314	Jan 2013 a Mar 2013				
<b>Net position</b>				<b>4,659,007</b>	<b>642,963</b>	<b>(99,311)</b>	<b>(18,512)</b>
EUR/R\$ NDFs (ii)	EUR	2.7041 to 2.7554	Jan 2013 to Feb 2013				
<b>Net position</b>				<b>2,020,500</b>		<b>(3,721)</b>	

Counterparty:

(i) - BNP, Barclays, Bradesco, Goldman Sachs, HSBC, Itaú, Merrill Lynch, Santander and Pine.

(ii) - Barclays, Itaú, Merrill Lynch, Goldman Sachs, Morgan Stanley and Santander

	CONSOLIDATED						
	Index	Forward	Maturity	Notional amount		Fair value	
						Amounts	
				2012	2011	(payable)/receivable	
			2012	2011	2012	2011	
US\$/R\$ NDFs (i)	US\$	2.0476 to 2.1314	Jan 2013 to Mar 2013				
<b>Net position</b>				<b>5,076,987</b>	<b>642,963</b>	<b>(106,416)</b>	<b>(18,512)</b>
EUR/R\$ NDFs (ii)	EUR	2.7041 to 2.7554	Jan 2013 to Feb 2013				
<b>Net position</b>				<b>2,020,500</b>		<b>(3,721)</b>	

Counterparty:

(i) - BNP, Bradesco, Goldman Sachs, HSBC, Itaú, Merrill Lynch, Morgan Stanley and Santander

(ii) - HSBC, Itaú, Merrill Lynch e Santander, BES, Deutsche and Morgan Stanley.

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#### Non-deliverable forwards (NDFs)

US\$/R\$: Refer to future US dollar sales transactions using NDFs to protect against a depreciation of the Brazilian real in relation to the US dollar. The main strategy for these contracts is to set the foreign exchange rate for the contract period at a fixed amount, thus mitigating the risk of adverse fluctuations on US dollar-denominated debt. In order to extend the hedging period, we can roll over these instruments by selling US dollars for the period equivalent to the short-term NDF in the portfolio and simultaneously purchase US dollars for longer positions.

Euro/R\$: Refer to future Euro dollar sales transactions using NDFs to protect against a depreciation of the Brazilian real in relation to the US dollar. The main strategy for these contracts is to set the foreign exchange rate for the contract period at a fixed amount, thus mitigating the risk of adverse fluctuations on Euro-denominated debt. In order to extend the hedging period, we can roll over these instruments by selling Euro for the period equivalent to the short-term NDF in the portfolio and simultaneously purchase Euro for longer positions.

#### Foreign exchange risk sensitivity analysis

As at December 31, 2012, management estimated the depreciation scenarios of the Brazilian real in relation to other currencies at yearend. The rates used for the probable scenario were the rates prevailing at the end of December 2012. The probable rates were then depreciated by 25% and 50% and used as benchmark for the possible and remote scenarios, respectively.

Description	Rate	
	2012	Depreciation
<i>Probable scenario</i>		
US dollar	2.0435	0%
Euro	2.6954	0%
<i>Possible scenario</i>		
US dollar	2.5544	25%
Euro	3.3693	25%
<i>Remote scenario</i>		
US dollar	3.0653	50%
Euro	4.0431	50%

As at December 31, 2012, management estimated the future outflows for the payment of interest and principal of its debt pegged to exchange rates based on the interest rates prevailing at the end of the annual reporting period and the exchange rates above, also assuming that all interest and principal payments would be made on the scheduled maturity dates.

The impact of hypothetical depreciations of the Brazilian real in relation to other currencies can be measured by the difference in the future flows in the possible and remote scenarios compared to the probable scenario, where there is no estimate of depreciation. Such sensitivity analysis considers payment outflows in future dates. Thus, the sum of the amounts for each scenario is not equivalent to the fair values or even the present values of liabilities.

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As at December 31, 2011, the Company basically held assets represented by cash equivalents and cash investments exposed to US dollar fluctuation against the Brazilian real. To reduce its foreign exchange exposure of the US dollar-denominated asset the Company contracted a non-deliverable forward (NDF) to protect for the Brazilian real appreciation against the US dollar that would result in a decrease of its asset.

The sensitivity analysis took into consideration 25% and 50% depreciations of the US dollar in relation to the Brazilian real (exchange rate US\$1 = R\$1.8758). Management believes that the 25% depreciation (exchange rate US\$1 = R\$2.3448) represented a possible exchange fluctuation scenario and that the 50% depreciation (exchange rate US\$1 = R\$2.8137) represented a remote exchange fluctuation scenario.

A 25% and 50% appreciation of the Brazilian real against the US dollar would have an adverse impact on the Company's profit of approximately R\$116,050 and R\$193,416, Company, and R\$128,792 and R\$214,653 on a consolidated basis, respectively.

The impacts of foreign exchange exposure, in the sensitivity scenarios estimated by the Company, are shown in the table below:

COMPANY						
2012						
Description	Individual risk	Up to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
<b>Probable scenario</b>						
US dollar debt	Dollar appreciation	232,641	464,808	464,732	4,591,902	5,754,083
Derivative financial instruments (net position - US\$)	Dollar depreciation	(4,589,125)	(98,688)	(98,966)	(2,650,436)	(7,437,215)
US dollar cash	Dollar depreciation	(27,705)				(27,705)
Euro debt	Euro appreciation	51,954	103,908	2,131,383		2,287,245
Derivative financial instruments (net position - euro)	Euro depreciation	(2,005,849)				(2,005,849)
<b>Total pegged to exchange rate</b>		<b>(6,338,084)</b>	<b>470,028</b>	<b>2,497,149</b>	<b>1,941,466</b>	<b>(1,429,441)</b>
<b>Possible scenario</b>						
US dollar debt	Dollar appreciation	290,801	581,010	580,915	5,739,878	7,192,604
Derivative financial instruments (net position - US\$)	Dollar depreciation	(5,736,406)	(123,360)	(123,707)	(3,313,045)	(9,296,518)
US dollar cash	Dollar depreciation	(34,632)				(34,632)
Euro debt	Euro appreciation	64,943	129,885	2,664,229		2,859,057
Derivative financial instruments (net position - euro)	Euro depreciation	(2,507,311)				(2,507,311)
<b>Total pegged to exchange rate</b>		<b>(7,922,605)</b>	<b>587,535</b>	<b>3,121,437</b>	<b>2,426,833</b>	<b>(1,786,800)</b>
<b>Remote scenario</b>						
US dollar debt	Dollar appreciation	348,962	697,212	697,098	6,887,854	8,631,126
Derivative financial instruments (net position - US\$)	Dollar depreciation	(6,883,688)	(148,032)	(148,449)	(3,975,654)	(11,155,823)
US dollar cash	Dollar depreciation	(41,558)				(41,558)
Euro debt	Euro appreciation	77,931	155,862	3,197,075		3,430,868
Derivative financial instruments (net position - euro)	Euro depreciation	(3,008,773)				(3,008,773)

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<b>Total pegged to exchange rate</b>		<b>(9,507,126)</b>	<b>705,042</b>	<b>3,745,724</b>	<b>2,912,200</b>	<b>(2,144,160)</b>
<b>Impacts</b>						
<b>Possible scenario - probable scenario</b>		<b>(1,584,521)</b>	<b>117,507</b>	<b>624,288</b>	<b>485,367</b>	<b>(357,359)</b>
US dollar		(1,096,048)	91,530	91,442	485,367	(427,709)
Euro		(488,473)	25,977	532,846		70,350
<b>Remote scenario - probable scenario</b>		<b>(3,169,042)</b>	<b>235,014</b>	<b>1,248,575</b>	<b>970,734</b>	<b>(714,719)</b>
US dollar		(2,192,095)	183,060	182,883	970,734	(855,418)
Euro		(976,947)	51,954	1,065,692		140,699

<b>CONSOLIDATED</b>						
<b>2012</b>						
<b>Description</b>	<b>Individual risk</b>	<b>Up to 1 year</b>	<b>1 to 3 years</b>	<b>3 to 5 years</b>	<b>Over 5 years</b>	<b>Total</b>
<b>Probable scenario</b>						
US dollar debt	Dollar appreciation	1,084,310	2,508,170	2,118,580	9,168,287	14,879,347
Derivative financial instruments (net position - US\$)	Dollar depreciation	(5,567,976)	(1,208,188)	(888,380)	(3,444,664)	(11,109,208)
US dollar cash	Dollar depreciation	(462,700)				(462,700)
Euro debt	Euro appreciation	51,954	103,908	2,131,383		2,287,245
Derivative financial instruments (net position - euro)	Euro depreciation	(2,005,849)				(2,005,849)
Euro cash	Euro depreciation	(337)				(337)
<b>Total pegged to exchange rate</b>		<b>(6,900,598)</b>	<b>1,403,890</b>	<b>3,361,583</b>	<b>5,723,623</b>	<b>3,588,498</b>
<b>Possible scenario</b>						
US dollar debt	Dollar appreciation	1,355,388	3,135,213	2,648,225	11,460,359	18,599,185
Derivative financial instruments (net position - US\$)	Dollar depreciation	(6,959,970)	(1,510,235)	(1,110,475)	(4,305,830)	(13,886,510)
US dollar cash	Dollar depreciation	(578,375)				(578,375)
Euro debt	Euro appreciation	64,943	129,885	2,664,229		2,859,057
Derivative financial instruments (net position - euro)	Euro depreciation	(2,507,311)				(2,507,311)
Euro cash	Euro depreciation	(421)				(421)
<b>Total pegged to exchange rate</b>		<b>(8,625,746)</b>	<b>1,754,863</b>	<b>4,201,979</b>	<b>7,154,529</b>	<b>4,485,625</b>
<b>Remote scenario</b>						
US dollar debt	Dollar appreciation	1,626,465	3,762,255	3,177,870	13,752,431	22,319,021
Derivative financial instruments (net position - US\$)	Dollar depreciation	(8,351,964)	(1,812,282)	(1,332,570)	(5,166,996)	(16,663,812)
US dollar cash	Dollar depreciation	(694,050)				(694,050)
Euro debt	Euro appreciation	77,931	155,862	3,197,075		3,430,868
Derivative financial instruments (net position - euro)	Euro depreciation	(3,008,774)				(3,008,774)
Euro cash	Euro depreciation	(506)				(506)
<b>Total pegged to exchange rate</b>		<b>(10,350,898)</b>	<b>2,105,835</b>	<b>5,042,375</b>	<b>8,585,435</b>	<b>5,382,747</b>
<b>Impacts</b>						
<b>Possible scenario - probable scenario</b>		<b>(1,725,148)</b>	<b>350,973</b>	<b>840,396</b>	<b>1,430,906</b>	<b>897,127</b>
US dollar		(1,236,591)	324,996	307,550	1,430,906	826,861
Euro		(488,557)	25,977	532,846		70,266
<b>Remote scenario - probable scenario</b>		<b>(3,450,300)</b>	<b>701,945</b>	<b>1,680,792</b>	<b>2,861,812</b>	<b>1,794,249</b>

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US dollar		(2,473,183)	649,991	615,100	2,861,812	1,653,720
Euro		(977,117)	51,954	1,065,692		140,529

The impact on the fair value of financial instruments subject to the foreign exchange risk, in the estimated scenarios, is as follows:

<b>COMPANY</b>		
<b>Foreign exchange exposure on:</b>		
<b>Description</b>	<b>Risk</b>	<b>Balance at 2012</b>
<b><i>Probable scenario</i></b>		
US dollar debt	Dollar appreciation	3,991,101
Derivative financial instruments (net position - US\$)	Dollar depreciation	(7,471,381)
US dollar cash	Dollar depreciation	(27,705)
Euro debt	Euro appreciation	2,027,505
Derivative financial instruments (net position - euro)	Euro depreciation	(2,003,706)
<b>Total pegged to exchange rate</b>		<b>(3,484,186)</b>
<b><i>Possible scenario</i></b>		
US dollar debt	Dollar appreciation	4,988,876
Derivative financial instruments (net position - US\$)	Dollar depreciation	(9,339,226)
US dollar cash	Dollar depreciation	(34,632)
Euro debt	Euro appreciation	2,534,381
Derivative financial instruments (net position - euro)	Euro depreciation	(2,504,633)
<b>Total pegged to exchange rate</b>		<b>(4,355,234)</b>
<b><i>Remote scenario</i></b>		
US dollar debt	Dollar appreciation	5,986,651
Derivative financial instruments (net position - US\$)	Dollar depreciation	(11,207,071)
US dollar cash	Dollar depreciation	(41,558)
Euro debt	Euro appreciation	3,041,258
Derivative financial instruments (net position - euro)	Euro depreciation	(3,005,559)
<b>Total pegged to exchange rate</b>		<b>(5,226,279)</b>
<b><i>Estimated impacts on fair value of financial instruments</i></b>		
<b>Possible scenario - probable scenario</b>		<b>(871,048)</b>
US dollar		(876,997)
Euro		5,949
<b>Remote scenario - probable scenario</b>		<b>(1,742,093)</b>
US dollar		(1,753,993)
Euro		11,900

<b>CONSOLIDATED</b>		
<b>Foreign exchange exposure on:</b>		
<b>Description</b>	<b>Risk</b>	<b>Balance at 2012</b>
<b><i>Probable scenario</i></b>		
US dollar debt	Dollar appreciation	11,249,360
Derivative financial instruments (net position - US\$)	Dollar depreciation	(10,410,964)
US dollar cash	Dollar depreciation	(462,700)
Euro debt	Euro appreciation	2,027,505
Derivative financial instruments (net position - euro)	Euro depreciation	(2,003,706)
Euro cash	Euro depreciation	(337)

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<b>Total pegged to exchange rate</b>		<b>399,158</b>
<i>Possible scenario</i>		
US dollar debt	Dollar appreciation	14,061,700
Derivative financial instruments (net position - US\$)	Dollar depreciation	(13,013,705)
US dollar cash	Dollar depreciation	(578,375)
Euro debt	Euro appreciation	2,534,381
Derivative financial instruments (net position - euro)	Euro depreciation	(2,504,633)
Euro cash	Euro depreciation	(421)
<b>Total pegged to exchange rate</b>		<b>498,947</b>
<i>Remote scenario</i>		
US dollar debt	Dollar appreciation	16,874,040
Derivative financial instruments (net position - US\$)	Dollar depreciation	(15,616,446)
US dollar cash	Dollar depreciation	(694,050)
Euro debt	Euro appreciation	3,041,258
Derivative financial instruments (net position - euro)	Euro depreciation	(3,005,559)
Euro cash	Euro depreciation	(506)
<b>Total pegged to exchange rate</b>		<b>598,737</b>
<i>Estimated impacts on fair value of financial instruments</i>		
<b>Possible scenario - probable scenario</b>		<b>99,789</b>
US dollar		93,924
Euro		5,865
<b>Remote scenario - probable scenario</b>		<b>199,579</b>
US dollar		187,848
Euro		11,731

**(d) Interest rate risk****Assets**

Cash equivalents and cash investments in local currency are substantially maintained in financial investment funds exclusively managed for the Company and its subsidiaries, and investments in private securities issued by prime financial institutions.

The interest rate risk linked to these assets arises from the possibility of decreases in these rates and consequent decrease in the return on these assets.

These assets are presented in the balance sheet as follows:

	COMPANY			
	2012		2011	
	Carrying amount	Market value	Carrying amount	Market value
<b>Assets</b>				
Cash equivalents	992,659	992,659	4,264,765	4,264,765
Cash investments	867,414	867,414	102,658	102,658
Due from related parties	1,501	1,501	6,703	6,703

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	CONSOLIDATED			
	2012		2011	
	Carrying amount	Market value	Carrying amount	Market value
<b>Assets</b>				
Cash equivalents	3,616,377	3,616,377	5,868,374	5,868,374
Cash investments	2,476,353	2,476,353	1,097,354	1,097,354
Due from related parties (*)			2,217,682	2,331,243

(\*) Refer to private debentures issued by TMAR that pay interest pegged to the CDI (Note 11).

**Liabilities**

The Company and its subsidiaries have borrowings and financing subject to floating interest rates, based on the Long-term Interest Rate (TJLP) or the CDI, in the case of real-denominated debt, and on the LIBOR, in the case of U.S. dollar-denominated debt.

As at December 31, 2012, approximately 65.4% (76.7% at December 31, 2011) of the incurred debt, less adjustment for derivative transactions, was subject to floating interest rates. After the derivative, approximately 70.3% (76.7% in 2011) of the consolidated debt was subject to floating interest rates. The most material exposure of Company's and its subsidiaries' debt after the hedging transactions is to CDI. Therefore, a continued increase in this interest rate would have an adverse impact on future interest payments and hedging adjustments. However, as the Company's and its subsidiaries' cash is invested mainly in securities pegged to the CDI fluctuation, the net exposure to CDI of current liabilities does not constitute a material risk for the Company and its subsidiaries.

We continuously monitor these market rates to assess the possible contracting of instruments to hedge against the risk of fluctuation of these rates.

As at December 31, 2012 and 2011, the amounts shown below were recorded as gain or loss on derivative instruments: (see Note 7)

	COMPANY		CONSOLIDATED	
	2012	2011	2012	2011
Gain/(loss) on interest rate swap	(87,343)		16,206	
<b>Total</b>	<b>(87,343)</b>		<b>16,206</b>	

As at December 31, 2012, we recognized the changes below in other comprehensive income referring to interest rate hedges designated for hedge accounting treatment:

Table of changes in hedge accounting effects in other comprehensive income		
	COMPANY	CONSOLIDATED
<b>Balance at 2011</b>		
Corporate reorganization:		
. Gain on designated hedges	(2,151)	(2,151)
. Deferred taxes on hedge accounting	731	731
. Share of subsidiary's hedge accounting	(272)	(412)
. Deferred taxes on share of subsidiary's hedge accounting		140

**Oi S.A. and Subsidiaries**
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Loss on designated hedges	21,049	22,472
Transfer on ineffective portion to profit or loss	(2)	2
Amortization of hedges to profit or loss at effective rate		(1,642)
Deferred taxes on hedge accounting	(7,156)	(7,083)
Share of subsidiary's hedge accounting – after Feb 27, 2012	(142)	
<b>Balance at 2012</b>	<b>12,057</b>	<b>12,057</b>

The amounts of contracted derivatives to hedge against floating interest rates on outstanding debt are summarized below:

	Derivatives designated for hedge accounting					
	COMPANY					
	Index	Maturity	Notional amount		Fair value Amounts (payable)/receivable	
			2012	2011	2012	2011
<b>Fixed rate/DI swaps (i)</b>						
Asset position	Fixed 11.30% to 12.35%	Oct 2020	368,885		430,848	
Liability position	CDI 103.35% to 113.70%	Oct 2020	(368,885)		(389,659)	
<b>Net amount</b>					<b>41,189</b>	

Counterparty:

(i) - Goldman Sachs and Morgan Stanley

	Derivatives designated for hedge accounting					
	CONSOLIDATED					
	Index	Maturity	Notional amount		Fair value Amounts (payable)/receivable	
			2012	2011	2012	2011
<b>Fixed rate/DI swaps (i)</b>						
Asset position	Fixed 11.30% to 12.35%	Oct 2020	368,885		430,848	
Liability position	CDI 103.35% to 113.70%	Oct 2020	(368,885)		(389,659)	
<b>Net amount</b>					<b>41,189</b>	
<b>US\$ LIBOR/US\$ fixed rate swaps (ii)</b>						
Asset position	6M US\$ LIBOR + 0.80%	Jul 2015	167,195		168,120	
Liability position	US\$3.62% to 3.82%	Jul 2015	(167,195)		(174,899)	
<b>Net amount</b>					<b>(6,779)</b>	

Counterparty:

(i) - Goldman Sachs and Morgan Stanley

(ii) - Itaú BBA.

**Oi S.A. and Subsidiaries**
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	Derivatives not designated for hedge accounting					
	COMPANY					
	Index	Maturity	Notional amount		Fair value Amounts (payable)/receivable	
			2012	2011	2012	2011
<b>CDI + spread/CDI swaps (i)</b>						
Asset position	CDI + 0.55%	Mar 2013	270,000		276,646	
Liability position	CDI 103.80%	Mar 2013	(270,000)		(276,258)	
<b>Net amount</b>					<b>388</b>	
<b>Fixed rate/DI swaps (ii)</b>						
Asset position	Fixed 11.00% to 12.82%	Oct 2020	375,160		440,315	
Liability position	CDI 99.70% to 102.50%	Oct 2020	(375,160)		(382,869)	
<b>Net amount</b>					<b>57,446</b>	
<b>US\$ Libor/US\$ fixed rate swaps (ii)</b>						
Asset position	6M US\$ LIBOR + 3.00%	Feb 2022	3,045,500		5,822,175	
Liability position	US\$5.88%	Feb 2022	(3,045,500)		(5,931,628)	
<b>Net amount</b>					<b>(109,453)</b>	

Counterparty:

(i) - Citibank S.A.

(ii) - Merrill Lynch and Morgan Stanley

	Derivatives not designated for hedge accounting					
	CONSOLIDATED					
	Index	Maturity	Notional amount		Fair value Amounts (payable)/receivable	
			2012	2011	2012	2011
<b>CDI + spread/CDI swaps (i)</b>						
Asset position	CDI + 0.55%	Mar 2013	270,000		276,646	
Liability position	CDI 103.80%	Mar 2013	(270,000)		(276,258)	
<b>Net amount</b>					<b>388</b>	
<b>Fixed rate/DI swaps (ii)</b>						
Asset position	Fixed 11.00% to 12.82%	Oct 2020	375,160		440,315	
Liability position	CDI 99.70% to 102.50%	Oct 2020	(375,160)		(382,869)	
<b>Net amount</b>					<b>57,446</b>	
<b>US\$ LIBOR/US\$ fixed rate swaps (iii)</b>						
Asset position	6M US\$ LIBOR +	Feb 2016 to Feb 2022	3,910,458		6,663,293	

## Oi S.A. and Subsidiaries

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	3.00%					
Liability position	US\$1.58% to 5.88%	Feb 2016 to Feb 2022	(3,910,458)		(6,801,646)	
<b>Net amount</b>					<b>(138,353)</b>	
<b>US\$ fixed rate/US\$ LIBOR swaps (iv)</b>						
Asset position	US\$5.88%	Feb 2022	3,045,500		5,931,629	
Liability position	6M US\$ LIBOR + 3.00%	Feb 2022	(3,045,500)		(5,822,175)	
<b>Net amount</b>					<b>109,454</b>	

Counterparty:

(i) - Citibank S.A.

(ii) - Merrill Lynch and Morgan Stanley

(iii) - Citibank S.A., Merrill Lynch, Morgan Stanley and Société General

(iv) - Morgan Stanley

### Interest rate swaps

US\$ LIBOR/US\$ fixed rate: Refer to interest rate swaps to protect debt payments pegged to US dollar floating rates from exchange fluctuation. Under these contracts, the asset position in US dollar LIBOR and the liability position is a fixed rate. The risk of loss in the asset position of these instruments is, therefore, the fluctuation of the US dollar LIBOR; however, such possible losses would be fully offset by maturities of US dollar-denominated debt pegged to LIBOR.

US\$ fixed rate/US\$ LIBOR: Refers to the interest rate swap transaction that changes US dollar-denominated debt payments from fixed rate to floating rate. Under this contract, the asset position is a US dollar fixed rate and a LIBOR liability position to reduce the cost of the backing debt, as part of the Company's onerous liability management strategy.

CDI + spread/CDI: Refer to interest rate swaps to protect payments of Brazilian-real denominated debentures pegged to CDI plus spread. Under such contract, the asset position is in CDI plus spread and a liability position is a percentage of CDI.

R\$ fixed rate/CDI: Refer to interest rate swaps to convert a foreign exchange swap liability position at a fixed rate into R\$ to a liability subject to a DI percentage. This transaction is intended to swap the exchange peg of a certain dollar-denominated debt to a floating DI position, cancelling the debt's current fixed rate position.

### Interest rate fluctuation risk sensitivity analysis

Management believes that the most significant risk related to interest rate fluctuations arises from its liabilities pegged to the TJLP, the USD LIBOR, and mainly the CDI. This risk is associated to an increase in those rates.

As at December 31, 2012, management estimated the fluctuation scenarios of the rates DI, TJLP, and USD LIBOR. The rates used for the probable scenario were the rates prevailing at the end of

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the reporting period. These rates have been stressed by 25 and 50 percent, and used as benchmark for the possible and remote scenarios. Note that the TJLP remained stable at 6% per year from July 2009 to June 2012, and in July 2012 it was reduced to 5.5% per year, and was maintained at this level through December 2012, when it was once again reduced, this time to 5.0% per year.

2012								
Interest rate scenarios								
Probable scenario			Possible scenario			Remote scenario		
CDI	TJLP	6M USD LIBOR	CDI	TJLP	6M USD LIBOR	CDI	TJLP	6M USD LIBOR
6.90%	5.5%	0.50825%	8.63%	6.88%	0.63531%	10.35%	8.25%	0.76238%

2011					
Interest rate scenarios					
Probable scenario		Possible scenario		Remote scenario	
CDI	TJLP	CDI	TJLP	CDI	TJLP
10.87%	6.00%	13.59%	7.50%	16.31%	9.00%

As at December 31, 2012, management estimated the future outflows for the payment of interest and principal of its debt pegged to CDI, TJLP and USD LIBOR based on the interest rates above, also assuming that all interest and principal payments would be made on the scheduled maturity dates. The outflows for repayment of Oi Group related party debt were not considered. The impact of hypothetical increases of interest rates can be measured by the difference in the future flows in the possible and remote scenarios compared to the probable scenario, where there is no estimate of increase. Such sensitivity analysis considers payment outflows in future dates. Thus, the aggregate of the amounts for each scenario is not equivalent to the fair values, or even the present values of these liabilities. The fair values of these liabilities, should the Company's credit risk remain unchanged, would not be impacted in the event of fluctuations in interest rates, as the interest rates used to estimate future cash outflows would be the same rates that discount such flows to present value.

Additionally, the Company has cash equivalents and cash investments in floating rate securities whose yield would also increase in the possible and remote scenarios, thus offsetting part of the impact of the increase of interest rates on debt payment outflows. However, as the estimated maturities are different from the maturities of financial liabilities, the impact of the scenarios on such assets has not been considered. The balances of cash equivalents and cash investments are disclosed in Note 9.

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The impacts of exposure to interest rates, in the sensitivity scenarios estimated by the Company, are shown in the table below:

COMPANY						
2012						
Transaction	Individual risk	Up to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
<b>Probable scenario</b>						
CDI pegged debt	CDI increase	559,886	663,745	448,743	159,325	1,831,699
Derivative financial instruments (net position - CDI)	CDI increase	123,330	246,115	245,259	275,336	890,040
TJLP pegged debts	TJLP increase	138,365	114,466	69,997	37,356	360,184
Derivative financial instruments (net position - LIBOR)	Drop in US LIBOR	(101,133)	(202,701)	(202,979)	(456,771)	(963,584)
<b>Total pegged to interest rates</b>		<b>720,448</b>	<b>821,625</b>	<b>561,020</b>	<b>15,246</b>	<b>2,118,339</b>
<b>Possible scenario</b>						
CDI pegged debt	CDI increase	639,520	804,595	545,447	193,694	2,183,256
Derivative financial instruments (net position - CDI)	CDI increase	148,091	306,368	305,297	342,762	1,102,518
TJLP pegged debts	TJLP increase	149,510	128,486	83,633	55,755	417,384
Derivative financial instruments (net position - LIBOR)	Drop in US LIBOR	(102,213)	(207,059)	(207,343)	(466,592)	(983,207)
<b>Total pegged to interest rates</b>		<b>834,908</b>	<b>1,032,390</b>	<b>727,034</b>	<b>125,619</b>	<b>2,719,951</b>
<b>Remote scenario</b>						
CDI pegged debt	CDI increase	718,505	944,604	641,654	228,125	2,532,888
Derivative financial instruments (net position - CDI)	CDI increase	172,627	366,135	364,850	409,651	1,313,263
TJLP pegged debts	TJLP increase	156,267	141,612	100,073	83,352	481,304
Derivative financial instruments (net position - LIBOR)	Drop in US LIBOR	(103,294)	(211,418)	(211,707)	(476,414)	(1,002,833)
<b>Total pegged to interest rates</b>		<b>944,105</b>	<b>1,240,933</b>	<b>894,870</b>	<b>244,714</b>	<b>3,324,622</b>
<b>Estimated impacts on fair value of financial instruments</b>						
<b>Possible scenario - probable scenario</b>		<b>114,460</b>	<b>210,765</b>	<b>166,014</b>	<b>110,373</b>	<b>601,612</b>
CDI		104,395	201,103	156,742	101,795	564,035
TJLP		11,145	14,020	13,636	18,399	57,200
US LIBOR		(1,080)	(4,358)	(4,364)	(9,821)	(19,623)
<b>Remote scenario - probable scenario</b>		<b>223,657</b>	<b>419,308</b>	<b>333,850</b>	<b>229,468</b>	<b>1,206,283</b>
CDI		207,916	400,879	312,502	203,115	1,124,412
TJLP		17,902	27,146	30,076	45,996	121,120
US LIBOR		(2,161)	(8,717)	(8,728)	(19,643)	(39,249)

**Oi S.A. and Subsidiaries**
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CONSOLIDATED						
2012						
Transaction	Individual risk	Up to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
<i>Probable scenario</i>						
CDI pegged debt	CDI increase	801,054	1,147,068	712,831	191,797	2,852,750
Derivative financial instruments (net position - CDI)	CDI increase	286,075	520,237	343,335	305,977	1,455,624
TJLP pegged debts	TJLP increase	451,620	630,369	388,084	173,445	1,643,518
US LIBOR pegged debts	US LIBOR increase	83,280	118,403	45,198	15,854	262,735
Derivative financial instruments (net position - LIBOR)	Drop in US LIBOR	(47,078)	(58,382)	(25,159)	(8,637)	(139,256)
<b>Total pegged to interest rates</b>		<b>1,574,951</b>	<b>2,357,695</b>	<b>1,464,289</b>	<b>678,436</b>	<b>6,075,371</b>
<i>Possible scenario</i>						
CDI pegged debt	CDI increase	928,321	1,383,751	860,611	232,443	3,405,126
Derivative financial instruments (net position - CDI)	CDI increase	333,114	632,229	426,987	381,011	1,773,341
TJLP pegged debts	TJLP increase	481,837	695,430	470,192	266,148	1,913,607
US LIBOR pegged debts	US LIBOR increase	84,594	122,557	46,993	16,559	270,703
Derivative financial instruments (net position - LIBOR)	Drop in US LIBOR	(48,027)	(61,375)	(26,276)	(8,973)	(144,651)
<b>Total pegged to interest rates</b>		<b>1,779,839</b>	<b>2,772,592</b>	<b>1,778,507</b>	<b>887,188</b>	<b>7,218,126</b>
<i>Remote scenario</i>						
CDI pegged debt	CDI increase	1,054,538	1,618,829	1,007,488	273,101	3,953,956
Derivative financial instruments (net position - CDI)	CDI increase	379,729	743,521	510,010	455,445	2,088,705
TJLP pegged debts	TJLP increase	493,495	747,971	571,476	405,933	2,218,875
US LIBOR pegged debts	US LIBOR increase	85,909	126,711	48,789	17,264	278,673
Derivative financial instruments (net position - LIBOR)	Drop in US LIBOR	(48,976)	(64,367)	(27,393)	(9,309)	(150,045)
<b>Total pegged to interest rates</b>		<b>1,964,695</b>	<b>3,172,665</b>	<b>2,110,370</b>	<b>1,142,434</b>	<b>8,390,164</b>
<i>Estimated impacts on fair value of financial instruments</i>						
<b>Possible scenario – probable scenario</b>						
		<b>204,888</b>	<b>414,897</b>	<b>314,218</b>	<b>208,752</b>	<b>1,142,755</b>
CDI		174,306	348,675	231,432	115,680	870,093
TJLP		30,217	65,061	82,108	92,703	270,089
US LIBOR		365	1,161	678	369	2,573
<b>Remote scenario - probable scenario</b>		<b>389,744</b>	<b>814,970</b>	<b>646,081</b>	<b>463,998</b>	<b>2,314,793</b>
CDI		347,138	695,045	461,332	230,772	1,734,287
TJLP		41,875	117,602	183,392	232,488	575,357
US LIBOR		731	2,323	1,357	738	5,149

**Oi S.A. and Subsidiaries**
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COMPANY						
2011						
Transaction	Individual risk	Up to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
<i>Probable scenario</i>						
CDI pegged debt	CDI increase	477,923	819,228	790,141	444,167	2,531,459
TJLP pegged debts	TJLP increase	118,906	99,782	33,343	11,414	263,445
US LIBOR pegged debts	US LIBOR increase	5	1			6
<b>Total pegged to interest rates</b>		<b>596,834</b>	<b>919,011</b>	<b>823,484</b>	<b>455,581</b>	<b>2,794,910</b>
<i>Possible scenario</i>						
CDI pegged debt	CDI increase	567,315	999,980	965,403	545,765	3,078,463
TJLP pegged debts	TJLP increase	123,167	120,426	41,907	22,511	308,011
US LIBOR pegged debts	US LIBOR increase	5	1			6
<b>Total pegged to interest rates</b>		<b>690,487</b>	<b>1,120,407</b>	<b>1,007,310</b>	<b>568,276</b>	<b>3,386,480</b>
<i>Remote scenario</i>						
CDI pegged debt	CDI increase	655,666	1,179,229	1,139,222	647,284	3,621,401
TJLP pegged debts	TJLP increase	127,409	141,333	50,853	34,429	354,024
US LIBOR pegged debts	US LIBOR increase	5	1			6
<b>Total pegged to interest rates</b>		<b>783,080</b>	<b>1,320,563</b>	<b>1,190,075</b>	<b>681,713</b>	<b>3,975,431</b>
<i>Estimated impacts on fair value of financial instruments</i>						
<b>Possible scenario - probable scenario</b>		<b>93,653</b>	<b>201,396</b>	<b>183,826</b>	<b>112,695</b>	<b>591,570</b>
CDI		89,392	180,752	175,262	101,598	547,004
TJLP		4,261	20,644	8,564	11,097	44,566
<b>Remote scenario - probable scenario</b>		<b>186,246</b>	<b>401,552</b>	<b>366,591</b>	<b>226,132</b>	<b>1,180,521</b>
CDI		177,743	360,001	349,081	203,117	1,089,942
TJLP		8,503	41,551	17,510	23,015	90,579

**Oi S.A. and Subsidiaries****Notes to the Financial Statements  
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CONSOLIDATED						
2011						
Transaction	Individual risk	Up to 1 year	1 to 3 years	3 to 5 years	Over 5 years	Total
<i>Probable scenario</i>						
CDI pegged debt	CDI increase	477,923	819,228	790,141	444,167	2,531,459
TJLP pegged debts	TJLP increase	180,677	192,199	85,887	26,253	485,016
US LIBOR pegged debts	US LIBOR increase	5	1			6
<b>Total pegged to interest rates</b>		<b>658,605</b>	<b>1,011,428</b>	<b>876,028</b>	<b>470,420</b>	<b>3,016,481</b>
<i>Possible scenario</i>						
CDI pegged debt	CDI increase	567,315	999,980	965,403	545,765	3,078,463
TJLP pegged debts	TJLP increase	186,132	221,545	109,833	53,036	570,546
US LIBOR pegged debts	US LIBOR increase	5	1			6
<b>Total pegged to interest rates</b>		<b>753,452</b>	<b>1,221,526</b>	<b>1,075,236</b>	<b>598,801</b>	<b>3,649,015</b>
<i>Remote scenario</i>						
CDI pegged debt	CDI increase	655,666	1,179,229	1,139,222	647,284	3,621,401
TJLP pegged debts	TJLP increase	191,563	251,299	134,846	81,781	659,489
US LIBOR pegged debts	US LIBOR increase	5	1			6
<b>Total pegged to interest rates</b>		<b>847,234</b>	<b>1,430,529</b>	<b>1,274,068</b>	<b>729,065</b>	<b>4,280,896</b>
<i>Estimated impacts on fair value of financial instruments</i>						
<b>Possible scenario – probable scenario</b>		<b>94,847</b>	<b>210,098</b>	<b>199,208</b>	<b>128,381</b>	<b>632,534</b>
CDI		89,392	180,752	175,262	101,598	547,004
TJLP		5,455	29,346	23,946	26,783	85,530
<b>Remote scenario - probable scenario</b>		<b>188,629</b>	<b>419,101</b>	<b>398,040</b>	<b>258,645</b>	<b>1,264,415</b>
CDI		177,743	360,001	349,081	203,117	1,089,942
TJLP		10,886	59,100	48,959	55,528	174,473

**(e) Credit risk**

The concentration of credit risk associated to trade receivables is immaterial due to the diversification of the portfolio. Doubtful receivables are adequately covered by an allowance for doubtful accounts.

Transactions with financial institutions (cash investments and borrowings and financing) are made with prime entities, avoiding the concentration risk. The credit risk of financial investments is assessed by setting caps for investment in the counterparts, taking into consideration the ratings released by the main international risk rating agencies for each one of such counterparts.

**(f) Liquidity risk**

The liquidity risk also arises from the possibility of the Company being unable to discharge its liabilities on maturity dates and obtain cash due to market liquidity restrictions.

Management uses its resources mainly to fund capital expenditures incurred on the expansion and upgrading of the network, invest in new businesses, pay dividends, and refinance its debt.

## **Oi S.A. and Subsidiaries**

### **Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)**

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Conditions are met with internally generated cash flows, short- and long-term debt, and third-party financing. These sources of funds, coupled with the Company's solid financial position, will continue to ensure the compliance with established capital requirements.

The Oi Group has two revolving credit facilities that increases short-term liquidity and increases the cash management efficiency, and is consistent with its capital cost reduction strategic focus. The revolving credit facilities were contracted in November and December 2011 with a syndicates consisting of several global banks.

#### **(g) Risk of acceleration of maturity of borrowings and financing**

Under some debt instruments of the Company, default events can trigger the accelerated maturity of other debt instruments. The impossibility to incur in new debt might prevent such companies from investing in their business and incur in required or advisable capital expenditures, which would reduce future sales and adversely impact their profitability. Additionally, the funds necessary to meet the payment commitments of the borrowings raised can reduce the amount of funds available for capital expenditures.

The risk of accelerated maturity arising from noncompliance of financial covenants associated to the debt is detailed in Note 19, 'Covenants'.

#### **(h) Contingent liabilities**

Contingent liabilities are assessed according to the likelihood of disbursement and are classified in provisions and contingent liabilities, as prescribed by CPC 25/IAS 37. Provisions include contingencies assessed as a probable risk, recognized in liabilities in view of the existing present obligation as a result of a past event, and because it is probable that a disbursement of funds will be required to settle the obligation. Details on these risks are presented in Note 23.

#### **(i) Regulatory risk**

Even though telecommunications services regulations in general are quite comprehensive, they are still quite restrictive when it comes to utility services, as defined by the General Telecommunications Law (LGT), as the case of STFC. As a result, most of the regulatory risks and obligations refer to this service, which is material for the Company's activities.

#### **Concession agreements**

The Company has entered into local and domestic long-distance STFC concession arrangements with ANATEL, effective from January 1, 2006 to December 31, 2025. These concession agreements, which provide for reviews on a five-year basis, in general have a higher degree of intervention in the management of the business than the licenses to provide private services, and also include several consumer protection provisions, as perceived by the regulator.

The main features are:

## Oi S.A. and Subsidiaries

### Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)

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- (i) the price (fee) of the public service concession is defined as two percent of annual revenue net of taxes, paid every two years, starting 2006, and the first payment was made on April 30, 2007. Under this calculation method, the concession fee is one percent of net revenue net of taxes for each financial year;
- (ii) the imposition of universal access targets that can be revised every five years, as provided for by said concession arrangements. The imposition of new targets that result in additional expenses for the Company must always be accompanied by an indication of the sources of the related funds. On June 30, 2011, the company entered into with ANATEL and the Ministry of Communications revisions to the STFC concession agreements effective for the period 2011-2015;
- (iii) possibility of the Regulator imposing alternative mandatory offer plans;
- (iv) introduction of the Regulator's right to intervene in and change the concessionaire's agreements with third parties;
- (v) inclusion of parent company's, subsidiary's, associate's and third parties' assets, indispensable to the concession, as returnable assets;
- (vi) creation of a users' board in each concession; and
- (vii) network usage tariffs are defined as a percentage of the public local and domestic long distance tariff until the effective implementation of cost model by service/modality, as prescribed by the General Regulation Updating Plan ("PGR").

#### **(j) Capital management**

The Company manages its equity structure according to best market practices.

The objective of capital management is to ensure that liquidity levels and financial leverage that allow the sustained growth of the Group, the compliance with the strategic investment plan, and returns to our shareholders.

The Company may change its capital structure, according to existing economic and financial conditions, to optimize its financial leverage and debt management.

The indicators used to measure capital structure management are: gross debt to gross debt to accumulated twelve-month EBITDA (Earnings before Interest, Taxes, Depreciation and Amortization), net debt (total debt less cash and cash equivalents and cash investments) to accumulated twelve-month EBITDA, and the interest coverage ratio, as follows:

Gross debt to EBITDA.....	from 2x to 4.5x
Net debt to EBITDA .....	from 1.4x to 3x
Interest coverage ratio (*) .....	greater than 1.75

(\*) Measures the Company's ability to settle its future interest obligations.

**Oi S.A. and Subsidiaries**
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**4. NET OPERATING REVENUE**

	COMPANY		CONSOLIDATED	
	2012	2011	2012	2011
<b>Gross operating revenue</b>	<b>13,392,030</b>	<b>13,716,360</b>	<b>39,910,417</b>	<b>16,406,661</b>
<b>Deductions from gross revenue</b>	<b>(6,375,051)</b>	<b>(6,237,704)</b>	<b>(14,741,187)</b>	<b>(7,161,406)</b>
Taxes	(2,477,535)	(2,813,849)	(8,832,581)	(3,331,372)
Other deductions	(3,897,516)	(3,423,855)	(5,908,606)	(3,830,034)
<b>Net operating revenue</b>	<b>7,016,979</b>	<b>7,478,656</b>	<b>25,169,230</b>	<b>9,245,255</b>

**5. EXPENSES BY NATURE**

	COMPANY		CONSOLIDATED	
	2012 Restated	2011	2012 Restated	2011
Third-part services	(1,438,456)	(1,328,189)	(5,309,681)	(1,528,366)
Depreciation and amortization	(700,037)	(711,122)	(3,228,100)	(1,044,226)
Interconnection	(1,649,919)	(1,833,753)	(3,914,543)	(1,711,219)
Grid maintenance service	(649,147)	(657,898)	(2,031,201)	(731,746)
Personnel (i)	(566,699)	(461,518)	(1,854,819)	(882,866)
Rents and insurance	(474,438)	(522,969)	(1,602,474)	(530,133)
Telecommunications Inspection Fund (FISTEL) fee	(16,196)	(16,170)	(627,896)	(130,424)
Costs of handsets and other			(507,465)	(23,831)
Allowance for doubtful accounts	(97,781)	(263,398)	(502,509)	(332,808)
Advertising and publicity	(59,152)	(76,807)	(442,993)	(148,157)
Materials	(28,342)	(58,227)	(144,879)	(65,803)
Concession Agreement Extension Fee - ANATEL	(49,426)	(49,019)	(121,430)	(49,019)
Other costs and expenses	(7,935)	(10,960)	(230,997)	(13,387)
<b>Total</b>	<b>(5,737,528)</b>	<b>(5,990,030)</b>	<b>(20,518,987)</b>	<b>(7,191,985)</b>
<b>Classified as:</b>				
Cost of sales and/or services	(3,448,662)	(3,848,801)	(12,673,253)	(4,586,565)
Selling expenses	(1,267,439)	(986,189)	(4,847,297)	(1,160,793)
General and administrative expenses	(1,021,427)	(1,155,040)	(2,998,437)	(1,444,627)
<b>Total</b>	<b>(5,737,528)</b>	<b>(5,990,030)</b>	<b>(20,518,987)</b>	<b>(7,191,985)</b>

- (i) Takes into consideration employee training expenses amounting to R\$22,157 (R\$20,245 in 2011) in consolidated.

## Oi S.A. and Subsidiaries

### Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)

#### 6. OTHER OPERATING INCOME (EXPENSES)

	COMPANY		CONSOLIDATED	
	2012 Restated	2011	2012 Restated	2011
<b>Other operating income</b>				
Tax recoveries and recovered expenses (i)	269,024	139,476	692,915	156,633
Rental of operational infrastructure and other	182,074	167,134	398,158	120,363
Income from asset sales	231,974	17,067	389,876	21,438
Fines	61,419	74,859	239,686	90,537
Technical and administrative services	48,059	66,518	110,627	66,659
Expired dividends	49,122	50,330	74,732	50,330
Other income	36,336	40,535	90,128	54,400
<b>Total</b>	<b>878,008</b>	<b>555,919</b>	<b>1,996,122</b>	<b>560,360</b>
<b>Other operating expenses</b>				
Taxes	(150,213)	(172,840)	(893,805)	(308,581)
Provisions/reversals	(231,492)	(529,684)	(400,595)	(570,672)
Employee and management profit sharing	(143,682)	(7,893)	(387,380)	(27,449)
Write-off of property, plant and equipment	(21,251)	(17,786)	(52,698)	(28,039)
Court fees	(45,245)	(48,241)	(62,074)	(50,118)
Fines	(13,581)	(17,893)	(19,075)	(21,520)
Provisions for pension and related funds	(86,261)	(6,865)	(8,118)	(7,237)
Other expenses	(32,642)	(23,344)	(62,481)	(32,727)
<b>Total</b>	<b>(724,367)</b>	<b>(824,546)</b>	<b>(1,886,226)</b>	<b>(1,046,343)</b>

- (i) The 2011 balance includes the recognition of recovered postemployment benefit costs (pension plans) related to the surplus pension plan PBS-A, administrated by Sistel, amounting to R\$71 million in Company and on a consolidated basis, against line item 'Pension plan assets'.

**Oi S.A. and Subsidiaries****Notes to the Financial Statements  
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(Amounts in thousands of Brazilian reais, unless otherwise stated)****7. FINANCIAL INCOME (EXPENSES)**

	COMPANY		CONSOLIDATED	
	2012	2011	2012	2011
<b>Financial income</b>				
Interest and inflation adjustment on other assets	411,469	658,533	719,517	677,683
Exchange differences on translating foreign cash investments	508,141		650,487	
Investments yield	151,068	85,220	514,876	383,628
Dividends received (i)			99,181	
Interest and inflation adjustment on intragroup loans	45,298	12,258	48,233	306,548
Other income	34,951	12,497	243,078	38,011
<b>Total</b>	<b>1,150,927</b>	<b>768,508</b>	<b>2,275,372</b>	<b>1,405,870</b>
<b>Financial expenses and other charges</b>				
<b>a) Borrowing and financing costs</b>				
Inflation adjustment and exchange differences on third-party borrowings	(1,376,342)		(2,076,652)	
Interest on intragroup borrowings	(731,720)	(209,963)	(1,313,059)	(266,148)
Interest on debentures	(751,066)	(182,154)	(753,185)	(182,154)
Interest and inflation adjustment on intragroup borrowings	(663,989)	(171,798)		(43,819)
Derivative transactions	472,786	(49,251)	942,021	(49,251)
<b>Subtotal:</b>	<b>(3,050,331)</b>	<b>(613,166)</b>	<b>(3,200,875)</b>	<b>(541,372)</b>
<b>b) Other charges</b>				
Interest and inflation adjustment on other liabilities	(123,423)	(300,627)	(488,068)	(427,733)
Tax on transactions and bank fees	(106,493)	(5,491)	(249,103)	(5,707)
Inflation adjustment of provisions	(92,185)	(156,719)	(233,017)	(167,087)
Interest on taxes in installments - tax financing program	(43,650)	(44,414)	(81,371)	(46,299)
Reversals of inflation adjustment of judicial deposit (i)		(198,853)		(198,853)
Other expenses	(70,454)	(84,838)	(238,465)	(90,731)
<b>Subtotal:</b>	<b>(436,205)</b>	<b>(790,942)</b>	<b>(1,290,024)</b>	<b>(936,410)</b>
<b>Total</b>	<b>(3,486,536)</b>	<b>(1,404,108)</b>	<b>(4,490,899)</b>	<b>(1,477,782)</b>
<b>Financial income (expenses)</b>	<b>(2,335,609)</b>	<b>(635,600)</b>	<b>(2,215,527)</b>	<b>(71,912)</b>

- (i) Refers basically to dividends received by subsidiary TMAR and paid by PT on May 25, 2012 of €0.435 per share, totaling €38,998 (R\$97,749).
- (ii) In the first quarter of 2011, the Company reviewed the calculation of the inflation adjustment estimate on judicial deposits, resulting in the reversal of inflation adjustment presented in the table above.

**Oi S.A. and Subsidiaries****Notes to the Financial Statements  
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Income taxes encompass the income tax and the social contribution. The income tax rate is 25% and the social contribution rate is 9%, generating aggregate nominal tax rate of 34%.

The provision for income tax and social contribution is broken down as follows:

	COMPANY		CONSOLIDATED	
	2012 Restated	2011	2012 Restated	2011
<b>INCOME TAX AND SOCIAL CONTRIBUTION</b>				
Current taxes	(74,367)	(20,847)	(934,079)	(205,730)
Deferred taxes	280,059	(233,891)	174,394	(283,895)
<b>Total</b>	<b>205,692</b>	<b>(254,738)</b>	<b>(759,685)</b>	<b>(489,625)</b>

	COMPANY		CONSOLIDATED	
	2012 Restated	2011	2012 Restated	2011
<b>Pre-tax profit</b>	1,579,198	1,260,469	2,544,612	1,495,375
<b>Profit of companies not subject to income tax and social contribution calculation</b>			(8,348)	(13,235)
<b>Total taxed income</b>	<b>1,579,198</b>	<b>1,260,469</b>	<b>2,536,264</b>	<b>1,482,140</b>
<b>Income tax and social contribution</b>				
Income tax and social contribution on taxed income	(536,927)	(428,560)	(862,330)	(503,928)
Share of profits of subsidiaries	843,783	229,864		
Tax effects of interest on capital	(72,420)	(85,177)	(4,406)	
Tax incentives (basically, operating profit) (i)	24		155,662	
Permanent deductions (additions) (ii)	(28,768)	29,135	(16,883)	14,280
Utilization of tax loss carryforwards			613	
Unrecognized deferred tax assets (iii)			(41,022)	
Recognized deferred tax assets (iv)			8,681	23
<b>Income tax and social contribution effect on profit or loss</b>	<b>205,692</b>	<b>(254,738)</b>	<b>(759,685)</b>	<b>(489,625)</b>

- (i) Refers to the exploration income recognized in the indirect subsidiary's income statement pursuant to Law 11638/2007. This tax benefit is granted under an Incentive-granting Report issued by the Northeast Development Authority (SUDENE), after the compliance with all requirements made by this agency; however, the said report does not make any additional requirements whose noncompliance would result in the loss of the tax benefit before December 2013.
- (ii) The main components of permanent deduction (addition) tax effects are: nondeductible fines, sponsorships, nondeductible donations, income from expired dividends, goodwill amortization (per-merger period), reversals of provisions, and investment in FINOR.
- (iii) Refer to adjustments to deferred tax assets because of subsidiaries that do not recognize tax credits on tax loss carryforwards.
- (iv) Refers basically to the recognition of subsidiaries' deferred taxes since the reviewed earnings projections point to the recoverability of the amounts.

## Oi S.A. and Subsidiaries

### Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)

The financial statements for the year ended December 31, 2012 have been prepared considering management's best estimates and the criteria set out in the Transitional Tax Regime (RTT).

#### 9. CASH, CASH EQUIVALENTS AND CASH INVESTMENTS

Cash investments made by the Company and its subsidiaries in the years ended December 31, 2012 and 2011, are classified as held for trading securities and are measured at their fair values.

##### (a) Cash and cash equivalents

	COMPANY		CONSOLIDATED	
	2012	2011	2012	2011
Cash and banks	23,760	89,552	346,874	136,132
Cash equivalents	1,020,224	4,264,765	4,066,168	5,868,374
<b>Total</b>	<b>1,043,984</b>	<b>4,354,317</b>	<b>4,413,042</b>	<b>6,004,506</b>

	COMPANY		CONSOLIDATED	
	2012	2011	2012	2011
Exclusive investment funds	986,146	3,022,318	3,654,226	4,522,452
Bank certificates of deposit (CDBs)	10,586	6,693	356,205	46,456
Repurchase agreements			28,245	
<i>Time deposits</i>	23,135	1,141,331	23,145	1,141,331
Exchange coupon note		94,096		94,096
Other	357	327	4,347	64,039
<b>Cash equivalents</b>	<b>1,020,224</b>	<b>4,264,765</b>	<b>4,066,168</b>	<b>5,868,374</b>

##### (b) Cash investments

	COMPANY		CONSOLIDATED	
	2012	2011	2012	2011
Exclusive investment funds	853,277	89,331	2,407,900	1,084,027
Private securities	14,277	13,327	81,699	13,327
<b>Cash investments</b>	<b>867,554</b>	<b>102,658</b>	<b>2,489,599</b>	<b>1,097,354</b>
Current	853,277	89,331	2,425,907	1,084,027
Non-current	14,277	13,327	63,692	13,327

**Oi S.A. and Subsidiaries****Notes to the Financial Statements  
for the Years Ended December 31, 2012 and 2011  
(Amounts in thousands of Brazilian reais, unless otherwise stated)****(c) Breakdown of the exclusive investment funds portfolios**

	COMPANY		CONSOLIDATED	
	2012	2011	2012	2011
Repurchase agreements	930,157	1,713,046	3,104,259	2,559,127
Bank certificates of deposit (CDBs)	33,728	1,307,362	124,788	1,903,062
<i>Time deposits</i>	3,630		343,279	
Government securities	18,106	1,754	49,979	59,649
Other	525	156	31,921	614
<b>Securities classified as cash equivalents</b>	<b>986,146</b>	<b>3,022,318</b>	<b>3,654,226</b>	<b>4,522,452</b>
Government securities	853,137	65,411	2,394,654	1,052,585
Bank certificates of deposit (CDBs)		23,920		31,442
Other	140		13,246	
<b>Securities classified as short-term investments</b>	<b>853,277</b>	<b>89,331</b>	<b>2,407,900</b>	<b>1,084,027</b>
<b>Total invested in exclusive funds</b>	<b>1,839,423</b>	<b>3,111,649</b>	<b>6,062,126</b>	<b>5,606,479</b>

The Company and its subsidiaries have cash investments in exclusive investment funds in Brazil and abroad, for the purpose of obtaining a return on its cash, and which are benchmarked against the CDI in Brazil and LIBOR abroad.

**10. TRADE RECEIVABLES**

	COMPANY		CONSOLIDATED	
	2012	2011	2012	2011
Billed services	1,329,592	1,420,533	5,302,938	1,753,230
Unbilled services	754,676	777,630	1,888,295	820,014
Mobile handsets and accessories sold	5,264	7,739	578,551	21,073
Allowance for doubtful accounts	(332,732)	(500,689)	(751,287)	(583,830)
<b>Total</b>	<b>1,756,800</b>	<b>1,705,213</b>	<b>7,018,497</b>	<b>2,010,487</b>

The aging list of trade receivables is as follows:

	COMPANY		CONSOLIDATED	
	2012	2011	2012	2011
Unbilled	754,676	777,630	1,888,295	820,014
Current	386,031	549,714	3,377,971	805,418
Receivables from other carriers	323,522	227,938	737,060	265,454
Past-due up to 60 days	436,713	381,687	1,162,487	409,313
Past-due from 61 to 90 days	46,175	72,984	154,918	77,536
Past-due from 91 to 120 days	34,820	44,271	127,301	47,928
Past-due from 121 to 150 days	29,558	32,069	100,194	34,650
Past-due from 151 to 180 days	78,037	119,609	221,558	134,004
<b>Total</b>	<b>2,089,532</b>	<b>2,205,902</b>	<b>7,769,784</b>	<b>2,594,317</b>

The changes in the allowance for doubtful accounts were as follows:

**Oi S.A. and Subsidiaries****Notes to the Financial Statements  
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	<b>COMPANY</b>	<b>CONSOLIDATED</b>
<b>Balance at 01/01/2011</b>	<b>(488,938)</b>	<b>(566,738)</b>
Allowance for doubtful accounts	(263,398)	(332,808)
Trade receivables written off as uncollectible	251,647	315,716
<b>Balance at 2011</b>	<b>(500,689)</b>	<b>(583,830)</b>
Increase due to corporate reorganization		(363,253)
Allowance for doubtful accounts	(97,781)	(502,509)
Trade receivables written off as uncollectible	265,738	698,305
<b>Balance at 2012</b>	<b>(332,732)</b>	<b>(751,287)</b>

**11. DUE FROM RELATED PARTIES**

	<b>COMPANY</b>	
	<b>2012</b>	<b>2011</b>
Loan to subsidiary	1,421	6,646
Interest on loan	80	57
<b>Total</b>	<b>1,501</b>	<b>6,703</b>
Non-current	1,501	6,703

	<b>CONSOLIDATED</b>	
	<b>2012</b>	<b>2011</b>
Private debentures – principal		1,500,000
Interest on private debentures		717,682
<b>Total</b>		<b>2,217,682</b>
Non-current		2,217,682

**Private debentures issued by TMAR**

Due to the corporate reorganization approved on February 27, 2012, the debentures issued by TMAR on February 17, 2009 and March 12, 2011, in the amounts of R\$1,200,000 and R\$300,000, respectively, subscribed by BrT Celular, were merged by Oi. These debentures mature in five years, on December 11, 2013. These debentures yield interest equivalent to the compound DI Rate plus a spread of 4.0% per year, to be paid on the debentures' maturity.

On June 1, 2012, the debentures originally issued by TMAR and merged with and into Oi have been written down as a balancing item to the capital reduction undertaken by BrT Celular, as described in Note 15, item (ii).

The counterparties are shown in Note 28.

**Oi S.A. and Subsidiaries**
**Notes to the Financial Statements  
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**12. CURRENT AND DEFERRED TAXES**

	ASSETS			
	COMPANY		CONSOLIDATED	
	2012 Restated	2011	2012 Restated	2011
<b>Current recoverable taxes</b>				
Recoverable income tax (IRPJ) (i)	12,906	23,560	806,135	184,985
Recoverable social contribution (CSLL) (i)	4,655	4,415	320,922	63,358
Withholding income taxes – IRRF/CSLL (ii)	101,800	71,050	599,312	104,882
<b>Current</b>	<b>119,361</b>	<b>99,025</b>	<b>1,726,369</b>	<b>353,225</b>
<b>Deferred taxes recoverable</b>				
Income tax on tax credits – merged goodwill (iii)	1,456,452	1,616,134	1,456,452	1,616,134
Social contribution on tax credits – merged goodwill (iii)	524,323	581,809	524,323	581,809
Income tax on temporary differences (iv)	1,156,792	1,218,539	2,912,247	1,320,137
Social contribution on temporary differences (iv)	376,317	404,192	863,203	431,093
Income tax on tax loss carryforwards (iv)	467,782	135,863	1,536,376	704,586
Social contribution on tax loss carryforwards (iv)	153,251	27,730	669,610	246,269
Provision for impairment losses				(5,281)
Other deferred taxes (v)	198,355	49,655	248,695	87,575
<b>Non-current</b>	<b>4,333,272</b>	<b>4,033,922</b>	<b>8,210,906</b>	<b>4,982,322</b>

	LIABILITIES			
	COMPANY		CONSOLIDATED	
	2012 Restated	2011	2012 Restated	2011
<b>Current taxes payable</b>				
Income tax payable	8,567	3,013	719,944	131,170
Social contribution payable	57,972	1,087	345,810	48,024
<b>Current</b>	<b>66,539</b>	<b>4,100</b>	<b>1,065,754</b>	<b>179,194</b>

	COMPANY		CONSOLIDATED	
	2012 Restated	2011	2012 Restated	2011
<b>Temporary additions (deductions) by nature:</b>	<b>3,513,884</b>	<b>3,820,674</b>	<b>5,756,225</b>	<b>3,949,173</b>
Provisions	1,385,940	1,464,810	1,989,192	1,497,289
Provisions for suspended taxes	131,825	110,067	167,550	136,446
Provisions for pension funds	197,689	211,329	198,607	212,084
Allowance for doubtful accounts	113,129	170,234	621,917	198,274
Profit sharing	47,823		137,349	
Foreign exchange differences	(21,403)	(110,264)	278,479	(110,270)
Merged goodwill (iii)	1,980,775	2,197,943	1,980,775	2,197,943
Other temporary additions and deductions	(267,657)	(227,195)	124,027	(194,682)
Subsidies and FISTEL			53,845	7,153
Provision for asset decommissioning	4,264	3,750	23,040	4,936
Adjustment to fair value of available-for-sale financial assets			241,826	
Revenue recognition			14,134	

## Oi S.A. and Subsidiaries

### Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)

Gain on sale of investments			(12,989)	
Deferred RTT amortization			10,689	
Hedge accounting	(58,501)		(72,216)	

- (i) Refer mainly to prepaid income tax and social contribution that will be offset against federal taxes payable in the future.
- (ii) Refer to corporate income tax credits on cash investments, intragroup loans, dividends and other that are used as deductions from income tax for the year, and social contribution withheld at source on services provided to government agencies.
- (iii) The Company merged the deferred income tax and social contribution amounts calculated as tax benefit originating from the goodwill paid on acquisition and recognized by the acquirees as a result of the corporate reorganization undertaken in 2009. The tax credits are realized as goodwill based on the STFC license and the appreciation of tangible assets is amortized, and should be utilized in tax offsetting in the years 2012-2034.
- (iv) Deferred income tax and social contribution assets are recognized only to the extent that it is probable that there will be a positive tax base for which temporary differences can be used and tax loss carryforwards can be offset. Deferred income tax and social contribution assets are reviewed at the end of each annual period and are written down as their realization is no longer possible. The Company and its subsidiaries offset their tax loss carryforwards against taxable income up to a limit of 30% per year, pursuant to the prevailing tax law.

Additionally, as at December 31, 2012, only part of tax credits on tax loss carryforwards or tax credits on temporary differences has been recognized for direct and indirect subsidiaries that do not have a profitability history and or do not expect to generate sufficient taxable profit. Unrecognized tax credits total R\$154,849 (R\$62,950 in 2011).

The table below shows the expected realization periods of deferred tax assets, net of recognized provision:

	COMPANY	CONSOLIDATED
2013	21,965	893,662
2014	21,965	1,182,403
2015	21,965	657,599
2016	21,965	717,752
2017	209,687	549,492
2018 to 2020	1,856,595	1,980,528
<b>Total</b>	<b>2,154,142</b>	<b>5,981,436</b>

- (v) Refer mainly to prior years' prepaid income tax and social contribution that will be offset against federal taxes payable.

**Oi S.A. and Subsidiaries**
**Notes to the Financial Statements  
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(Amounts in thousands of Brazilian reais, unless otherwise stated)
**Changes in deferred income tax and social contribution**

	COMPANY						
	Balance at 2011	Increase due to corporate reorganization	Recognized in deferred tax income/ expenses	Additions/ (offsets)	Recognized directly in equity	Recognized in financial income/ (expenses)	Balance at 2012 Restated
<b>Deferred tax assets (liabilities)</b>							
Provisions	1,464,810		(78,870)				1,385,940
Provisions for suspended taxes	110,067		21,758				131,825
Provisions for pension funds	211,329		(13,640)				197,689
Allowance for doubtful accounts	170,234		(57,105)				113,129
Profit sharing			47,823				47,823
Foreign exchange differences	(110,264)	(70,917)	159,778				(21,403)
Merged goodwill	2,197,943		(217,168)				1,980,775
Other temporary additions and deductions	(227,195)		(40,462)				(267,657)
Provision for asset decommissioning	3,750		514				4,264
Hedge accounting		(40,037)			(18,464)		(58,501)
Income tax loss carryforwards	135,863		331,919				467,782
Social contribution carryforwards	27,730		125,521				153,251
Other deferred taxes – prior years' credit balance	49,655	263,927	(9)	(132,127)		16,909	198,355
Tax effect of corporate reorganization							
<b>Total</b>	<b>4,033,922</b>	<b>152,973</b>	<b>280,059</b>	<b>(132,127)</b>	<b>(18,464)</b>	<b>16,909</b>	<b>4,333,272</b>

	CONSOLIDATED						
	Balance at 2011	Increase due to corporate reorganization	Recognized in deferred tax income/ expenses	Additions/ (offsets)	Recognized directly in equity	Recognized in financial income/ (expenses)	Balance at 2012 Restated
<b>Deferred tax assets related to:</b>							
Provisions	1,497,289	657,528	(165,625)				1,989,192
Provisions for suspended taxes	136,446		31,104				167,550
Provisions for pension funds	212,084		(13,477)				198,607
Allowance for doubtful accounts	198,274	456,428	(32,785)				621,917
Profit sharing		22,180	115,169				137,349
Foreign exchange differences	(110,270)	215,365	173,384				278,479
Merged goodwill	2,197,943		(217,168)				1,980,775
Other temporary additions and deductions	(194,682)	346,976	(30,994)	2,727			124,027
Subsidies and FISTEL	7,153	51,248	(4,556)				53,845
Provision for asset decommissioning	4,936	18,481	(377)				23,040
Adjustment to fair value of available-for-sale financial assets		244,049	(2,223)				241,826
Revenue recognition		46,051	(31,917)				14,134
Provision for impairment losses	(5,281)		5,281				
Hedge accounting		(40,037)			(32,179)		(72,216)
Gain on sale of investments			(12,989)				(12,989)
Deferred RTT amortization			10,689				10,689
Income tax loss carryforwards	704,586	583,224	248,566				1,536,376
Social contribution carryforwards	246,269	321,770	101,571				669,610
Other deferred taxes – prior years' credit balance	87,575	304,055	(9)	(216,218)		73,292	248,695
Tax effect of corporate reorganization		(750)	750				
<b>Total</b>	<b>4,982,322</b>	<b>3,226,568</b>	<b>174,394</b>	<b>(213,491)</b>	<b>(32,179)</b>	<b>73,292</b>	<b>8,210,906</b>

**Oi S.A. and Subsidiaries****Notes to the Financial Statements  
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	Assets			
	COMPANY		CONSOLIDATED	
	2012	2011	2012	2011
Recoverable State VAT (ICMS) (i)	734,138	644,955	1,980,203	876,172
Taxes on revenue (PIS and COFINS)	57,057	64,338	183,765	71,600
Other	14,461	3,362	131,228	14,246
<b>Total</b>	<b>805,656</b>	<b>712,655</b>	<b>2,295,196</b>	<b>962,018</b>
Current	561,669	563,901	1,557,177	783,382
Non-current	243,987	148,754	738,019	178,636

	LIABILITIES			
	COMPANY		CONSOLIDATED	
	2012	2011	2012	2011
State VAT (ICMS)	697,466	717,540	1,400,997	890,835
ICMS Agreement No. 69/1998	17,309	41,605	444,600	43,698
Taxes on revenue (PIS and COFINS)	715,920	638,925	1,781,237	761,192
FUST/FUNTEL/broadcasting fees	153,475	165,363	716,088	222,600
Other	10,994	15,970	143,724	29,803
<b>Total</b>	<b>1,595,164</b>	<b>1,579,403</b>	<b>4,486,646</b>	<b>1,948,128</b>
Current	1,097,494	1,165,680	2,248,075	1,445,362
Non-current	497,670	413,723	2,238,571	502,766

(i) Recoverable ICMS arises mostly from prepaid taxes and credits claimed on purchases of property, plant and equipment, which can be offset against ICMS payable within 48 months, pursuant to Supplementary Law 102/2000.

**14. JUDICIAL DEPOSITS**

In some situations the Company makes, by legal requirement or to provide guarantees, judicial deposits to ensure the continuity of ongoing lawsuits. These judicial deposits can be required for lawsuits with a likelihood of loss, as assessed by the Company based on the opinion of its legal counsel, as probable, possible, or remote.

	COMPANY		CONSOLIDATED	
	2012	2011	2012	2011
Civil	6,207,634	5,044,952	7,979,948	5,135,887
Labor	950,589	869,462	1,691,957	884,607
Tax	568,970	542,925	2,119,141	585,645
<b>Total</b>	<b>7,727,193</b>	<b>6,457,339</b>	<b>11,791,046</b>	<b>6,606,139</b>
Current	1,728,996	1,609,577	2,068,315	1,651,114
Non-current	5,998,197	4,847,762	9,722,731	4,955,025

As set forth by relevant legislation, judicial deposits are adjusted for inflation.

**Oi S.A. and Subsidiaries****Notes to the Financial Statements  
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	COMPANY		CONSOLIDATED	
	2012 Restated	2011	2012	2011
Equity interests measured:				
Share of profits of subsidiaries	24,437,226	7,433,360		
At acquisition cost (i)	3,776	3,699	55,141	5,338
Tax incentives, net of allowances for losses	10,273	3,057	23,861	3,057
Goodwill	11,618	11,618		
Other investments	23	23	1,710	41
<b>Total</b>	<b>24,462,916</b>	<b>7,451,757</b>	<b>80,712</b>	<b>8,436</b>

- (i) The consolidated balance includes of subsidiary TMAR's investment in Hispamar Satélites S.A. ("Hispamar"), which is mainly engaged in outsourcing manufacturing, launching and operation of satellites, and the use and sale of useful capacity of satellites that occupy orbital, duly licensed positions in different frequency bands, the provision of communication services, especially via satellite, and other services necessary to achieve its corporate purposes. The subsidiary TMAR holds a 19.04% stake in the investee and there is no significant influence in its management.

**Summary of changes in investment balances**

	COMPANY Restated	CONSOLIDATED
<b>Balance at 01/01/2011</b>	<b>5,753,558</b>	<b>5,370</b>
Goodwill	11,618	
Share of profits of subsidiaries	676,070	
Transfer of Vant's equity deficit	7,314	
Tax incentives, net of allowances for losses	2,927	2,927
BrT Celular capital increase	1,468,225	
Mandatory dividends	(217,436)	
Interest on capital	(250,519)	
Other		139
<b>Balance in 2011</b>	<b>7,451,757</b>	<b>8,436</b>
Increase due to corporate reorganization	20,365,629	60,307
Share of profits of subsidiaries	2,481,715	
BrT Celular capital reduction (ii)	(3,763,789)	
Partial amortization of TMAR shares (iii)	(1,210,302)	
Increase in investment	9,680	
Share of other comprehensive income of subsidiaries	16,792	
Mandatory dividends	(663,885)	
Interest on capital	(201,000)	
Write-off of investment	(15,697)	
Other	(7,984)	11,969
<b>Balance in 2012</b>	<b>24,462,916</b>	<b>80,712</b>

**Oi S.A. and Subsidiaries****Notes to the Financial Statements  
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- (v) On June 1, 2012 BrT Celular approved at the Extraordinary Shareholders' Meeting the reduction of capital amounting to R\$5,137,062. From the total capital reduction: (a) R\$1,373,273 was absorbed by the accumulated losses of BrT Celular, without impact on the Company's investment in BrT Celular, and (b) R\$3,763,789 was offset against the amounts due by the Company to subsidiary BrT Celular, of which R\$1,508,288 due as intragroup borrowings and R\$2,255,501 as debentures.
- (vi) On July 27, 2012, TMAR's Extraordinary General Meeting approved the partial amortization of TMAR's common shares and Class A preferred shares, totaling R\$1,210,302.

The main data on direct equity interests carried by the equity method:

			COMPANY				
			2012				
			Restated				
			In thousands				
Subsidiaries	Equity (equity deficiency)	Profit (loss) for the year	Shares			Equity interests - %	
			Common	Preferred	Private equity	Total capital	Voting capital
BrT Celular	2,490,782	307,205	4,473,443			100	100
BrTI	381,819	2,791	685,154			100	100
BrT CS	401,603	163,199			272,443,966	99.99	99.99
BrT Multimídia	446,247	116,325			399,253	100	100
BrT Call Center	24,984	499	11,270	22,370		100	100
BrT Card	7,509	498			7,499,999	100	100
TMAR (iv)	20,611,572	1,564,658	154,032,213	189,400,783		100	100
Copart 3 (iv)	(384)	4,308	799			100	100
Oi Holanda (v)	72,710	72,703	100			100	100

COMPANY			
2012			
Restated			
Subsidiaries	Share of profits of subsidiaries	Investment value	Provision for equity deficiency
BrT Celular	307,205	2,490,782	
BrTI	2,791	381,819	
BrT CS	163,199	401,603	
BrT Multimídia	109,331	446,247	
VANT (vi)	4,304		
BrT Call Center	499	24,984	
BrT Card	498	7,509	
iG Brasil	17		
iG Participações (vi)	3		
NTPA (vi)	219		
TMAR (iv)	1,819,404	20,611,572	
TNL.NET (vi)	244		
TNL.TRADING (vi)	(472)		
Copart 3 (iv)	3,527		(384)
Oi Holanda (v)	72,703	72,710	
Sumbe	(1,757)		
<b>Total</b>	<b>2,481,715</b>	<b>24,437,226</b>	<b>(384)</b>

**Oi S.A. and Subsidiaries**
**Notes to the Financial Statements  
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			COMPANY				
			2011				
			In thousands			Equity interests - %	
			Shares		Private equity		
Subsidiaries	Equity (equity deficiency)	Profit (loss) for the year	Common	Preferred		Total capital	Voting capital
BrT Celular	6,101,835	406,866	4,473,443			100	100
BrTI	380,653	4,719	685,154			100	100
BrT CS	466,404	179,182			272,443,966	99.99	99.99
BrT Multimídia	441,363	97,549			399,253	90.46	90.46
VANT (vi)	(9,602)	(7,314)	141,511,999			99.99	99.99
BrT Call Center	24,484	4,089	11,270	22,370		100	100
BrT Card	8,648	645			7,499,999	100	100
iG Brasil	278,487	(2,090)	112,047,365			13.64	13.64
iG Participações (vi)	87,773	(770)	125,502			0.16	0.16
NTPA (vi)	13,935	(72)			32,645,507	100	100

				COMPANY		
				2011		
Subsidiaries	Share of profits of subsidiaries	Investment value	Provision for equity deficiency			
BrT Celular	406,866	6,101,835				
BrTI	4,719	380,653				
BrT CS	179,182	466,404				
BrT Multimídia	88,241	399,257				
VANT (vi)	(7,314)		(9,602)			
BrT Call Center	4,089	24,484				
BrT Card	645	8,648				
iG Brasil	(285)	38,000				
iG Participações (vi)	(1)	144				
NTPA (vi)	(72)	13,935				
<b>Total</b>	<b>676,070</b>	<b>7,433,360</b>	<b>(9,602)</b>			

## Oi S.A. and Subsidiaries

### Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)

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#### Summarized financial information

Subsidiaries	2012		
	Assets	Liabilities	Revenue
BrT Celular	4,987,306	2,496,524	2,332,887
BrTI	393,657	65,043	11,002
BrT CS	777,365	375,762	253,271
BrT Multimídia	690,745	244,498	236,208
BrT Call Center	130,047	105,063	380,106
BrT Card	9,189	1,680	
TMAR (iv)	39,163,757	18,552,185	11,954,371
Copart 3 (iv)	44,777	45,161	
Oi Holanda (v)	3,193,905	3,121,195	

Subsidiaries	2011		
	Assets	Liabilities	Revenue
BrT Celular	8,827,629	2,725,794	2,006,083
BrTI	416,771	36,118	15,354
BrT CS	816,105	349,701	217,421
BrT Multimídia	683,630	242,267	212,661
VANT (vi)	11,938	21,540	
BrT Call Center	119,704	95,220	354,844
BrT Card	9,367	719	
iG Brasil	364,249	85,762	236,645
iG Participações (vi)	90,376	2,603	
NTPA (vi)	13,935		

- (iv) These companies became Oi subsidiaries after the corporate reorganization described in Note 1.
- (v) In the period ended September 30, 2012, the Company acquired from its subsidiary TMAR the equity interests in wholly-owned subsidiary Oi Brasil Holdings Cooperatief (“Oi Holanda”), at its carrying amount.
- (vi) Companies merged as a result of the corporate reorganization described in Note 1.

**Oi S.A. and Subsidiaries**
**Notes to the Financial Statements  
for the Years Ended December 31, 2012 and 2011  
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**16. PROPERTY, PLANT AND EQUIPMENT**

	COMPANY						
	Restated						
	Works in progress	Automatic switching equipments	Transmission and other equipments (1)	Infrastructure	Buildings	Other assets	Total
<b>Cost of PP&amp;E (gross amount)</b>							
<b>Balance in 01/01/2011</b>	<b>449,352</b>	<b>5,112,512</b>	<b>14,307,287</b>	<b>3,865,597</b>	<b>1,025,977</b>	<b>1,647,942</b>	<b>26,408,667</b>
Additions	870,991	550	175,584	1,691	1	9,155	1,057,972
Write-offs	(3,890)	(10,791)	(46,281)	(12,059)		(3,828)	(76,849)
Transfers	(588,563)	21,655	430,937	107,119	1,910	(9,921)	(36,863)
<b>Balance in 2011</b>	<b>727,890</b>	<b>5,123,926</b>	<b>14,867,527</b>	<b>3,962,348</b>	<b>1,027,888</b>	<b>1,643,348</b>	<b>27,352,927</b>
Increase due to corporate reorganization				23,796	6,548	20,227	50,571
Additions	767,329		398,100	3,957	3,853	4,331	1,177,570
Write-offs	(12,030)	(645)	(62,020)	(37,274)	(1,966)	(3,778)	(117,713)
Transfers	(855,755)	43,754	632,097	115,953	5,091	58,860	
Transfers held-for-sale assets (i)				(9,133)	(91,210)		(100,343)
<b>Balance in 2012</b>	<b>627,434</b>	<b>5,167,035</b>	<b>15,835,704</b>	<b>4,059,647</b>	<b>950,204</b>	<b>1,722,988</b>	<b>28,363,012</b>
<b>Accumulated depreciation</b>							
<b>Balance in 01/01/2011</b>		<b>(4,954,771)</b>	<b>(12,577,492)</b>	<b>(3,015,364)</b>	<b>(627,098)</b>	<b>(1,462,471)</b>	<b>(22,637,196)</b>
Depreciation expenses		(23,097)	(340,601)	(165,593)	(23,642)	(30,667)	(583,600)
Write-offs		10,888	42,848	13,553		3,898	71,187
<b>Balance in 2011</b>		<b>(4,966,980)</b>	<b>(12,875,245)</b>	<b>(3,167,404)</b>	<b>(650,740)</b>	<b>(1,489,240)</b>	<b>(23,149,609)</b>
Increase due to corporate reorganization				(17,714)	(5,988)	(19,618)	(43,320)
Depreciation expenses		(25,067)	(421,581)	(94,058)	(12,273)	(33,625)	(586,604)
Write-offs		351	44,233	30,824	2,239	3,127	80,774
Transfers		39	(66)	10		17	
Transfers held-for-sale assets (i)				6,000	140,245		146,245
<b>Balance in 2012</b>		<b>(4,991,657)</b>	<b>(13,252,659)</b>	<b>(3,242,342)</b>	<b>(613,452)</b>	<b>(1,539,339)</b>	<b>(23,639,449)</b>
<b>Property, plant and equipment, net</b>							
Balance in 2011	<b>727,890</b>	<b>156,946</b>	<b>1,992,282</b>	<b>794,944</b>	<b>377,148</b>	<b>154,108</b>	<b>4,203,318</b>
Balance in 2012	<b>627,434</b>	<b>175,378</b>	<b>2,583,045</b>	<b>817,305</b>	<b>336,752</b>	<b>183,649</b>	<b>4,723,563</b>
Annual depreciation rate (average)		10%	10%	6%	4%	13%	

(1) Transmission and other equipment includes transmission and data communication equipment.

**Oi S.A. and Subsidiaries****Notes to the Financial Statements  
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(Amounts in thousands of Brazilian reais, unless otherwise stated)

	CONSOLIDATED						
	Restated						
	Works in progress	Automatic switching equipments	Transmission and other equipments (1)	Infrastructure	Buildings	Other assets	Total
<b>Cost of PP&amp;E (gross amount)</b>							
<b>Balance in 01/01/2011</b>	<b>738,062</b>	<b>5,464,567</b>	<b>16,213,043</b>	<b>4,229,942</b>	<b>1,077,415</b>	<b>2,034,573</b>	<b>29,757,602</b>
Additions	1,041,093	550	249,149	10,179	203	16,369	1,317,543
Write-offs	(8,390)	(10,794)	(49,127)	(13,723)		(22,083)	(104,117)
Transfers	(766,163)	54,248	494,948	121,931	1,346	40,772	(52,918)
<b>Balance in 2011</b>	<b>1,004,602</b>	<b>5,508,571</b>	<b>16,908,013</b>	<b>4,348,329</b>	<b>1,078,964</b>	<b>2,069,631</b>	<b>30,918,110</b>
Increase due to corporate reorganization	2,474,477	11,978,833	18,877,091	20,750,385	2,515,293	2,653,779	59,249,858
Additions	2,720,784	263,806	1,518,738	415,437	165,586	124,823	5,209,174
Write-offs	(85,977)	(664)	(78,024)	(320,951)	(23,365)	(143,152)	(775,133)
Transfers	(1,986,763)	176,583	1,136,366	516,468	32,397	124,949	
Transfers held-for-sale assets (i)				(30,407)	(320,735)		(351,142)
<b>Balance in 2012</b>	<b>4,127,123</b>	<b>17,927,129</b>	<b>38,362,184</b>	<b>25,679,261</b>	<b>3,448,140</b>	<b>4,830,030</b>	<b>94,373,867</b>
<b>Accumulated depreciation</b>							
<b>Balance in 01/01/2011</b>		<b>(5,136,580)</b>	<b>(13,743,941)</b>	<b>(3,199,969)</b>	<b>(655,348)</b>	<b>(1,704,965)</b>	<b>(24,440,803)</b>
Depreciation expenses		(49,320)	(453,470)	(185,216)	(27,548)	(59,486)	(775,040)
Write-offs		10,891	44,855	14,122		21,556	91,424
Transfers				23		(3)	20
<b>Balance in 2011</b>		<b>(5,175,009)</b>	<b>(14,152,556)</b>	<b>(3,371,040)</b>	<b>(682,896)</b>	<b>(1,742,898)</b>	<b>(25,124,399)</b>
Increase due to corporate reorganization		(10,435,194)	(13,378,273)	(16,804,512)	(1,740,488)	(1,879,453)	(44,237,920)
Depreciation expenses		(258,577)	(1,417,836)	(555,764)	(64,206)	(199,891)	(2,496,274)
Write-offs		370	57,306	181,674	14,708	105,580	359,638
Transfers		1,306	2,591	(4,096)	115	84	
Transfers held-for-sale assets (i)				20,507	214,642		235,149
<b>Balance in 2012</b>		<b>(15,867,104)</b>	<b>(28,888,768)</b>	<b>(20,533,231)</b>	<b>(2,258,125)</b>	<b>(3,716,578)</b>	<b>(71,263,806)</b>
<b>Property, plant and equipment, net</b>							
Balance in 2011	<b>1,004,602</b>	<b>333,562</b>	<b>2,755,457</b>	<b>977,289</b>	<b>396,068</b>	<b>326,733</b>	<b>5,793,711</b>
Balance in 2012	<b>4,127,123</b>	<b>2,060,025</b>	<b>9,473,416</b>	<b>5,146,030</b>	<b>1,190,015</b>	<b>1,113,452</b>	<b>23,110,061</b>
Annual depreciation rate (average)		10%	10%	8%	6%	12%	

(1) Transmission and other equipment includes transmission and data communication equipment.

- (i) At the Board of Directors' meeting held on September 26, 2012, the sale of 41 Company and its subsidiaries properties/locations. In accordance with CPC 31/IFRS 5 requirements, these properties were transferred to "Held-for-sale noncurrent assets" and are carried at their carrying amounts since their fair values, less costs to sell, exceed such carrying amounts. Additionally, these properties have administrative characteristics and do not carry cash flows separate from the Company's cash flows and, therefore, we are not presenting discontinued cash flows and operations related to these assets.

**Oi S.A. and Subsidiaries****Notes to the Financial Statements  
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(Amounts in thousands of Brazilian reais, unless otherwise stated)****Additional disclosures**

Pursuant to ANATEL's concession agreements, all property, plant and equipment items capitalized by the Company that are indispensable for the provision of the services granted under said agreements are considered returnable assets and are part of the concession's cost. These assets are handed over to ANATEL upon the termination of the concession agreements that are not renewed.

As at December 31, 2012, the residual balance of the Company's returnable assets is R\$2,950,903 (R\$2,720,125 in 2011) and consist of assets and installations in progress, switching and transmission equipment, payphones, outside network equipment, power equipment, and systems and operation support equipment. In consolidated, this balance amounts to R\$6,652,317 at December 31, 2012.

In the year ended December 31, 2012, financial charges and transaction costs incurred on as works in progress, amounting to R\$64,783 (R\$54,446 in 2011) by the Company and R\$324,135 (R\$69,925 in 2011) on consolidated basis, were capitalized at the average rate of 10% p.a.

**17. INTANGIBLE ASSETS**

	COMPANY				
	Restated				
	Goodwill	Intangible assets in progress	Data processing systems	Other	Total
<b>Cost of intangibles (gross amount)</b>					
<b>Balance in 01/01/2011</b>	132,365	82,150	2,035,225	58,144	2,307,884
Additions			75		75
Transfers	(132,365)	(54,196)	80,466	1,085	(105,010)
<b>Balance in 2011</b>		27,954	2,115,766	59,229	2,202,949
Increase due to corporate reorganization				7,568	7,568
Additions		87,055	45,102	1,019	133,176
Transfers		(108,295)	58,919	49,376	
<b>Balance in 2012</b>		6,714	2,219,787	117,192	2,343,693
<b>Accumulated amortization</b>					
<b>Balance in 01/01/2011</b>	(120,747)		(1,787,420)	(23,609)	(1,931,776)
Amortization expenses			(122,315)	(5,207)	(127,522)
Transfers	120,747				120,747
<b>Balance in 2011</b>			(1,909,735)	(28,816)	(1,938,551)
Increase due to corporate reorganization				(6,739)	(6,739)
Amortization expenses			(102,095)	(11,338)	(113,433)
<b>Balance in 2012</b>			(2,011,830)	(46,893)	(2,058,723)
<b>Intangible assets, net</b>					
Balance in 2011		27,954	206,031	30,413	264,398
Balance in 2012		6,714	207,957	70,299	284,970
Annual amortization rate (average)			20%	19%	

**Oi S.A. and Subsidiaries**
**Notes to the Financial Statements  
for the Years Ended December 31, 2012 and 2011**  
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	CONSOLIDATED					
	Restated					
	Goodwill	Intangible assets in progress	Data processing systems	Regulatory licenses	Other	Total
<b>Cost of intangibles (gross amount)</b>						
Balance in 01/01/2011	533,525	152,123	2,787,865	883,851	18,005	4,375,369
Additions			919	1,073	261	2,253
Transfers		(85,455)	117,706		1,106	33,357
<b>Balance in 2011</b>	<b>533,525</b>	<b>66,668</b>	<b>2,906,490</b>	<b>884,924</b>	<b>19,372</b>	<b>4,410,979</b>
Increase due to corporate reorganization	81,948	279,182	2,787,332	2,709,050	259,945	6,117,457
Additions		242,450	348,048	368,848	307,872	1,267,218
Write-offs		(53,419)	(32,499)		(4,552)	(90,470)
Transfers		(242,800)	193,746		49,054	
<b>Balance in 2012</b>	<b>615,473</b>	<b>292,081</b>	<b>6,203,117</b>	<b>3,962,822</b>	<b>631,691</b>	<b>11,705,184</b>
<b>Accumulated amortization</b>						
Balance in 01/01/2011	(453,031)		(2,334,729)	(255,484)	(13,692)	(3,056,936)
Amortization expenses			(206,036)	(58,904)	(4,246)	(269,186)
<b>Balance in 2011</b>	<b>(453,031)</b>		<b>(2,540,765)</b>	<b>(314,388)</b>	<b>(17,938)</b>	<b>(3,326,122)</b>
Increase due to corporate reorganization	(8,047)		(1,948,582)	(1,318,029)	(149,502)	(3,424,160)
Amortization expenses			(413,494)	(196,066)	(122,266)	(731,826)
Write-offs			13,995		81	14,076
Transfers			(136)		136	
<b>Balance in 2012</b>	<b>(461,078)</b>		<b>(4,888,982)</b>	<b>(1,828,483)</b>	<b>(289,489)</b>	<b>(7,468,032)</b>
<b>Intangible assets, net</b>						
Balance in 2011	80,494	66,668	365,725	570,536	1,434	1,084,857
Balance in 2012	154,395	292,081	1,314,135	2,134,339	342,202	4,237,152
Annual amortization rate (average)			20%	7.5%	19.5%	

**Goodwill**

The Company and its subsidiaries also recognize goodwill arising on the acquisition of investments based on expected future earnings.

In December 2012, annual impairment tests were conducted based on ten-year discounted cash flow projections, using perpetuity-based amounts in the last year, which is the period in which the entity expected to recover the investments made when the business was acquired, by applying an average growth rate of 22.5% for Pay TV, 8.5% for Means of Payment, 33.1% for RII Internet provider and 6.5% to RII Multimedia, discount rate of 11.8%, and using perpetuity-based amounts in the last year. The tests did not show any impairment losses, as summarized below:

Cash-generating unit (CGU)	Restated			
	Asset balance	Goodwill allocated to the UGC	Recoverable amount valuation basis	Value in use
Pay TV	58,721	37,690	96,441	4,620,169
Means of payment	40,272	36,211	76,483	101,487
RII Internet service provider	41,612	115,777	157,389	2,267,806
RII Multimedia	184,852	7,321	192,173	212,983
<b>Total</b>	<b>325,487</b>	<b>154,395</b>	<b>479,882</b>	<b>7,202,445</b>

**Oi S.A. and Subsidiaries****Notes to the Financial Statements  
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(Amounts in thousands of Brazilian reais, unless otherwise stated)****Regulatory licenses**

	<b>CONSOLIDATED</b>		
	<b>Restated</b>		
<b>Concession/license</b>	<b>Execution date</b>	<b>Termination</b>	<b>Acquisition cost</b>
BrT Celular Region 2 radiofrequencies and SMP (2G)	18/12/2002	17/12/2017	191,502
BrT Celular Region 2 radiofrequencies and SMP (2G)	03/05/2004	22/12/2017	28,624
BrT Celular Region 2 radiofrequencies and SMP (3G)	29/04/2008	30/04/2023	488,235
BrT Celular Region 2 radiofrequencies and SMP (H Band)	26/05/2011	30/04/2023	1,073
TNL PCS's Region 1 radiofrequencies and SMP (2G)	13/03/2001	13/03/2016	1,102,007
TNL PCS's Region 1 radiofrequencies and SMP (2G)	11/07/2003	13/03/2016	66,096
TNL PCS's Region 1 radiofrequencies and SMP (2G)	22/01/2004	13/03/2016	45,218
TNL PCS's Region 3 radiofrequencies and SMP (2G)	29/04/2008	30/04/2023	131,106
TNL PCS's Region 1 and 3 radiofrequencies and SMP (3G)	29/04/2008	30/04/2023	867,018
TNL PCS's Region 3 (inland) radiofrequencies and SMP (2G)	08/09/2008	07/12/2022	126,820
TNL PCS's radiofrequencies and SMP	07/12/2007	07/12/2022	8,868
Way TV cable TV concession (Uberlândia)	06/11/1998	06/11/2013	3,906
Way TV cable TV concession (Belo Horizonte)	08/02/1999	08/02/2014	16,669
Way TV cable TV concession (Barbacena)	08/02/1999	08/02/2014	535
Way TV cable TV concession (Poços de Caldas)	08/02/1999	08/02/2014	1,735
Fair value of Amazônia Celular's SMP licenses	03/04/2008	13/03/2016	230,030
Radiofrequencies (sub-bands 2.5 GHz (4G) and 450 MHz) (i)	30/06/2012	30/06/2027	368,848
Other licenses			284,532
<b>Total</b>			<b>3,962,822</b>

- (i) Acquisition of radiofrequencies in sub-bands 2.5GHz (4G) and 450 MHz as detailed in Note 21. The acquired lots consist of:
- Sub-band V2, in frequency 2.5 GHz (FDD) with national coverage and 10+10 MHz band;
  - Sub-band P, with lots in regional areas 11, 43, 51, 53, 71, 81, 88, 94, 95 and 96, in 2.5 GHz (FDD) frequency and 10+10 MHz band, and
  - Sub-band 450 MHz for the Mid-west and State of Rio Grande do Sul region, in 7+7 MHz band.

**Oi S.A. and Subsidiaries**
**Notes to the Financial Statements  
for the Years Ended December 31, 2012 and 2011**  
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**18. TRADE PAYABLES**

	COMPANY		CONSOLIDATED	
	2012	2011	2012	2011
Infrastructure and network supplies	212,088	427,595	1,027,030	503,735
Rental of polls and rights-of-way	576,673	479,965	900,077	481,513
Transfers (interconnection and co-billing)	278,216	290,961	783,292	306,705
Services	194,321	105,215	574,303	135,358
Plant maintenance	164,951	77,941	455,363	105,018
Handhelds and SIM cards			295,362	66,885
Information technology	33,914	32,498	242,170	53,187
<i>Call center</i>	27,296	26,623	132,991	37,037
Sales commissions			86,456	43,976
Rental of physical space and equipment	2,773	13,783	25,609	13,783
Other	77,478	89,122	136,196	93,355
<b>Total</b>	<b>1,567,710</b>	<b>1,543,703</b>	<b>4,658,849</b>	<b>1,840,552</b>

**19. BORROWINGS AND FINANCING**  
(Includes debentures)

	COMPANY		CONSOLIDATED	
	2012	2011	2012	2011
Financing	9,622,984	3,118,875	25,155,935	3,883,614
Accrued interest and other charges on financing	211,685	131,138	575,529	135,216
Debentures	12,231,051	4,070,360	7,920,740	4,070,360
Accrued interest on debentures	1,416,605	60,847	300,566	60,847
Borrowings (from subsidiaries)	3,264,052	1,329,358		
Accrued interest and other charges on borrowings (intragroup from subsidiaries)	45,750	154,169		
Incurred debt issuance cost	(360,652)	(43,954)	(606,681)	(44,826)
<b>Total</b>	<b>26,431,475</b>	<b>8,820,793</b>	<b>33,346,089</b>	<b>8,105,211</b>
Current	1,877,195	1,025,753	3,113,621	1,143,537
Non-current	24,554,280	7,795,040	30,232,468	6,961,674

**Oi S.A. and Subsidiaries****Notes to the Financial Statements  
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(Amounts in thousands of Brazilian reais, unless otherwise stated)****Borrowings and financing by type**

	COMPANY		CONSOLIDATED			
	2012	2011	2012	2011	Maturity (principal and interest)	TIR %
<b>BNDES</b>	2,202,482	1,522,267	6,366,740	2,229,449		
Local currency	2,202,482	1,522,267	6,366,740	2,229,449	Dec 2012 to Dec 2018	8.72
Public debentures	8,179,789	4,131,207	8,221,306	4,131,207	Dec 2012 to Jul 2021	9.80
Private debentures	5,467,867				Dec 2012 to May 2022	7.98
Financial institutions	7,632,187	1,727,746	19,364,724	1,789,381		
Local currency	1,613,581	1,726,827	6,087,859	1,788,462		
CCB			3,185,647		Dec 2012 to Jan 2028	10.81
Senior Notes	1,136,948	1,136,316	1,136,948	1,136,316	Dec 2012 to Sep 2016	10.55
CRI	439,232	544,646	1,360,766	544,646	Dec 2012 to Aug 2022	10.05
Other	37,401	45,865	404,498	107,500	Dec 2012 to Dec 2033	6.35
Foreign currency	6,018,606	919	13,276,865	919		
ECA credit facilities			4,123,977		Dec 2012 to Aug 2020	6.74
Senior Notes	6,018,258		9,152,540		Dec 2012 to Oct 2020	8.01
Other	348	919	348	919	Dec 2012 to Feb 2014	
Loans to subsidiaries	3,309,802	1,483,527			Dec 2012 to Feb 2022	7.98
<b>Subtotal</b>	<b>26,792,127</b>	<b>8,864,747</b>	<b>33,952,770</b>	<b>8,150,037</b>		
Incurring debt issuance cost	(360,652)	(43,954)	(606,681)	(44,826)		
<b>Total</b>	<b>26,431,475</b>	<b>8,820,793</b>	<b>33,346,089</b>	<b>8,105,211</b>		

Acronym:

ECA - Export Credit Agency

CCB – Bank Credit Note

CRI – Certificate of Real Estate Receivables

**Debt issuance costs by type**

	COMPANY		CONSOLIDATED	
	2012	2011	2012	2011
Financial institutions	314,386	20,581	555,199	20,581
Local currency	28,170	20,581	127,099	20,581
Foreign currency	286,216		428,100	
<b>BNDES</b>	<b>1,448</b>	<b>789</b>	<b>6,564</b>	<b>1,661</b>
Local currency	1,448	789	6,564	1,661
Public debentures	44,818	22,584	44,918	22,584
<b>Total</b>	<b>360,652</b>	<b>43,954</b>	<b>606,681</b>	<b>44,826</b>
Current	53,994	7,445	96,974	7,579
Non-current	306,658	36,509	509,707	37,247

**Breakdown of the debt by currency**

## Oi S.A. and Subsidiaries

### Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)

	COMPANY		CONSOLIDATED	
	2012	2011	2012	2011
Brazilian reais	20,699,085	8,819,874	20,497,326	8,104,292
US dollar	3,727,327	919	10,843,700	919
Euro	2,005,063		2,005,063	
<b>Total</b>	<b>26,431,475</b>	<b>8,820,793</b>	<b>33,346,089</b>	<b>8,105,211</b>

#### Breakdown of the debt by index

	COMPANY		CONSOLIDATED	
	2012	2011	2012	2011
Fixed rate	7,182,086	1,241,957	11,431,248	1,271,370
CDI	14,879,079	5,592,150	9,139,158	4,108,624
TJLP	1,893,080	1,427,927	5,537,503	2,122,561
LIBOR	121	572	3,794,036	572
IPCA	2,453,818	534,898	3,376,952	534,898
INPC	23,291	23,289	67,192	67,186
<b>Total</b>	<b>26,431,475</b>	<b>8,820,793</b>	<b>33,346,089</b>	<b>8,105,211</b>

#### Maturities

The long-term debt matures as follows:

	COMPANY	CONSOLIDATED
	2012	
2014	4,645,053	3,791,347
2015	140,420	2,484,782
2016	4,593,730	4,598,630
2017	4,412,097	6,359,379
2018 and following years	11,069,638	13,508,037
<b>Total</b>	<b>24,860,938</b>	<b>30,742,175</b>

#### Scheduled allocation of debt issuance cost to the income statement

Debt issuance costs classified in non-current liabilities will be expensed on subsequent years, as follows:

	COMPANY	CONSOLIDATED
	2012	
2014	51,635	94,487
2015	50,503	93,141
2016	49,925	81,642
2017	46,372	70,038
2018 and following years	108,223	170,399
<b>Total</b>	<b>306,658</b>	<b>509,707</b>

#### Description of main borrowings and repayments

## **Oi S.A. and Subsidiaries**

### **Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)**

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In the year ended December 31, 2012 the Company's debt increased significantly by R\$17,796 million in Company and R\$21,102 million on a consolidated basis, due to the corporate reorganization of February 27, 2012. The debt originating from the corporate reorganization consist of foreign currency senior notes, private debentures, public debentures, and BNDES facilities subject to TJLP.

#### **Local currency-denominated financing**

##### **Development Banks**

The Company and its subsidiary obtained financing facilities with BNDES to fund the expansion and improve the quality of their fixed and mobile nationwide networks and meet their regulatory obligations.

In December 2012, the Company and its subsidiaries entered into a financing agreement with the BNDES, amounting to R\$5,417 million to fund their investments between 2012 and 2014. Of the total financing facility contracted, by the end of this month R\$2,000 million had been disbursed (of which R\$566 million to Oi, R\$888 million to TMAR, R\$412 million to TNL PCS, and R\$133 million to BrT Celular). The related debt issuance costs, totaling R\$3 million are being amortized through profit or loss, according to this issuance's contractual terms, using its effective interest rate.

Additionally, the Company and its subsidiaries are parties to current financing agreements with the BNDES and other development banks from the North and Northeast of Brazil, entered into in 2006, 2008, 2009, and 2010 to finance investment projects with the goals referred to above.

During the year ended December 31, 2012, the Company paid installments of principal plus adjusted interest totaling R\$1,092 million in Company and R\$1,857 million on a consolidated basis.

##### **Senior Notes and Bank Credit Bill (CCB)**

In 2011, the Company issued senior notes in the international capital market totaling R\$1,100 million. In the same year, its subsidiary TMAR executed the second amendment to the Bank Credit Note (CCB), raised in 2008, amounting to R\$3,071 million that extends its maturity to the end of 2018. These borrowings have the purpose of reducing debt issuance costs and general corporate purposes.

##### **CRI – Certificate of Real Estate Receivables**

In August 2010, the Company and its subsidiary TMAR transferred, through capital payments, the ownership of 101 returnable properties to its subsidiary Copart 5 and 162 returnable properties to its subsidiary Copart 4, respectively.

Copart 5 and Copart 4 assigned the receivables generated under the lease agreements to BSCS - Brazilian Securities Companhia de Securitização, which issued Certificates of Real Estate Receivables (CRIs) backed by these receivables.

## **Oi S.A. and Subsidiaries**

### **Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)**

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In the context of the CRI transaction, the Extraordinary Shareholders' Meeting (ESM) held on October 20, 2010, approved the private issuance by the subsidiary TMAR simple nonconvertible debentures, in a single series, with total value of R\$999 million.

Additionally, the Extraordinary Shareholders' Meeting held on November 9, 2010 approved the private issuance by the Company, of simple, nonconvertible debentures, in a single series, with total value of R\$470 million. The proceeds from this issuance were used for corporate purposes of the Company and its subsidiary TMAR.

In June 2012, Copart 5 and Copart 4 redeemed in advance the one of two CRI series in amounting of R\$392.5 million.

Copart 5 assets and liabilities are consolidated in the balances of the financial statements of the Company, as the main risks and rewards incidental to this transaction remain with the parent companies.

#### **Foreign currency-denominated financing**

##### **Senior Notes**

In February 2012, the Company issued senior notes in the amount of US\$1,500 million (R\$2,589 million) to refinance its debt and for general corporate purposes. The final maturity of these notes is February 2022. In July 2012 the Company transferred this issue to its wholly-owned subsidiary Oi Brasil Holdings Cooperatief, through a supplementary indenture, net of debt issuance costs. The related debt issuance costs, totaling R\$12 million (US\$6 million), will be amortized through profit or loss, according to this issuance's contractual terms, using its effective interest rate.

The Company issued other foreign currency-denominated senior notes in the international capital market in 2009 and 2010, through its subsidiary TMAR. As a result of the corporate reorganization approved on February 27, 2012, these issuances were added to the Company's debt, which replaced TMAR as issuer.

These borrowings, which total R\$9,152 million in consolidated, have the purpose of extending the debt profile and reducing debt issuance costs and general corporate purposes.

##### **ECA credit facilities**

TMAR contract financing facilities with export credit agencies to finance part of the investments in equipment and services that incorporate foreign technology.

In 2012, TMAR disbursed US\$394,8 million (R\$784,1 million) related to the agreements with these agencies. This amount comprises the disbursement US\$291.9 million from the Finnish Export Credit, under the agreements entered into 2009 and 2011; US\$14.1 million from SEK – Swedish Export Corporation, under an agreement entered into 2011; and US\$88.8 million from ONDD – Office National Du Ducre, under an agreement entered into 2010.

**Oi S.A. and Subsidiaries****Notes to the Financial Statements  
for the Years Ended December 31, 2012 and 2011  
(Amounts in thousands of Brazilian reais, unless otherwise stated)**

TMAR is a party to current agreements with major export credit agencies, including: SEK – Swedish Export Corporation; CDB – China Development Bank; and ONDD – Office National Du Ducroire”; e FEC – “Finnish Export Credit.

**Public and private debentures**

				COMPANY		CONSOLIDATED	
Issuer	Issue	Principal	Maturity	2012	2011	2012	2011
Oi (i)	9 <sup>th</sup>	R\$2,000 million	2020	2,158,069		2,158,069	
Oi	8 <sup>th</sup>	R\$2,350 million	2018	2,351,458	2,353,299	2,351,458	2,353,299
Oi	7 <sup>th</sup>	R\$1,000 million	2017	1,031,926	1,049,243	1,031,926	1,049,243
Oi (ii)	5 <sup>th</sup> (1 <sup>st</sup> series)	R\$1,754 million	2013	1,783,127		1,783,127	
Oi (ii)	5 <sup>th</sup> (2 <sup>nd</sup> series)	R\$246 million	2013	302,288		302,288	
Oi (iii)	5 <sup>th</sup>	R\$1,080 million	2013		728,665		728,665
Oi (ii)	1 <sup>st</sup> (2 <sup>nd</sup> series)	R\$540 million	2013	552,921		552,921	
Oi	2 <sup>nd</sup>	R\$30 million	2021			41,517	
<b>Public debentures</b>				<b>8,179,789</b>	<b>4,131,207</b>	<b>8,221,306</b>	<b>4,131,207</b>
Oi (iv)	3 <sup>rd</sup>	R\$3,500 million	2013	1,708,224			
Oi (ii)	8 <sup>th</sup>	R\$2,500 million	2016	2,880,010			
Oi (v)	6 <sup>th</sup>	R\$999 million	2022	879,633			
<b>Private debentures</b>				<b>5,467,867</b>			

(i) The Board of Directors’ Meeting held on February 6, 2012 approved the ninth public issuance, seventh by the Company, of unsecured, nonconvertible debentures, in the local market, with restricted placement efforts (pursuant to CVM Instruction 400/2003), totaling R\$2 billion. The CVM approved the issue registration on March 14, 2012. The debentures were issued in two series, a first series amounting to R\$400 million and a second series amounting to R\$1.6 billion. Both series were financially settled on March 23, 2012. The debt issuance costs, totaling R\$22,959, are being recognized in profit or loss according to this issuance’s contractual terms.

(ii) As a result of the corporate reorganization approved on February 27, 2012, this issuance was added of the Company’s debt, which replaced TMAR as issuer.

(iii) In June 2012, the Company redeemed in advance the entire issuance, at the remaining outstanding balance value.

(iv) In June 2012 the company wrote off R\$2,256 million related to the third issue private debenture with subsidiary BrT Celular through a reduction of this investee’s capital.

(v) In June 2012 the Company amortized R\$128 million of the sixth private debenture (originally issued by TMAR and subscribed by Copart 4, a wholly-owned subsidiary of TMAR) that, because of the corporate reorganization approved on February 27, 2012, was merged with and into the Company and was issued in connection with the operation of the CRI.

## **Oi S.A. and Subsidiaries**

### **Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)**

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In March 2012, the Company completed the early redemption of the third issue of unsecured, nonconvertible debentures originally issued by TNL, amounting to R\$1,651 million, which had been absorbed by the Company as a result of the corporate reorganization approved on February 27, 2012, due to the merger of TNL.

The debentures issued by the Company and its subsidiaries do not contain renegotiation clauses.

#### **Guarantees**

BNDES financing facilities are collateralized by receivables of the Company and its subsidiaries TMAR, TNL PCS and BrT Celular. The Company provides guarantees to its subsidiaries TMAR, TNL PCS and BrT Celular for such financing facilities, totaling R\$4,164 million.

#### **Covenants**

The financing agreements of the Company and subsidiaries TMAR, TNL PCS and BrT Celular with BNDES and other financial institutions, and the debentures issued requires compliance with financial ratios (covenants). Financial ratios of the BNDES agreements are calculated semiannually, in June and December. Other financial ratios are calculated on a quarterly basis.

Specifically for the BNDES agreements, the financial ratios are calculated based on the Company's consolidated financial reporting.

As at December 31, 2012 all ratios had been complied with.

#### **Committed and not used credit facilities**

In December 2012 the Company contracted a revolver credit facility amounting to R\$1,500 million for a three-year period, with a syndicate of global commercial banks, consisting of Banco do Brasil, Bradesco, HSBC, and Santander.

In July 2012 TMAR entered into a financing agreement with the agency Export Development Canada, totaling US\$200 million, which will be used to finance part of the investments to be made in the next two years.

In November 2011 the Company, TMAR, TNL PCS and BrT Celular obtained a revolver credit facility, amounting to US\$1,000 million for a five-year period, from a syndicate consisting of 9 global commercial banks, led by Bank of America N.A. Merrill Lynch, Pierce, Fenner & Smith Incorporated, HSBC Securities (USA) Inc., RBS Securities Inc. and Citibank N.A. The banks Tokyo Mitsubishi UFJ, Barclays PLC, Deutsche Bank AG, Morgan Stanley N.A. and Sumitomo Mitsui are also part of the syndicate, at different levels.

The revolver credit facility transactions were structured so that the Company and its subsidiaries can use the credit facility at any time, over the contractual periods. These transactions provide a comfortable liquidity cushion, strengthening the Group's capital structure and credit profile, and increase our cash management efficiency.

**Oi S.A. and Subsidiaries****Notes to the Financial Statements  
for the Years Ended December 31, 2012 and 2011  
(Amounts in thousands of Brazilian reais, unless otherwise stated)****20. DERIVATIVE FINANCIAL INSTRUMENTS**

	COMPANY		CONSOLIDATED	
	2012	2011	2012	2011
<b>Assets</b>				
Currency swaps	451,371		702,986	
Interest rate swaps	99,023		208,477	
Non-deliverable forwards (NDFs)	77,636	7,186	77,636	7,186
<b>Total</b>	<b>628,030</b>	<b>7,186</b>	<b>989,099</b>	<b>7,186</b>
Current	381,866	7,186	640,229	7,186
Non-current	246,164		348,870	
<b>Liabilities</b>				
Currency swaps	29,605		181,392	
Interest rate swaps	109,453		145,132	
Non-deliverable forwards (NDFs)	180,668	25,698	187,773	25,698
<b>Total</b>	<b>319,726</b>	<b>25,698</b>	<b>514,297</b>	<b>25,698</b>
Current	194,405	25,698	309,555	25,698
Non-current	125,321		204,742	

**21. LICENSES AND CONCESSIONS PAYABLE**

	COMPANY		CONSOLIDATED	
	2012	2011	2012	2011
SMP (i)			2,020,929	676,481
STFC concessions	49,426		137,068	
<b>Total</b>	<b>49,426</b>		<b>2,157,997</b>	<b>676,481</b>
Current	49,426		1,058,881	131,984
Non-current			1,099,116	544,497

Correspond to the amounts payable to ANATEL for the radiofrequency concessions and the licenses to provide the SMP (mobile) services and STFC service concessions, obtained at public auctions.

- (i) At the ANATEL's auction held on June 13 and 14, 2012, Oi acquired licenses for the use of the radiofrequencies in sub-bands 2.5GHz (4G) and 450 MHz. On October 16, 2012, 10% of the offered amount was disbursed on the Authorization Statement execution date. The Company intends to disburse the remaining amount, i.e., 90%, within 12 months, adjusting the amount to be paid according to the IGP-DI fluctuation, from the date the Identification and Tax Clearance Documents and the Qualification documentation are filed to the actual payment date.

## Oi S.A. and Subsidiaries

### Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)

The payment schedule is as follows:

	COMPANY	CONSOLIDATED
2013	49,426	1,058,881
2014		364,370
2015		364,370
2016		364,370
2017		2,002
2018 to 2019		4,004
<b>Total</b>	<b>49,426</b>	<b>2,157,997</b>

## 22. TAX REFINANCING PROGRAM

The outstanding balance of the Tax Debt Refinancing Program is broken down as follows:

	COMPANY		CONSOLIDATED	
	2012	2011	2012	2011
Law 11941/09 tax financing program (i)	538,322	414,795	1,072,947	442,092
REFIS II - PAES	4,336	4,336	12,152	4,336
<b>Total</b>	<b>542,658</b>	<b>419,131</b>	<b>1,085,099</b>	<b>446,428</b>
Current	49,828	36,993	99,732	39,238
Non-current	492,830	382,138	985,367	407,190

The amounts of tax refinancing program created by Law 11941/2009, broken down into principal, fine and interest, are as follows:

	CONSOLIDATED				
	2012				2011
	Principal	Fines	Interest	Total	Total
Tax on revenue (COFINS)	264,043	46,089	305,709	615,841	232,836
CPMF (tax on banking transactions)	17,208	1,725	14,292	33,225	515
Income tax	67,079	9,657	87,701	164,437	105,497
Social contribution	18,472	3,047	20,275	41,794	28,118
INSS – SAT	7,506	4,112	34,658	46,276	28,958
Tax on revenue (PIS)	35,630	2,528	33,930	72,088	49,948
Other	50,599	7,123	53,716	111,438	556
<b>Total</b>	<b>460,537</b>	<b>74,281</b>	<b>550,281</b>	<b>1,085,099</b>	<b>446,428</b>

## Oi S.A. and Subsidiaries

### Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)

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The payment schedule is as follows:

	COMPANY	CONSOLIDATED
2013	49,828	99,732
2014	45,858	91,658
2015	45,858	91,658
2016	45,858	91,658
2017	45,858	91,658
2018 to 2020	137,575	274,974
2021 to 2023	137,575	274,974
2024 to 2025	34,248	68,787
<b>Total</b>	<b>542,658</b>	<b>1,085,099</b>

#### (i) Tax financing program created by Law 11941/09

The Company and some of its subsidiaries joined the New Federal tax Refinancing Plan, governed by Law 11941/2009, including part of the debt to the National Treasury and the INSS due until November 30, 2008.

In accordance with the provision of Article 1, V, Par. 9 of Law 11941/09, the companies must timely pay new installments and may be excluded from the program if they keep three installments outstanding, whether consecutive or not, or do not pay one installment, if all the others have been paid.

The agreed term of the refinancing is 180 months. As provided for by the relevant Law and related regulatory administrative rules, the entities are required to pay the minimum monthly installments, as the final amount will only be set after the consolidation of debt by the Federal Revenue Service. The Company and its subsidiaries filed with the Federal Revenue Service and the National Treasury Attorney General's Office, within the deadline set by joint administrative rules issued by these Government bodies, the consolidation of the debt included in the different types of tax refinancing plans provided for by Law 11941/2009. The Company's and its subsidiaries' debt is being consolidated by the Federal Revenue Service. With the enrollment, the judicial deposits related to the lawsuits transferred to the new plan will be converted, pursuant to the applicable law, into Federal Government revenue.

**Oi S.A. and Subsidiaries****Notes to the Financial Statements  
for the Years Ended December 31, 2012 and 2011  
(Amounts in thousands of Brazilian reais, unless otherwise stated)****23. PROVISIONS****Broken down as follows:**

	Type	COMPANY		CONSOLIDATED	
		2012	2011	2012	2011
	<b>Labor</b>				
(i)	Overtime	342,764	381,156	635,031	388,946
(ii)	Indemnities	114,937	132,364	214,681	134,252
(iii)	Stability/reintegration	105,253	129,072	180,713	130,891
(iv)	Hazardous work conditions	95,150	128,094	172,877	133,637
(v)	Additional post-retirement benefits	49,129	26,308	98,135	26,308
(vi)	Salary differences and related effects	47,136	74,676	83,482	77,275
(vii)	Lawyers/expert fees	29,702	48,025	42,086	48,594
(viii)	Severance pay	18,768	22,897	39,607	23,239
(ix)	Labor fines	6,678	8,368	22,500	8,609
(x)	Severance Pay Fund (FGTS)	12,509	17,431	18,421	17,497
(xi)	Employment relationship	711	456	5,161	456
(xii)	Joint liability	2,630	6,243	4,352	6,988
(xiii)	Other claims	41,634	38,709	62,164	41,028
	<b>Total</b>	<b>867,001</b>	<b>1,013,799</b>	<b>1,579,210</b>	<b>1,037,720</b>
	<b>Tax</b>				
(i)	State VAT (ICMS)	209,679	247,641	448,120	279,799
(ii)	FUST / FUNTTEL			142,632	4,614
(iii)	Tax on services (ISS)	4,046	996	65,711	8,283
(iv)	Tax on net income (ILL)			19,478	
(v)	INSS (joint liability, fees, and severance pay)	2,566	331	11,726	890
(vi)	Other claims	45,270	4,651	77,627	6,563
	<b>Total</b>	<b>261,561</b>	<b>253,619</b>	<b>765,294</b>	<b>300,149</b>
	<b>Civil</b>				
(i)	Corporate law	2,333,980	2,350,071	2,333,980	2,350,071
(ii)	ANATEL estimates	197,507	173,882	551,143	177,998
(iii)	ANATEL fines	89,008	93,386	436,195	100,136
(iv)	Small claims courts	48,376	109,297	108,479	127,878
(v)	Other claims	264,640	299,985	646,328	320,939
	<b>Total</b>	<b>2,933,511</b>	<b>3,026,621</b>	<b>4,076,125</b>	<b>3,077,022</b>
	<b>Total provisions</b>	<b>4,062,073</b>	<b>4,294,039</b>	<b>6,420,629</b>	<b>4,414,891</b>
	Current	1,080,455	1,234,430	1,569,356	1,283,354
	Non-current	2,981,618	3,059,609	4,851,273	3,131,537

In compliance with the relevant Law, the provisions are adjusted for inflation on a monthly basis.

**Oi S.A. and Subsidiaries**
**Notes to the Financial Statements  
for the Years Ended December 31, 2012 and 2011**  
(Amounts in thousands of Brazilian reais, unless otherwise stated)
**Breakdown by type of contingency and risk (consolidated)**

Risk	2012			
	Labor	Tax	Civil	Total
Provisions	1,579,210	765,294	4,076,125	<b>6,420,629</b>
Contingent liabilities	1,051,868	17,260,147	991,269	<b>19,303,284</b>

Risk	2011			
	Labor	Tax	Civil	Total
Provisions	1,037,720	300,149	3,077,022	<b>4,414,891</b>
Contingent liabilities	923,133	2,968,856	648,496	<b>4,540,485</b>

**Summary of changes in provision balances**

	COMPANY			
	Labor	Tax	Civil	Total
<b>Balance in 01/01/2011</b>	<b>920,137</b>	<b>233,454</b>	<b>3,045,298</b>	<b>4,198,889</b>
Inflation adjustment	49,259	35,688	71,772	156,719
Additions/(reversals)	130,049	6,978	392,657	529,684
Write-offs for payment/terminations	(85,646)	(22,501)	(483,106)	(591,253)
<b>Balance in 2011</b>	<b>1,013,799</b>	<b>253,619</b>	<b>3,026,621</b>	<b>4,294,039</b>
Increase due to corporate reorganization	944	428	37	1,409
Inflation adjustment	40,288	17,571	34,326	92,185
Additions/(reversals)	(22,845)	2,111	252,226	231,492
Write-offs for payment/terminations	(165,185)	(12,168)	(379,699)	(557,052)
<b>Balance in 2012</b>	<b>867,001</b>	<b>261,561</b>	<b>2,933,511</b>	<b>4,062,073</b>

	CONSOLIDATED			
	Labor	Tax	Civil	Total
<b>Balance in 01/01/2011</b>	<b>937,213</b>	<b>273,882</b>	<b>3,085,772</b>	<b>4,296,867</b>
Inflation adjustment	48,991	42,498	75,598	167,087
Additions/(reversals)	143,046	10,626	417,000	570,672
Write-offs for payment/terminations	(91,530)	(26,857)	(501,348)	(619,735)
<b>Balance in 2011</b>	<b>1,037,720</b>	<b>300,149</b>	<b>3,077,022</b>	<b>4,414,891</b>
Increase due to corporate reorganization	851,793	559,745	1,110,406	2,521,944
Inflation adjustment	144,272	41,369	47,376	233,017
Additions/(reversals)	(11,502)	19,258	392,839	400,595
Write-offs for payment/terminations	(443,073)	(155,227)	(551,518)	(1,149,818)
<b>Balance in 2012</b>	<b>1,579,210</b>	<b>765,294</b>	<b>4,076,125</b>	<b>6,420,629</b>

**Summary of the main matters related to the recognized provisions and contingent liabilities****Provisions****Labor**

- (i) Overtime - refers to the claim for payment of salary and premiums by alleged overtime hours;
- (ii) Indemnities - refers to amounts allegedly due for occupational accidents, leased vehicles, occupational diseases, pain and suffering and tenure;

## Oi S.A. and Subsidiaries

### Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)

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- (iii) Stability/reintegration - claim due to alleged noncompliance with an employee's special condition which prohibited termination of the employment contract without cause;
- (iv) Sundry premiums - refer to claims of hazardous duty premium, based on Law 7369/85, regulated by Decree 93412/86, due to the alleged risk from employees' contact with the electric power grid, health hazard premium, pager pay, and transfer premium;
- (v) Supplementary retirement benefits – differences allegedly due in the benefit salary referring to payroll amounts;
- (vi) Salary differences and related effects - refer mainly to claims for salary increases due to alleged noncompliance with trade union agreements. As for the effects, these refer to the impact of the salary increase allegedly due on the other amounts calculated based on the employee's salary;
- (vii) Lawyers/expert fees - installments payable to the plaintiffs' lawyers and court appointed experts, when expert evidence is necessary during the fact-finding stage;
- (viii) Severance pay - claims of amounts which were allegedly unpaid or underpaid upon severance;
- (ix) Labor fines - amounts arising from delays or nonpayment of certain amounts provided for by the employment contract, within the deadlines set out in prevailing legislation and collective bargaining agreements;
- (x) Supplement to FGTS fine - arising from understated inflation, refers to claims to increase the FGTS severance fine as a result of the adjustment of accounts of this fund due to inflation effects.
- (xi) BrT filed a lawsuit against Caixa Econômica Federal to assure the reimbursement of all amounts paid for this purpose;
- (xii) Employment relationship - Lawsuits filed by former employees of outsourced companies claiming the recognition of an employment relationship with the Company or its subsidiaries alleging an illegal outsourcing and/or the existence of elements that evidence such relationship, such as direct subordination;
- (xiii) Joint liability - refers to the claim to assign liability to the Company, filed by outsourced personnel, due to alleged noncompliance with the latter's labor rights by their direct employers;
- (xiv) Other claims - refer to different litigation including rehiring, profit sharing, qualification of certain allowances as compensation, etc.

## Oi S.A. and Subsidiaries

### Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)

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In the first quarter of 2011, the Company completed the standardization process of the calculation methodology of the provisions for labor contingencies, in line with the procedures adopted by TMAR. Under the methodology used previously by the Company, the amounts attributed to the lawsuits were the amounts reported by their outside legal counsel, where the approach currently adopted takes into consideration the average historical amounts paid in lawsuits of the same nature. As a result, the Company recognized in consolidated income statement effects of R\$53,074, accounted for as other operating expenses, in line item 'Provisions/reversals', and R\$63,566, accounted for as financial expenses, in line item 'Inflation adjustment of provisions'.

#### Tax

- (i) ICMS - Refers to the provision considered sufficient by management to cover the various tax assessments related to: (a) levy of ICMS and not ISS on certain revenue; (b) claim and offset of credits on the purchase of goods and other inputs, including those necessary for network maintenance; and (c) tax assessments related to alleged noncompliance with accessory obligations
- (ii) FUNTTEL - Provision recognized based on the change in the Universal Telecom Service Fund (FUST) fee calculation methodology, under ANATEL Abstract 7 (which no longer allows the deduction of Industrial Exploitation of Dedicated Lines (EILD) and interconnection charges from the calculation basis, not even retrospectively) and the potential impact on the FUNTTEL calculation basis.
- (iii) ISS – The Company and TMAR have provisions for tax assessments challenged because of the levy of ISS in several services, such as, leased, value added, and technical and administrative equipment.
- (iv) ILL - TMAR offset the ILL paid up to calendar 1992 based on Federal Supreme Court ("STF") decisions that declare the unconstitutionality of this tax. However, even though there is case law on the matter, a provision is maintained as there is no final decision of the criteria for the adjustments of these credits.
- (v) INSS - Provision related basically to probable losses on lawsuits discussing joint liability and indemnities.
- (vi) Other claims - Refer basically to provisions to cover Real Estate Tax (IPTU) assessments and several tax assessments related to income tax and social contribution collection, amounting to R\$1,336 (R\$1,562 in 2010).

#### Civil

- (i) Corporate – Financial Participation Agreements - these agreements were governed by Administrative Rules 415/1972, 1181/1974, 1361/1976, 881/1990, 86/1991, and 1028/1996. Subscribers held a financial interest in the concessionaire after paying in a certain amount, initially recorded as capitalizable funds and subsequently recorded in the concessionaire's

## Oi S.A. and Subsidiaries

### Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)

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equity, after a capital increase was approved by the shareholders' meeting, thus generating the issuance of shares. The lawsuits filed against the former CRT - Companhia Riograndense de Telecomunicações, a company merged by the Company, challenge the way shares were granted to subscribers based on said financial participation agreements.

The Company used to recognize a provision for the risk of unfavorable outcome in these lawsuits based on certain legal doctrine. In the first half of 2009, however, decisions issued by appellate courts led the Company to revisit the amount accrued and the risk classification of the relevant lawsuits. The Company, considering the peculiarities of each decision and based on the assessment made by its legal department and outside legal counsel, changed its estimate on the likelihood of an unfavorable outcome from possible to probable. In 2009, the Company's management, based on the opinions of its legal department and outside legal counsel, revised the measurement criteria of the provision related to the financial interest agreements. Said revision contemplated additional considerations regarding the dates and the arguments of the final and unappealable decisions on ongoing lawsuits, as well as the use of statistical criteria to estimate the amount of the provision for those lawsuits. The Company currently accrues these amounts mainly taking into consideration (i) the criteria above, (ii) the number of ongoing lawsuits by matter discussed, and (iii) the average amount of historical losses, broken down by matter in dispute.

At the end of 2010, the website of the Superior Court of Justice (STJ) disclosed news that this court had set compensation criteria to be adopted by the Company to the benefit of the shareholders of the former CRT for those cases new shares, possibly due, could not be issued because of the sentence issued. According to this court judgment news, which does not correspond to a final decision, the criteria must be based on (i) the definition of the number of shares that each claimant would be entitled, measuring the capital invested at the book value of the share reported in the company's monthly trial balance on the date it was paid-in, (ii) after said number of shares is determined, it must be multiplied by its quotation on the stock exchange at the closing of the trading day the final and unappealable decision is issued, when the claimant becomes entitled to sell or disposed of the shares, and (iii) the result obtain must be adjusted for inflation (IPC/INPC) from the trading day of the date of the final and unappealable decision, plus legal interest since notification. In the case of succession, the benchmark amount will be the stock market price of the successor company. Based on current information, management believes that its estimate would not be materially impacted as at December 31, 2012, had these criteria already been adopted. There may be, however, significant changes in the items above, mainly regarding the market price of Company shares.

- (ii) ANATEL estimates - refer basically to alleged noncompliance with General Universal Service Targets Plan ("PGMU") and General Quality Targets Plan ("PGMQ") obligations;
- (iii) ANATEL fines - They largely refer to provisions for fines arising from failures to meet quality targets under the terms of the Inspection Procedures of Noncompliance with Obligations ("PADOs") of the PGMQ and the Quality Indicators Regulation ("RIQ").

## **Oi S.A. and Subsidiaries**

### **Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)**

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- (iv) Small claims courts - claims filed by customers for which the individual indemnification compensation amounts do not exceed the equivalent of forty minimum wages.
- (v) Other claims - refer to several of ongoing lawsuits discussing contract terminations, certain agencies requesting the reopening of customer service centers, compensation claimed by former suppliers and building contractors, in lawsuits filed by equipment vendors against Company subsidiaries, revision of contractual terms and conditions due to changes introduced by a plan to stabilize the economy, and litigation mainly involving discussions on the breach of contracts, to which management and its legal counsel attribute a probable likelihood of an unfavorable outcome, etc.

#### **Contingent liabilities**

The Company and its subsidiaries are also parties to several lawsuits in which the likelihood of an unfavorable outcome is classified as possible, in the opinion of their legal counsel, and for which no provision for contingent liabilities has been recognized.

The main contingencies classified with possible likelihood of an unfavorable outcome, according to the Company's management's opinion, based on its legal counsel's assessment, are summarized below:

#### **Labor**

Refer to several lawsuits claiming, but not limited to, the payment of salary differences, overtime, hazardous duty and health hazard premium, and joint liability, which total approximately R\$1,051,868 (R\$923,133 in 2011).

In 2011, the Company completed the standardization process of the calculation methodology of the provisions for labor contingencies, in line with the procedures adopted by TMAR. Under the methodology used previously by the Company, the amounts attributed to the lawsuits were the amounts reported by their outside legal counsel, where the approach currently adopted takes into consideration the average historical amounts paid in lawsuits of the same nature.

#### **Tax**

The main ongoing lawsuits have the following matters:

- (i) ICMS - several ICMS assessment notifications, including two main matters: ICMS levied on certain revenue from services already subject to ISS or which are not part of the ICMS tax base, and utilization of ICMS credits claimed on the purchase of goods and other inputs, amounting approximately to R\$5,755,124 (R\$1,294,767 in 2011);
- (ii) ISS - alleged levy of this tax on subsidiary telecommunications services and discussion regarding the classification of the services taxed by the cities listed in Supplementary Law 116/2003, amounting approximately to R\$1,787,183 (R\$351,593 in 2011);

## **Oi S.A. and Subsidiaries**

### **Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)**

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- (iii) INSS - tax assessments to add amounts to the contribution salary allegedly due by the Company, amounting approximately to R\$956,585 (R\$331,319 in 2011); and
- (iv) Federal taxes – several tax notifications regarding basically the disallowances made on the calculation of taxes, errors in the completion of tax returns, transfer of PIS and COFINS and FUST related to changes in the interpretation of these taxes tax bases by ANATEL. These lawsuits amount approximately to R\$8,761,255 (R\$991,177 in 2011).

IRPJ, CSLL, PIS and COFINS – Goodwill amortization - July 2005 tax assessment - Challenge of R\$2,534,951, substantially related to the corporate transaction undertaken by TNL in 1998 that resulted in the recognition of goodwill arising on the Telebrás System privatization auction. The amortization of goodwill and its deduction for tax purposes are provided for by Law 9532/1997, as Article 7 thereof authorizes the computation of the goodwill amortization charge in the taxable income of an entity resulting from a takeover, spin-off, or merger transaction when one of the combined businesses holds investments in the other business, acquired at goodwill based on the investee's expected future earnings.

The Company obtained a partially favorable decision in the lower court, which reduced the tax assessment by R\$658,156, and maintained R\$1,876,795 as possible loss. Against this decision the Company filed a Voluntary Appeal fully acknowledged by the Board of Tax Appeals, thus cancelling the tax assessment. A final and unappealable decision was issued on March 19, 2012, favorable to the Company, as successor of TNL as a result of the corporate reorganization approved at the Extraordinary Shareholders' Meeting held on February 27, 2012. This amount was derecognized in March 2012 in light of the favorable decision obtained.

#### **Civil**

The main ongoing lawsuits do not have any lawsuits for which no court decision has been issued, and are mainly related, but not limited to, challenging of network expansion plans, compensation for pain and suffering and material damages, collection lawsuits, and bidding processes. These lawsuits total approximately R\$991,269 (R\$648,496 in 2011).

#### **Guarantees**

The Company has bank guarantee letters and guarantee insurance granted by several financial institutions and insurers to guarantee commitments arising from lawsuits, contractual obligations, and biddings with ANATEL. The total adjusted amount of contracted guarantees and guarantee insurance, effective at December 31, 2012, corresponds to R\$4,383,030 (R\$2,592,775 in 2011), Company, and R\$12,216,671 (R\$2,697,529 in 2011), on a consolidated basis. The commission charges on these contracts are based on market rates.

#### **Contingent assets**

Below are the tax lawsuits filed by the Company to claim refund of taxes paid.

**Oi S.A. and Subsidiaries****Notes to the Financial Statements  
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PIS/COFINS - tax lawsuit challenging the enforcement of Law 9718/98, which increased the PIS and COFINS tax base. The Law covered the period from February 1999 to November 2002 for PIS and from February 1999 to January 2004 for COFINS. In November 2005, the Federal Supreme Court (STF) concluded the judgment of certain lawsuits on the same matter and considered the increase in the tax base introduced by said Law unconstitutional. Part of the lawsuits filed by the Company and the STFC concessionaires from Region II of the Concession Plan, merged by the Company in February 2000, became final and unappealable in 2006 as regards the increase in PIS and COFINS tax base. The Company awaits the judgments of the lawsuits filed by the other merged companies, whose likelihood of a favorable outcome in future filing of appeals is regarded as probable. The amount attributed to these lawsuits, representing unrecognized contingent assets, was R\$21,504 (R\$20,813 in 2011) and R\$22,000 (R\$21,304 in 2011) on a consolidated basis.

**24. OTHER PAYABLES**

	COMPANY		CONSOLIDATED	
	2012	2011	2012	2011
Advances from customers	177,475	95,032	780,264	364,622
Unearned revenues	86,408		691,789	201
Provision for asset decommissioning	23,775	22,848	218,516	30,577
Redeemable bonus shares	99,967	1,501,984	99,967	1,501,984
Consignment to third parties	8,931	181,662	41,441	274,281
Payable - reverse stock split	21,845	116,603	21,845	116,603
Payables for surety received from related companies	880	5,940		5,940
Other	10,326	63,482	157,549	82,614
<b>Total</b>	<b>429,607</b>	<b>1,987,551</b>	<b>2,011,371</b>	<b>2,376,822</b>
Current	334,831	1,780,340	1,439,462	2,014,762
Non-current	94,776	207,211	571,909	362,060

## Oi S.A. and Subsidiaries

### Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)

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#### 25. EQUITY

##### (i) Capital

Subscribed and paid-in capital is R\$7,308,753 (R\$3,731,059 in 2011), represented by the following shares, without par value:

	Number of shares (in thousands)	
	2012 Restated	2011
<b>Total capital in shares</b>		
Common shares	599,009	203,423
Preferred shares	1,198,078	399,597
<b>Total</b>	<b>1,797,087</b>	<b>603,020</b>
<b>Treasury shares</b>		
Common shares	84,251	
Preferred shares	72,808	13,231
<b>Total</b>	<b>157,059</b>	<b>13,231</b>
<b>Outstanding shares</b>		
Common shares	514,758	203,423
Preferred shares	1,125,270	386,366
<b>Total outstanding shares</b>	<b>1,640,028</b>	<b>589,789</b>
Book value per outstanding share	6.90	17.95

The preferred and common shares held in treasury are excluded from the determination of the book value.

The Company is authorized to increase its capital, according to a resolution of the Board of Directors, up to the limit of 2.5 billion common or preferred shares, within the legal limit of 2/3 for the issuance of new nonvoting preferred shares.

By resolution of the Shareholders' Meeting or Board of Directors' Meeting, the Company's capital can be increased through capitalization of retained earnings or reserves previously allocated for this purpose by the Shareholders' Meeting. Under these conditions, the capitalization may be performed without changing the amount of shares.

Capital is represented by common and preferred shares, without par value, and the Company is not required to maintain the current proportion of these types of share on capital increases.

By resolution of the Shareholders' Meeting or the Board of Directors, the preemptive right on issuance of shares, warrants or convertible debentures can be cancelled in the cases provided for in article 172 of the Brazilian Corporate Law.

As described in Note 1, the Company's subscribed capital was increased by R\$3,085,409 due to the corporate reorganization undertaken in February 2012.

As a result of the bonus shares approved at the Extraordinary Shareholders' Meeting held on August 10, 2012, the Company's increase by R\$492,285, to R\$7,308,753.

**Oi S.A. and Subsidiaries****Notes to the Financial Statements  
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(Amounts in thousands of Brazilian reais, unless otherwise stated)****(a) Treasury shares**

Treasury shares at December 31, 2012 originate from the corporate events that took place in the in the first half of 2012, described below:

- (i) on February 27, 2012 the Extraordinary Shareholders' Meeting of Oi S.A. approved the Merger Protocol and Justification of Coari with and into the Company and, as a result, the cancelation of the all the treasury shares held by the Company on that date;
- (ii) on February 27, 2012 the Extraordinary Shareholders' Meeting of Oi S.A. approved the Merger Protocol and Justification of TNL with and into the Company and the Company's shares then held by TNL, as a result of the merger of Coari with and into the Company, were canceled, except for 24,647,867 common shares that remained in treasury; and
- (iii) starting April 9, 2012 Oi paid the reimbursement of shares to withdrawing shareholders.

The position of treasury shares is as follows:

	Shares Common shares (*)	Amount	Preferred shares (*)	Amount
<b>Balance in 2011</b>			<b>13,231</b>	<b>149,642</b>
Shares canceled due to the corporate reorganization, as described in item (i) above			(13,231)	(149,642)
Shares registered in the corporate reorganization, as described in item (i) above	24,648	93,491		
Shares reimbursed to the withdrawing shareholders, as described in item (iii) above	59,539	786,647	72,158	1,221,678
Other	64	240	650	2,468
<b>Balance in 2012</b>	<b>84,251</b>	<b>880,378</b>	<b>72,808</b>	<b>1,224,146</b>

(\*) Number of shares in thousands

Historical cost in purchase of treasury shares (R\$ per share)	2012	2011
Weighted average	13.40	11.31
Minimum	3.79	10.31
Maximum	15.25	13.80

**Fair value of treasury shares**

The fair value of treasury shares at the end of the reporting period was as follows:

	2012		2011	
	Preferred	Common	Preferred	Common
Number of treasury shares (in thousands)	72,808	84,251	13,231	
Quotation per share on BOVESPA (R\$)	8.32	9.16	10.88	
Market value	605,763	771,739	143,953	

## Oi S.A. and Subsidiaries

### Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)

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The table below shows the deduction of the amount of treasury shares from the reserve used in the repurchase:

	2012 Restated	2011
Carrying amount of capital reserves	4,302,535	499,042
Treasury shares	(2,104,524)	(149,642)
<b>Balance, net of treasury shares</b>	<b>2,198,011</b>	<b>349,400</b>

#### (b) Capital reserves

Capital reserves are recognized pursuant to the following practices:

Share premium reserve: equal to the difference between the amount paid on subscription and the amount allocated to capital.

Special merger goodwill reserve: represents the net amount of the balancing item to goodwill recorded in assets, as provided for by CVM Instruction 319/1999.

Special merger reserve – net assets: represents the net assets merged by the Company under the corporate reorganization approved on February 27, 2012.

Investment grant reserve: recognized due to the investment grants received before the beginning of FY 2008 as a balancing item to an asset received by the Company.

Law 8200/91 special inflation adjustment reserve: recognized due to the special inflation adjustments of fixed assets and the purpose of which was the offset of distortions in inflation adjustment indices prior to 1991.

Stock options reserve: line item recognized due to the stock options granted and recognized according to the share-based payment plans and settled with equity instruments. In the first quarter of 2012 the stock option plan was terminated and the reserve realized.

Interest on works in progress: formed by the balancing item to interest on works in progress incurred through December 31, 1998.

Other capital reserves: formed by the funds invested in income tax incentives before the beginning of FY 2008.

#### (c) Profit reserves

Profit reserves are recognized pursuant to the following practices:

Legal reserve: allocation of 5% of profit for the year up to the limit of 20% of capital. This allocation is optional when the legal reserve plus the capital reserves exceeds 30% of capital. This reserve is only used for capital increase or absorption of losses.

## Oi S.A. and Subsidiaries

### Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)

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Investments reserve: comprises the balances of profit for the year, adjusted pursuant to article 202 of Law 6404/76 and allocated after the payment of dividends. The profits for the year used to recognize this reserve was fully allocated as retained earnings by the related shareholders' meetings in light of the Company's investment budget and pursuant to Article 196 of the Brazilian Corporate Law. By the end of fiscal year 2007, the retention of earnings for investments remained in the retained earnings line item, pursuant to Article 8 of CVM Resolution 59/1986. After the enactment of Law 11638/37, which prescribes that no balances should remain in the retained earnings line item at the end of the reporting period, said retained earnings were transferred to this investment reserve.

#### (d) Dividends and interest on capital

Dividends are calculated pursuant to the Company's bylaws and the Brazilian Corporate Law. Mandatory minimum dividend are calculated in accordance with Article 202 of Law 6404/76, and preferred or priority dividends are calculated pursuant to the Company's Bylaws.

Preferred shares are nonvoting except in the cases specified in paragraphs 1-3 of Article 12 of the Bylaws, but are assured priority in the payment of the noncumulative minimum dividends equivalent to the greater of 6% per year calculated on the amount obtained after dividing the capital by the total number of the Company's shares or 3% per year calculated on the amount obtained after dividing equity by the total number of the Company's shares.

By decision of the Board of Directors, the Company can pay or credit, as dividends, interest on capital pursuant to Article 9, paragraph 7, Law 9249/1995. The interest paid or credited will be offset against the annual mandatory minimum dividend amount, pursuant to Article 43 of the Bylaws.

The Annual Shareholders' Meeting held on April 30, 2012 approved the following allocation of profit for 2011, amounting to R\$1,005,731: (i) mandatory minimum dividends amounting to R\$251,433 and (ii) payment of R\$1,748,567 in addition to the mandatory minimum dividends, of which R\$754,298 is based on profit for the year and R\$994,269 is based on the investment reserve.

Mandatory minimum dividends calculated in accordance with Article 202 of Law 6404/1976:

	2012 Restated	2011
<b>Profit for the year</b>	<b>1,784,890</b>	<b>1,005,731</b>
Mandatory minimum dividends	446,222	251,433
Proposal additional dividends	391,322	
<b>Total dividends paid to shareholders</b>	<b>837,544</b>	<b>251,433</b>

## Oi S.A. and Subsidiaries

### Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)

Statutory minimum dividends of preferred shares for 2012 were calculated as follows:

	<b>2012 Restated</b>
<b>I - 6% p.a. on share capital criterion</b>	
Subscribed capital	7,308,753
Total outstanding shares (*)	1,640,028
Total outstanding preferred shares (*)	1,125,270
Calculation basis	5,014,743
Statutory minimum dividend percentage	6%
Statutory minimum dividends	300,885
<b>II - 3% p.a. on share equity criterion</b>	
Equity	11,762,776
Total outstanding shares (*)	1,640,028
Total outstanding preferred shares (*)	1,125,270
Calculation basis	8,070,776
Statutory minimum dividend percentage	3%
Statutory minimum dividends	242,123

(\*) in thousands of shares

Statement of dividends and bonus shares for 2012:

	<b>2012 Restated</b>		
	<b>Common shares</b>	<b>Preferred shares</b>	<b>Total</b>
<b>Dividends</b>			
Extraordinary dividends (on August 10, 2012)	159,357	348,358	507,715
Mandatory minimum dividends (on December 31, 2012)	140,056	306,166	446,222
Proposed additional dividends (on December 31, 2012)	122,825	268,497	391,322
	<b>422,238</b>	<b>923,021</b>	<b>1,345,259</b>
<b>Bonus shares</b>			
Redemption of bonus shares (on August 10, 2012)	154,514	337,771	492,285
Proposed redemption of bonus shares	50,991	111,465	162,456
	<b>205,505</b>	<b>449,236</b>	<b>654,741</b>
<b>Total</b>	<b>627,743</b>	<b>1,372,257</b>	<b>2,000,000</b>

**Oi S.A. and Subsidiaries****Notes to the Financial Statements  
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	<b>2012 Restated</b>	
	<b>Amount per share/ in real</b>	
	<b>Common shares</b>	<b>Preferred shares</b>
<b>Dividends</b>		
Extraordinary dividends (on August 10, 2012)	0.309577	0.309577
Mandatory minimum dividends (on December 31, 2012)	0,272082	0,272082
Proposed additional dividends (on December 31, 2012)	0,238607	0,238607
	<b>0.820266</b>	<b>0.820266</b>
<b>Bonus shares</b>		
Redemption of bonus shares (on August 10, 2012)	0.300168	0.300168
Proposed redemption of bonus shares	0.099057	0.099057
	<b>0.399225</b>	<b>0.399225</b>
<b>Total</b>	<b>1.219491</b>	<b>1.219491</b>

**Extraordinary distribution of dividends and shareholder compensation**

The Extraordinary Shareholders' Meeting held on August 10, 2012 approved the extraordinary distribution of dividends and the payment of compensation to the Company's shareholders through the redemption of bonus shares, amounting to R\$507,715 and R\$492,285, respectively, in conformity with the item (ii) of the Material Fact Notice published on April 17, 2012, which establishes the Shareholders Compensation Policy for 2012-2015. The dividends were paid based on prior years' profit reserves and the redemption of the bonus shares was based on capital reserves. The compensation payment started on August 27, 2012.

**Distribution of dividends and bonus shares**

The Company's Annual Shareholders' Meeting held on March 21, 2013 approved the allocation of 2012 profit for the year, amounting to R\$837,440, plus retained earnings amounting to R\$104, as follows: (i) mandatory dividends amounting to R\$416,686 and (ii) to the payment of dividends additional to mandatory minimum dividends amounting to R\$420,858. Additionally, it approved the distribution of redeemable Company bonus shares amounting to R\$162,456. This increases the Company's total shareholder compensation to R\$1 billion.

The restatement of the financial statements for the year ended December 31, 2012, described in nota 2 (e), generated a R\$947,450 increase in profit for the year. As a result, as at December 31, 2012 the Company recorded profit for the year amounting to R\$1,784,890, and according to the new Company's management's proposal, subject to approval at the Annual Shareholders' Meeting, the balance of profit for the year, plus retained earnings of R\$104, was allocated as follows: mandatory dividends amounting to R\$446,222; (ii) to the payment of dividends additional to mandatory minimum dividends amounting to R\$391,322; and the recognition of an investment reserve amounting to R\$947,450. Additionally, Management proposed the distribution of redeemable Company bonus shares amounting to R\$162,456, subject to the ratification of the Extraordinary Shareholders' Meeting. Total shareholder compensation will remain the same, amounting to R\$1 billion.

## Oi S.A. and Subsidiaries

### Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)

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#### (e) Share issue costs

We recognized in this line item the share issue costs related to the corporate reorganization of February 27, 2012.

#### (f) Other comprehensive income

The Company recognizes in this line item other comprehensive income that revenue, expenses, reclassification adjustments, and the tax effects related to these components, which are not recognized in the income statements.

In the period ended December 31, 2012, the Company recorded losses of R\$52,634 related to the adoption of hedge accounting (Note 3), net of income tax, of which R\$16,792 refer to the hedge accounting loss incurred by subsidiary TMAR and recorded by the Company.

The financial statements form filed with CVM's Empresas.Net system presents in the balance sheet only with the 'Valuation adjustment to equity' and 'Other comprehensive income' line items – equity (and not line item Share issue costs and 'Change in equity interest percentage') and the statement of changes only the 'Other comprehensive income' line item (not presenting line item 'Share issue costs' or line item 'Change in equity interest percentage').

As a result, the effects discussed in the topic above are presented in aggregate in the relevant existing line items, referred to above, as shown below:

	Other comprehensive income	Share issue costs	Change in equity interest percentage	Total
<b>Balance in 2011</b>				
Share issue costs		(56,609)		(56,609)
Increase due to corporate reorganization (*)	87,550			87,550
Hedge accounting gain	35,842			35,842
Subsidiaries' hedge accounting gain	16,792			16,792
Change in equity interest percentage			3,916	3,916
<b>Balance in 2012</b>	<b>140,184</b>	<b>(56,609)</b>	<b>3,916</b>	<b>87,491</b>

(\*) Refers to the hedge accounting transferred to the Company as a result of the merger of Coari, on February 27, 2012, date the corporate reorganization was approved.

#### (g) Basic and diluted earnings per share

The Company's bylaws award different rights to common and preferred shareholders with respect to dividends, voting rights, and in case of liquidation of the Company. Accordingly, basic and diluted earnings per share were calculated based on profit for the year available to common and preferred shareholders.

#### Basic

## Oi S.A. and Subsidiaries

### Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)

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Basic earnings per share are calculated by dividing the profit attributable to controlling shareholders, available to common and preferred shareholders, by the weighted average number of common and preferred shares outstanding during the year.

#### Diluted

Diluted earnings per share are calculated by adjusting the weighted average number of outstanding common and preferred shares, to estimate the dilutive effect of all convertible securities. Currently we do not have any potentially dilutive shares.

The table below shows the calculations of basic and diluted earnings per share:

	2012 Restated	2011
Profit attributable to owners of the Company	1,784,890	1,005,731
Profit allocated to common shares – basic and diluted	560,225	315,669
Profit allocated to preferred shares – basic and diluted	1,224,665	690,062
Weighted average number of outstanding shares (in thousands of shares)		
Common shares – basic and diluted	514,758	514,759
Preferred shares – basic and diluted	1,125,273	1,125,277
Earnings per share (in reais):		
Common shares – basic and diluted	1.09	0.61
Preferred shares – basic and diluted	1.09	0.61

#### Retrospective adjustment

As required by CPC 41/IAS 33, we have adjusted retrospectively the calculation of basic and earnings per share taking into consideration a new shareholding structure resulting from the corporate reorganization commented in Note 1.

## Oi S.A. and Subsidiaries

### Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)

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#### 26. EMPLOYEE BENEFITS

##### (a) Pension funds

The Company and its subsidiaries sponsor retirement benefit plans (“pension funds”) for their employees, provided that they elect to be part of such plan, and current beneficiaries. The table below shows the existing pension plans at December 31, 2012.

<b>Benefit plans</b>	<b>Sponsors</b>	<b>Manager</b>
TCSPREV	Oi, BrT Celular, BrT Multimídia, BrT CS, iG and BrTI	FATL
BrTPREV	Oi, BrT Celular, BrT Multimídia, BrT CS, iG and BrTI	FATL
TelemarPrev	Oi, TMAR, TNL PCS and Oi Internet	FATL
PAMEC	Oi	Oi
PBS-A	TMAR and Oi	SISTEL
PBS-Telemar	TMAR	FATL
PBS-TNCP	TNL PCS	SISTEL
CELPREV	TNL PCS	SISTEL

Sistel – Fundação Sistel de Seguridade Social

FATL – Fundação Atlântico de Seguridade Social

Telemar Participações S.A., the Company’s parent, is one of the sponsors the TelemarPrev benefit plan.

For purposes of the pension plans described in this note, the Company can also be referred to as the “Sponsor”.

The sponsored plans are valued by independent actuaries at the end of the annual reporting period. For the year ended December 31, 2012, the actuarial valuations were performed by Mercer Human Resource Consulting Ltda. The Bylaws provide for the approval of the supplementary pension plan policy, and the joint liability attributed to the defined benefit plans is ruled by the agreements entered into with the pension fund entities, with the agreement of the National Pension Plan Authority (PREVIC), as regards the specific plans. PREVIC is the official agency that approves and oversees said plans.

The sponsored defined benefit plans are closed to new entrants because they are close-end pension funds. Participants’ and the sponsors’ contributions are defined in the funding plan.

Actuarial liabilities are recognized for the sponsored defined benefit plans that report an actuarial deficit. For the plans that report an actuarial surplus, assets are recorded when there is an express authorization for offsetting them against future employer contributions.

## Oi S.A. and Subsidiaries

### Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)

#### Provisions for pension funds

Refer to the recognition of the actuarial deficit of the defined benefit plans, as shown below:

	COMPANY		CONSOLIDATED	
	2012	2011	2012	2011
BrTPREV plans	577,642	618,003	580,340	620,149
PAMEC plan	3,797	3,554	3,797	3,554
<b>Total</b>	<b>581,439</b>	<b>621,557</b>	<b>584,137</b>	<b>623,703</b>
Current	103,666	75,599	103,666	77,745
Non-current	477,773	545,958	480,471	545,958

#### Assets recorded to be offset against future employer contributions

The Company recognized TCSPREV Plan assets related to: (i) sponsor contributions which participants that left the Plan are not entitled to redeem; and (ii) part of the Plan's surplus attributed to the sponsor.

The assets recognized are used to offset future employer contributions. These assets are broken down as follows:

	COMPANY		CONSOLIDATED	
	2012	2011	2012	2011
TCSPREV Plan	107,895	110,187	110,425	112,525
PBS-A plan		80,238		80,238
<b>Total</b>	<b>107,895</b>	<b>190,425</b>	<b>110,425</b>	<b>192,763</b>
Current	8,653	50,149	9,311	50,149
Non-current	99,242	140,276	101,114	142,614

#### Features of the sponsored supplementary pension plans

##### 1) FATL

FATL, closed, multiple sponsor, multiple plan pension fund, is a nonprofit, private pension-related entity, with financial and administrative independence, headquartered in Rio de Janeiro, State of Rio de Janeiro, engaged in the management and administration of pension benefit plans for the employees of its sponsors.

#### Plans

##### (i) BrTPREV

Variable contribution pension Benefit Plan, enrolled with the CNPB (National Registry of Close-end Pension Benefit Plans) under No. 2002.0017-74.

## **Oi S.A. and Subsidiaries**

### **Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)**

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On July 31, 2012 the Fundador/Alternativo Benefit Plan, enrolled with the CNPB under No. 1991,0015-92, was effectively merged with and into the BrTPREV Benefit Plan, approved by PREVIC Administrative Rule 378, of July 11, 2012.

Upon the effective merger (on July 31, 2012), the Participants and Beneficiaries of the Fundador/Alternativo Benefit Plan automatically become Participants and Beneficiaries of BrTPREV, maintaining the same categories they had on the day immediately before that date.

The monthly, mandatory Basic Contribution of the BrTPREV group Participants corresponds to the product obtained, in whole numbers, by applying a percentage to the Contribution Salary (SP), according to the Participant's age and option, as follows: (i) Age up to 25 years old - Basic Contribution cohort of 3 and 8 percent of the SP; (ii) Age 26 to 30 years old - Basic Contribution cohort of 4 to 8 percent of the SP; (iii) Age 31 to 35 years old - Basic Contribution cohort of 5 to 8 percent of the SP; (iv) Age 36 to 40 years old - Basic Contribution cohort of 6 to 8% of the SP; (v) Age 41 to 45 years old - Basic Contribution cohort of 7 to 8 percent of the SP; and (vi) Age 46 years old or more - Basic Contribution cohort of 8 percent of the SP.

The monthly Contribution of the Fundador/Alternativo group (merged) Participants corresponds to the sum of: (i) 3 percent charged on the Contribution Salary; (ii) 2 percent charged on the Contribution Salary that exceeds half of the highest Official Pension Scheme Contribution Salary, and (iii) 6.3 percent charged on the Contribution Salary that that exceeds the highest Official Pension Scheme Contribution Salary.

A BrTPREV group Participant's Voluntary Contribution corresponds to the product obtained, in whole numbers, by applying a percentage of up to 22 percent, elected by the Participant, to the Participation Salary. The Sporadic Contribution of a BrTPREV group Participant is optional and both its amount and frequency are freely chosen by the Participant, provided it is not lower than one (1) UPBrT (BrT's pension unit). The Sponsor does not make any counterpart contribution to the Participant's Voluntary or Sporadic Contribution.

The Plan's Charter provides for contribution parity by the Participants and the Sponsors. The plan is funded under the capitalization approach.

#### **(ii) PBS-Telemar**

Defined contribution pension Benefit Plan, enrolled with the CNPB under No. 2000.0015-56.

The contributions from Active Participants of the PBS-Telemar Benefit Plan correspond to the sum of: (i) 0.5 to 1.5 percent of the Contribution Salary (according to the participant's age on enrollment date); (ii) 1% of Contribution Salary that exceeds half of one Standard Unit; and (iii) 11% of the

## **Oi S.A. and Subsidiaries**

### **Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)**

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Contribution Salary that exceeds one Standard Unit. The Sponsors' contributions are equivalent to 9.5% of the payroll of active participants of the plan, of which 8% are allocated to the PBS-Telemar Benefit Plan and 1.5% to PAMA (Retirees' Healthcare Plan). The plan is funded under the capitalization approach.

#### **(iii) TelemarPrev**

Variable contribution pension Benefit Plan, enrolled with the CNPB under No. 2000.0065-74.

A participant's regular contribution is comprised of two portions: (i) Basic - equivalent to 2% of the Contribution Salary; and (ii) Standard - equivalent to 3% of the positive difference between the total Contribution Salary and the Social Security Contribution. The additional extraordinary contributions from participants are optional and can be made in multiples of 0.5% of the Contribution Salary, for a period of not less than six (6) months. Nonrecurring extraordinary contributions from a participant are also optional and cannot be lower than 5% of the Contribution Salary ceiling.

The Plan's Charter requires the parity between participants' and sponsors' contributions, up to the limit of 8% of the Contribution Salary, even though a sponsor is not required to match Extraordinary Contributions made by participants. The plan is funded under the capitalization approach.

#### **(iv) TCSPREV**

Variable contribution pension Benefit Plan, enrolled with the CNPB under No. 2000.0028-38.

The monthly, mandatory Basic Contribution of the TCSPREV group Participants corresponds to the product obtained, in whole numbers, by applying a percentage, chosen by the Participant, to the Contribution Salary (SP) as follows: (i) Age up to 25 years old - basic contribution cohort of 3 and 8 percent of the SP; (ii) Age 26 to 30 years old - basic contribution cohort of 4 to 8 percent of the SP; (iii) Age 31 to 35 years old - basic contribution cohort of 5 to 8 percent of the SP; (iv) Age 36 to 40 years old - basic contribution cohort of 6 to 8% of the SP; (v) Age 41 to 45 years old - basic contribution cohort of 7 to 8 percent of the SP; and (vi) Age 46 years old or more - basic contribution cohort of 8 percent of the SP.

A TCSPREV group Participant's Voluntary Contribution corresponds to the product obtained, in whole numbers, by applying a percentage of up to 22 percent, elected by the Participant, to the Participation Salary. The Sporadic Contribution of a Participant is optional and both its amount and frequency are freely chosen by the Participant, provided it is not lower than one (1) UPTCS

## **Oi S.A. and Subsidiaries**

### **Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)**

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(TCSPREV's pension unit). The Sponsor does not make any counterpart contribution to the Participant's Voluntary or Sporadic contribution.

The Plan's Charter provides for contribution parity by the Participants and the Sponsors. The plan is funded under the capitalization approach.

#### **2) SISTEL**

Sistel is a nonprofit, private welfare and pension entity, established in November 1977, which is engaged in creating private plans to grant benefits in the form of lump sums or annuities, supplementary or similar to the government retirement pensions, to the employees and their families who are linked to the sponsors of SISTEL.

#### **Plans**

##### **(ii) PBS-A**

Defined benefit plan jointly sponsored with other sponsors associated to the provision of telecommunications services and offered to participants who held the status of beneficiaries on January 1, 2000.

Contributions to the PBS-A are contingent on the determination of an accumulated deficit. As at December 31, 2012, date of the last actuarial valuation, the plan presented a surplus.

##### **(iii) PBS-TNCP**

Defined benefit plan, which, in addition to the official pension supplementation benefit, grants medical care (PAMA) to retirees and their dependents, on shared-cost basis. Contributions to the PBS-TNCP and PAMA plans are set based on actuarial studies prepared by independent actuaries according to the regulations in force in Brazil. Funding is determined using the capitalization system and the contribution due by the sponsor is 5.39% of the payroll of its employees participating in the plan, of which 6.39% are used to fund the PBS-TNCP plan.

The pension benefit is defined as the difference between 90% of average salary of the previous 36 months, adjusted for inflation up to the retirement date, and the retirement benefit paid by the INSS.

PBS-TNCP has been closed to new participants since April 2004.

##### **(iv) CELPREV**

In 2004, Amazônia (merged with and into TNL PCS) obtained from PREVIC the approval to create a new Pension Plan. The variable contribution plan, called CelPrev Amazônia ("CELPREV"), was offered to the employees who did not participate of the PBS-TNCP plan, and to new employees hired by its subsidiary. The participants of the PBS-TNCP plan were offered the possibility and encouraged to migrate to the CELPREV plan.

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The sponsor can make four types of contributions: (i) basic regular contribution: percentage ranging from 0 to 2 percent of his/her contribution salary; (ii) additional regular contribution: percentage from 0 to 6 percent of the share of his/her contribution salary that exceeds one Standard Reference Unit of the Plan; and (iii) voluntary contribution: percentage of the contribution salary freely chosen by the participant.

The sponsor can make four types of contributions: (i) basic regular contribution: contribution equal to the participant's basic regular contribution, less the contributions made to fund sick pay and administrative expenses; (ii) additional regular contribution: equal to the participant's additional regular contribution, less administrative expense; (iii) nonrecurring contribution: made voluntarily and with the frequency set by the sponsor; and (iv) special contribution: contribution intended exclusively for the sponsor's employees who are not part of the PBS and who have joined the plan within 90 days from the effective date of CELPREV.

**3) PAMEC-BrT - Assistance plan managed by the Company**

Defined benefit plan intended to provide medical care to the retirees and survivor pensioners linked to the TCSPREV pension plan managed by FATL.

The contributions for PAMEC-BrT were fully paid in July 1998, through a bullet payment. However, as this plan is now administrated by the Company, after the transfer of management by Fundação 14 in November 2007, there are no assets recognized to cover current expenses, and the actuarial obligation is fully recognized in the Company's liabilities.

**Status of the sponsored plans, revalued at the end of the reporting period (FATL)**

The table below shows the data of the sponsored defined benefit pension plans:

	COMPANY			
	2012			
	BrTPREV	TCSPREV	PBS-Telemar	TelemarPrev
<b>RECONCILIATION OF ASSETS AND LIABILITIES</b>				
Actuarial obligations on vested benefits	2,221,741	476,121	6,179	83,171
Actuarial obligations on unvested benefits	38,251	94,058		37,132
<b>(=) Total present value of actuarial</b>	<b>2,259,992</b>	<b>570,179</b>	<b>6,179</b>	<b>120,303</b>
<b>Fair value of plan assets</b>	<b>(1,395,052)</b>	<b>(1,538,770)</b>	<b>(7,206)</b>	<b>(131,445)</b>
<b>(=) Net actuarial liability/(asset)</b>	<b>864,940</b>	<b>(968,591)</b>	<b>(1,027)</b>	<b>(11,142)</b>
Unrecognized actuarial gains (losses)	(287,298)	(27,604)		
Effect of paragraph 58(b), CPC 33/IAS 19 ceiling		888,300	1,027	11,142
<b>(=) Net actuarial liability/(asset) recognized <sup>(1)</sup></b>	<b>577,642</b>	<b>(107,895)</b>		

**Oi S.A. and Subsidiaries**
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	CONSOLIDATED			
	2012			
	BrTPREV	TCSPREV	PBS-Telemar	TelemarPrev
<b>RECONCILIATION OF ASSETS AND LIABILITIES</b>				
Actuarial obligations on vested benefits	2,222,876	476,262	265,881	2,641,209
Actuarial obligations on unvested benefits	39,648	95,523	11,516	625,647
<b>(=) Total present value of actuarial</b>	<b>2,262,524</b>	<b>571,785</b>	<b>277,397</b>	<b>3,266,856</b>
<b>Fair value of plan assets</b>	<b>(1,396,614)</b>	<b>(1,543,104)</b>	<b>(323,480)</b>	<b>(3,526,899)</b>
<b>(=) Net actuarial liability/(asset)</b>	<b>865,910</b>	<b>(971,319)</b>	<b>(46,083)</b>	<b>(260,043)</b>
Unrecognized actuarial gains (losses)	(285,570)	(27,406)		
Effect of paragraph 58(b), CPC 33/IAS 19 ceiling		888,300	46,083	260,043
<b>(=) Net actuarial liability/(asset) recognized <sup>(1)</sup></b>	<b>580,340</b>	<b>(110,425)</b>		

	COMPANY		CONSOLIDATED	
	2011			
	BrTPREV, Alternativo and Fundador	TCSPREV	BrTPREV	TCSPREV
<b>RECONCILIATION OF ASSETS AND LIABILITIES</b>				
Actuarial obligations on vested benefits	1,848,870	388,611	1,849,787	388,728
Actuarial obligations on unvested benefits	51,388	81,759	55,220	83,085
<b>(=) Total present value of actuarial</b>	<b>1,900,258</b>	<b>470,370</b>	<b>1,905,007</b>	<b>471,813</b>
<b>Fair value of plan assets</b>	<b>(1,210,853)</b>	<b>(1,372,134)</b>	<b>(1,213,900)</b>	<b>(1,376,344)</b>
<b>(=) Net actuarial liability/(asset)</b>	<b>689,405</b>	<b>(901,764)</b>	<b>691,107</b>	<b>(904,531)</b>
Unrecognized actuarial gains (losses)	(71,402)	11,628	(70,958)	12,057
Effect of paragraph 58(b), CPC 33/IAS 19 ceiling		779,949		779,949
<b>(=) Net actuarial liability/(asset) recognized <sup>(1)</sup></b>	<b>618,003</b>	<b>(110,187)</b>	<b>620,149</b>	<b>(112,525)</b>

<sup>(1)</sup> The Company determines the amount available to deduct from future contributions according to the applicable legal provisions and the benefit plan charter. The amount of the asset linked to the TCSPREV plan recognized in the Company's financial statements, totaling R\$110,425 (R\$112,525 in 2011), does not exceed the present value of future contributions.

	COMPANY			
	2012			
	BrTPREV	TCSPREV	PBS-Telemar	TelemarPrev
<b>CHANGES IN NET ACTUARIAL LIABILITIES/(ASSETS)</b>				
<b>Present value of actuarial obligation at beginning of year</b>	<b>1,900,258</b>	<b>470,370</b>	<b>5,263</b>	<b>92,165</b>
Interest on actuarial obligations	188,814	47,229	520	9,269
Cost of current service	2,011	1,621		408
Benefits paid, net	(153,321)	(31,758)	(467)	(7,563)
Actuarial (gain) or loss on actuarial obligation	322,230	82,717	863	26,024
<b>Present value of actuarial obligation at yearend</b>	<b>2,259,992</b>	<b>570,179</b>	<b>6,179</b>	<b>120,303</b>
<b>Fair value of assets at beginning of year</b>	<b>1,210,853</b>	<b>1,372,134</b>	<b>6,743</b>	<b>113,735</b>
Return of plan assets	136,351	155,993	748	12,778
Actuarial gain/(loss) on plan assets	106,334	42,401	182	12,495
Amortizing contributions received from sponsor	94,835			
Payment of benefits	(153,321)	(31,758)	(467)	(7,563)
<b>Fair value of plan assets at yearend</b>	<b>1,395,052</b>	<b>1,538,770</b>	<b>7,206</b>	<b>131,445</b>
<b>(=) Net actuarial liability/(asset)</b>	<b>864,940</b>	<b>(968,591)</b>	<b>(1,027)</b>	<b>(11,142)</b>
Unrecognized actuarial gains (losses)	(287,298)	(27,604)		
Effect of paragraph 58(b), CPC 33/IAS 19 ceiling		888,300	1,027	11,142
<b>(=) Net actuarial liability/(asset) recognized</b>	<b>577,642</b>	<b>(107,895)</b>		

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	CONSOLIDATED			
	2012			
	BrTPREV	TCSPREV	PBS- Telemar	TelemarPrev
<b>CHANGES IN NET ACTUARIAL LIABILITIES/(ASSETS)</b>				
<b>Present value of actuarial obligation at beginning of year</b>	<b>1,905,007</b>	<b>471,813</b>	<b>230,190</b>	<b>2,621,700</b>
Interest on actuarial obligations	189,272	47,390	22,951	262,941
Cost of current service	2,422	1,751	182	11,060
Participant contributions made in the year			50	
Benefits paid, net	(153,389)	(31,767)	(16,225)	(234,503)
Actuarial (gain) or loss on actuarial obligation	319,212	82,598	40,249	605,658
<b>Present value of actuarial obligation at yearend</b>	<b>2,262,524</b>	<b>571,785</b>	<b>277,397</b>	<b>3,266,856</b>
<b>Fair value of assets at beginning of year</b>	<b>1,213,900</b>	<b>1,376,344</b>	<b>296,076</b>	<b>3,205,748</b>
Return of plan assets	136,664	156,476	33,085	359,265
Actuarial gain/(loss) on plan assets	104,604	42,051	10,401	196,389
Regular contributions received by plan			143	
Sponsor			93	
Participants			50	
Amortizing contributions received from sponsor	94,835			
Payment of benefits	(153,389)	(31,767)	(16,225)	(234,503)
<b>Fair value of plan assets at yearend</b>	<b>1,396,614</b>	<b>1,543,104</b>	<b>323,480</b>	<b>3,526,899</b>
<b>(=) Net actuarial liability/(asset)</b>	<b>865,910</b>	<b>(971,319)</b>	<b>(46,083)</b>	<b>(260,043)</b>
Unrecognized actuarial gains (losses)	(285,570)	(27,406)		
Effect of paragraph 58(b), CPC 33/IAS 19 ceiling		888,300	46,083	260,043
<b>(=) Net actuarial liability/(asset) recognized</b>	<b>580,340</b>	<b>(110,425)</b>		

	COMPANY		CONSOLIDATED	
	2011			
	BrTPREV, Alternativo and Fundador	TCSPREV	BrTPREV	TCSPREV
<b>CHANGES IN NET ACTUARIAL LIABILITIES/(ASSETS)</b>				
<b>Present value of actuarial obligation at beginning of year</b>	<b>1,740,787</b>	<b>419,605</b>	<b>1,744,324</b>	<b>420,683</b>
Interest on actuarial obligations	180,021	43,719	180,365	43,844
Cost of current service	1,434	1,057	1,807	1,161
Benefits paid, net	(154,974)	(29,026)	(155,039)	(29,035)
Actuarial (gain) or loss on actuarial obligation	132,990	35,015	133,550	35,160
<b>Present value of actuarial obligation at yearend</b>	<b>1,900,258</b>	<b>470,370</b>	<b>1,905,007</b>	<b>471,813</b>
<b>Fair value of assets at beginning of year</b>	<b>1,102,591</b>	<b>1,238,897</b>	<b>1,104,844</b>	<b>1,242,078</b>
Return of plan assets	119,204	134,046	119,414	134,393
Actuarial gain/(loss) on plan assets	53,339	28,217	53,989	28,908
Regular contributions received by plan			53	
Sponsor				
Participants			53	
Amortizing contributions received from sponsor	90,693		90,692	
Payment of benefits	(154,974)	(29,026)	(155,092)	(29,035)
<b>Fair value of plan assets at yearend</b>	<b>1,210,853</b>	<b>1,372,134</b>	<b>1,213,900</b>	<b>1,376,344</b>
<b>(=) Net actuarial liability/(asset)</b>	<b>689,405</b>	<b>(901,764)</b>	<b>691,107</b>	<b>(904,531)</b>
Unrecognized actuarial gains (losses)	(71,402)	11,628	(70,958)	12,057
Effect of paragraph 58(b), CPC 33/IAS 19 ceiling		779,949		779,949
<b>(=) Net actuarial liability/(asset) recognized</b>	<b>618,003</b>	<b>(110,187)</b>	<b>620,149</b>	<b>(112,525)</b>

**Oi S.A. and Subsidiaries**
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	COMPANY			
	2012			
	BrTPREV	TCSPREV	PBS-Telemar	TelemarPrev
<b>EXPENSE RECOGNIZED IN INCOME STATEMENT</b>				
Cost of current service	2,011	1,621		408
Interest on actuarial obligations	188,814	47,229	520	9,269
Return of plan assets	(136,351)	(155,993)	(748)	(12,778)
Amortization of actuarial (gains) losses, net		1,084	681	13,529
Effect of paragraph 58(b), CPC 33/IAS 19 ceiling		117,686	(453)	(9,371)
<b>Total expense (income) recognized before the adjustment</b>	<b>54,474</b>	<b>11,627</b>		<b>1,057</b>
<b>Adjustments to reconcile with local accounting entries</b>		<b>(9,335)</b>		
<b>Total expense (income) recognized after the adjustment</b>		<b>2,292</b>		

	CONSOLIDATED			
	2012			
	BrTPREV	TCSPREV	PBS-Telemar	TelemarPrev
<b>EXPENSE RECOGNIZED IN INCOME STATEMENT</b>				
Cost of current service	2,422	1,751	182	11,060
Interest on actuarial obligations	189,272	47,390	22,951	262,941
Return of plan assets	(136,664)	(156,476)	(33,085)	(359,265)
Amortization of actuarial (gains) losses, net	(3)	1,084	29,848	409,268
Effect of paragraph 58(b), CPC 33/IAS 19 ceiling		117,686	(19,802)	(324,004)
<b>Total expense (income) recognized before the adjustment</b>	<b>55,027</b>	<b>11,435</b>	<b>94</b>	
<b>Adjustments to reconcile with local accounting entries</b>		<b>(9,335)</b>		
<b>Total expense (income) recognized after the adjustment</b>		<b>2,100</b>		

	COMPANY		CONSOLIDATED	
	2011			
	BrTPREV, Alternativo and Fundador	TCSPREV	BrTPREV	TCSPREV
<b>EXPENSE RECOGNIZED IN INCOME STATEMENT</b>				
Cost of current service	1,434	1,057	1,807	1,161
Interest on actuarial obligations	180,021	43,719	180,365	43,844
Return of plan assets	(119,204)	(134,046)	(119,414)	(134,393)
Amortization of actuarial (gains) losses, net		6,797	(2,222)	6,947
Effect of paragraph 58(b), CPC 33/IAS 19 ceiling		62,535		62,535
<b>Total recognized expense (income)</b>	<b>62,251</b>	<b>(19,938)</b>	<b>60,536</b>	<b>(19,906)</b>

The sponsor's contributions to the pension plans estimated for 2013 amount R\$103,625.

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The main actuarial assumptions used in the calculations of the TelemarPREV, PBS-Telemar, BrTPREV, and TCSPREV plans were as follows:

	2012			
	BrTPREV	TCSPREV	PBS-Telemar	TelemarPrev
<b>MAIN ACTUARIAL ASSUMPTIONS USED</b>				
Nominal discount rate of actuarial obligation	8.89%	8.89%	8.89%	8.89%
Estimated inflation rate	4.50%	4.50%	4.50%	4.50%
Estimated nominal salary increase index				4.5% to 14.95%
	8.68%	8.68%	8.68%	
Estimated nominal benefit increase index	4.50%	4.50%	4.50%	4.50%
Total expected rate of return on plan assets	9.52%	9.52%	9.52%	9.52%
General mortality biometric table	AT2000	AT2000	AT2000	AT2000
Biometric disability table	Zimmermann Nichzugs	Zimmermann Nichzugs	Zimmermann Nichzugs	Zimmermann Nichzugs
Biometric disabled mortality table	Winklevoss	Winklevoss	Winklevoss	Winklevoss
Turnover rate	6%	6%	Nil	1.21% to 11.69%

	2011	
	BrTPREV, Alternativo and Fundador	TCSPREV
<b>MAIN ACTUARIAL ASSUMPTIONS USED</b>		
Nominal discount rate of actuarial obligation	10.35%	10.35%
Estimated inflation rate	4.50%	4.50%
Estimated nominal salary increase index	9.31%	9.31%
Estimated nominal benefit increase index	4.50%	4.50%
Total expected rate of return on plan assets	11.50%	11.50%
General mortality biometric table	AT2000	AT2000
Biometric disability table	Zimmermann Nichzugs	Zimmermann Nichzugs
Biometric disabled mortality table	Winklevoss	Winklevoss
Turnover rate	5.5% p.a.	5.5% p.a.

**ADDITIONAL DISCLOSURES – 2012**

- a) Plans' assets and liabilities correspond to amounts as at December 31, 2012.  
b) Master file data used for the plans managed by FATL are as at August 31, 2012, projected for December 31, 2012.

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**Status of the sponsored plans, revalued at the end of the annual reporting period (SISTEL and PAMEC)**

	COMPANY			
	PBS-A		PAMEC	
	2012	2011	2012	2011
<b>RECONCILIATION OF ASSETS AND LIABILITIES</b>				
Actuarial obligations on vested benefits	906,853	767,124	4,877	3,720
<b>(=) Total present value of actuarial</b>	<b>906,853</b>	<b>767,124</b>	<b>4,877</b>	<b>3,720</b>
<b>Fair value of plan assets</b>	<b>(1,428,362)</b>	<b>(1,198,834)</b>		
<b>(=) Net actuarial liability/(asset)</b>	<b>(521,509)</b>	<b>(431,710)</b>	<b>4,877</b>	<b>3,720</b>
Unrecognized actuarial gains/losses	454		(1,080)	(166)
Effect of paragraph 58(b), CPC 33/IAS 19 ceiling	440,364	351,472		
<b>(=) Net actuarial liability/(asset)</b>	<b>(80,691)</b>	<b>(80,238)</b>	<b>3,797</b>	<b>3,554</b>
Allowance for impaired assets	80,691			
<b>(=) Net actuarial liability/(asset) recognized</b>		<b>(80,238)</b>	<b>3,797</b>	<b>3,554</b>

	CONSOLIDATED			
	2012			
	PBS-A	PAMEC	PBS-TNCP	CELPREV
<b>RECONCILIATION OF ASSETS AND LIABILITIES</b>				
Actuarial obligations on vested benefits	4,269,767	4,877	26,158	
Actuarial obligations on unvested benefits			2,412	128
<b>(=) Total present value of actuarial</b>	<b>4,269,767</b>		<b>28,570</b>	<b>128</b>
<b>Fair value of plan assets</b>	<b>6,717,801</b>		<b>(53,299)</b>	<b>(1,933)</b>
<b>(=) Net actuarial liability/(asset)</b>	<b>(2,448,033)</b>	<b>4,877</b>	<b>(24,729)</b>	<b>(1,805)</b>
Unrecognized actuarial gains/losses	2,123	(1,080)		
Effect of paragraph 58(b), CPC 33/IAS 19 ceiling	2,064,029		24,729	1,805
<b>(=) Net actuarial liability/(asset)</b>	<b>(381,881)</b>	<b>3,797</b>		
Allowance for impaired assets	381,881			
<b>(=) Net actuarial liability/(asset) recognized</b>		<b>3,797</b>		

	CONSOLIDATED	
	2011	
	PBS-A	PAMEC
<b>RECONCILIATION OF ASSETS AND LIABILITIES</b>		
Actuarial obligations on vested benefits	767,124	3,720
<b>(=) Total present value of actuarial</b>	<b>767,124</b>	<b>3,720</b>
<b>Fair value of plan assets</b>	<b>(1,198,834)</b>	
<b>(=) Net actuarial liability/(asset)</b>	<b>(431,710)</b>	<b>3,720</b>
Unrecognized actuarial gains/losses		(166)
Effect of paragraph 58(b), CPC 33/IAS 19 ceiling	351,472	
<b>(=) Net actuarial liability/(asset) recognized</b>	<b>(80,238)</b>	<b>3,554</b>

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	COMPANY			
	PBS-A		PAMEC	
	2012	2011	2012	2011
<b>CHANGES IN NET ACTUARIAL LIABILITIES/(ASSETS)</b>				
<b>Present value of actuarial obligation at beginning of year</b>	<b>767,124</b>	<b>714,094</b>	<b>3,720</b>	<b>3,569</b>
Interest on actuarial obligations	77,117	73,681	378	382
Benefits paid, net	(68,306)	(65,757)	(135)	(40)
Actuarial (gain) or loss on actuarial obligation	121,183	45,106	914	(191)
Transfer inflow/(outflow), net	9,735			
<b>Present value of actuarial obligation at yearend</b>	<b>906,853</b>	<b>767,124</b>	<b>4,877</b>	<b>3,720</b>
<b>Fair value of assets at beginning of year</b>	<b>1,198,834</b>	<b>1,192,596</b>		
Expected return for the year	152,862	134,982		
Actuarial gain/(loss) on plan assets	129,881	(62,987)		
Regular contributions received by plan			135	40
Sponsor			135	40
Payment of benefits	(68,306)	(65,757)	(135)	(40)
Impact of acquisitions/disposals	15,091			
<b>Fair value of plan assets at yearend</b>	<b>1,428,362</b>	<b>1,198,834</b>		
<b>(=) Net actuarial liability/(asset)</b>	<b>(521,509)</b>	<b>(431,710)</b>	<b>4,877</b>	<b>3,720</b>
Unrecognized actuarial gains/losses	454		(1,080)	(166)
Effect of paragraph 58(b), CPC 33/IAS 19 ceiling	440,364	351,472		
<b>(=) Net actuarial liability/(asset)</b>	<b>(80,691)</b>	<b>(80,238)</b>	<b>3,797</b>	<b>3,554</b>
Allowance for impaired assets	<b>80,691</b>			
<b>(=) Net actuarial liability/(asset) recognized</b>		<b>(80,238)</b>	<b>3,797</b>	<b>3,554</b>

	CONSOLIDATED			
	2012			
	PBS-A	PAMEC	PBS-TNCP	CELPREV
<b>CHANGES IN NET ACTUARIAL LIABILITIES/(ASSETS)</b>				
<b>Present value of actuarial obligation at beginning of year</b>	<b>3,650,439</b>	<b>3,720</b>	<b>23,020</b>	<b>157</b>
Interest on actuarial obligations	363,013	378	2,301	16
Cost of current service			44	7
Benefits paid, net	(321,254)	(135)	(1,610)	
Participant contributions made in the year			37	4
Actuarial (gain) or loss on actuarial obligation	567,834	914	4,778	(56)
Transfer inflow/(outflow), net	9,735			
<b>Present value of actuarial obligation at end of year</b>	<b>4,269,767</b>	<b>4,877</b>	<b>28,570</b>	<b>128</b>
<b>Fair value of assets at beginning of year</b>	<b>5,694,180</b>		<b>40,069</b>	<b>1,657</b>
Expected return for the year	718,490		4,955	213
Actuarial gain/(loss) on plan assets	611,294		9,826	54
Regular contributions received by plan		135	59	9
Sponsor		135	22	5
Participants			37	4
Payment of benefits	(321,254)	(135)	(1,610)	
Impact of acquisitions/disposals	15,091			
<b>Fair value of plan assets at yearend</b>	<b>6,717,801</b>		<b>53,299</b>	<b>1,933</b>
<b>(=) Net actuarial liability/(asset)</b>	<b>(2,448,032)</b>	<b>4,877</b>	<b>(24,729)</b>	<b>(1,805)</b>
Unrecognized actuarial gains/losses	2,123	(1,080)		
Effect of paragraph 58(b), CPC 33/IAS 19 ceiling	2,064,029		24,729	1,805
<b>(=) Net actuarial liability/(asset)</b>	<b>(381,881)</b>	<b>3,797</b>		
Allowance for impaired assets	<b>381,881</b>			
<b>(=) Net actuarial liability/(asset) recognized</b>		<b>3,797</b>		

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	CONSOLIDATED	
	2011	
	PBS-A	PAMEC
<b>CHANGES IN NET ACTUARIAL LIABILITIES/(ASSETS)</b>		
<b>Present value of actuarial obligation at beginning of year</b>	<b>714,094</b>	<b>3,569</b>
Interest on actuarial obligations	73,681	382
Benefits paid, net	(65,757)	(40)
Actuarial (gain) or loss on actuarial obligation	45,106	(191)
<b>Present value of actuarial obligation at end of year</b>	<b>767,124</b>	<b>3,720</b>
<b>Fair value of assets at beginning of year</b>	<b>1,192,596</b>	
Expected return for the year	134,982	
Actuarial gain/(loss) on plan assets	(62,987)	
Regular contributions received by plan		40
Sponsor		40
Payment of benefits	(65,757)	(40)
<b>Fair value of plan assets at yearend</b>	<b>1,198,834</b>	
<b>(=) Net actuarial liability/(asset)</b>	<b>(431,710)</b>	<b>3,720</b>
Unrecognized actuarial gains/losses		(166)
Effect of paragraph 58(b), CPC 33/IAS 19 ceiling	351,472	
<b>(=) Net actuarial liability/(asset) recognized</b>	<b>(80,238)</b>	<b>3,554</b>

	COMPANY			
	PBS-A		PAMEC	
	2012	2011	2012	2011
<b>EXPENSE RECOGNIZED IN INCOME STATEMENT</b>				
Interest on actuarial obligations	77,118	73,681	378	382
Return (loss) on plan assets	(152,862)	(134,982)		
Amortization of actuarial (gains) losses, net	(8,245)	108,092		211
Effect of paragraph 58(b), CPC 33/IAS 19 ceiling	88,892	(127,029)		
<b>Total recognized expense (income)</b>	<b>4,903</b>	<b>(80,238)</b>	<b>378</b>	<b>593</b>

	CONSOLIDATED			
	2012			
	PBS-A	PAMEC	PBS-TNCP	CELPREV
<b>EXPENSE RECOGNIZED IN INCOME STATEMENT</b>				
Cost of current service			44	7
Interest on actuarial obligations	363,013	378	2,301	16
Return (loss) on plan assets	(718,490)		(4,955)	(213)
Amortization of actuarial (gains) losses, net	(41,335)		(5,048)	(110)
Effect of paragraph 58(b), CPC 33/IAS 19 ceiling	400,045		7,680	305
<b>Total recognized expense (income)</b>	<b>3,233</b>	<b>378</b>	<b>22</b>	<b>5</b>

	CONSOLIDATED	
	2011	
	PBS-A	PAMEC
<b>EXPENSE (INCOME) RECOGNIZED IN INCOME STATEMENT</b>		
Interest on actuarial obligations	73,681	382
Return (loss) on plan assets	(134,982)	
Amortization of actuarial (gains) losses, net	108,092	211
Effect of paragraph 58(b), CPC 33/IAS 19 ceiling	(127,029)	
<b>Total recognized expense (income)</b>	<b>(80,238)</b>	<b>593</b>

The sponsor's contributions to the pension plans estimated managed by Sistel for 2013 amount R\$3. The main actuarial assumptions used in the calculations of the PBS-A, PAMEC, PBS-TNCP and CELPREV plans were as follows:

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	2012			
	PBS-A	PAMEC	PBS-TNCP	CELPREV
<b>MAIN ACTUARIAL ASSUMPTIONS USED</b>				
Nominal discount rate of actuarial obligation	8.89%	8.89%	8.89%	8.89%
Estimated inflation rate	4.50%	4.50%	4.50%	4.50%
Estimated nominal salary increase index	N.A.	N.A.	8.64%	6.59%
Estimated nominal benefit increase index	4.50%	N.A.	4.50%	4.50%
Nominal medical costs growth rate	N.A.	7.64%	N.A.	N.A.
Total expected rate of return on plan assets	11.00%	N.A.	10.87%	11.00%
General mortality biometric table	AT2000	AT2000	AT2000	AT2000
Biometric disability table	Zimmermann Nichzugs	Zimmermann Nichzugs	Zimmermann Nichzugs	Zimmermann Nichzugs
Biometric disabled mortality table	Winklevoss	Winklevoss	Winklevoss	Winklevoss
Starting age of benefit	N.A.	N.A.	N.A.	55 years
Turnover rate	N.A.	Nil	Nil	Nil

	CONSOLIDATED	
	2011	
	PBS-A	PAMEC
<b>MAIN ACTUARIAL ASSUMPTIONS USED</b>		
Nominal discount rate of actuarial obligation (6% + inflation)	10.35%	10.35%
Estimated inflation rate	4.50%	4.50%
Estimated nominal salary increase index	N.A.	N.A.
Estimated nominal benefit increase index	4.50%	N.A.
Nominal medical costs growth rate	N.A.	7.64%
Total expected rate of return on plan assets	11.61%	N.A.
General mortality biometric table	AT2000	AT2000
Biometric disability table	Zimmermann Nichzugs	N.A.
Biometric disabled mortality table	Winklevoss	Winklevoss
Turnover rate	Nil	Nil

N.A. = Not applicable.

**ADDITIONAL DISCLOSURES – 2012**

- |  |
|--|
| a) Plans' assets and liabilities correspond to amounts as at December 31, 2010.  |
| b) Master file data used for the SISTEL plans are as at July 31, 2012 and for PAMEC are as at October 31, 2011, projected for December 31, 2012. |

The amounts above do not consider the assets and liabilities of the PAMA plan because it is multi-sponsored and similar to defined contribution plans (benefits paid are limited to the amount of the contributions received by the plan), and there are no other obligations in addition to the existing balances.

**Investment policy of the plans**

The investment strategy of the benefit plans is described in their investment policy, which is annually approved by the governing board of the sponsored funds. This policy establishes that investment decision-making must take into consideration: (i) the preservation of capital; (ii) the diversification of investments; (iii) the risk appetite according to conservative assumptions; (iv) the expected return rate based on actuarial requirements; (v) the compatibility of investment liquidity

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with the plans' cash flows, and (vi) reasonable management costs. The policy also defines the volume interval for different types of investment allowed for the pension funds, as follows: local fixed income, local variable income, loans to participants, and real estate investments. The fixed income portfolio can only include low credit risk securities. Derivatives are only allowed for hedging purposes. Loans are restricted to certain credit limits. Tactical allocation is decided by the investment committee consisting of the benefit plans' executives. Execution is undertaken by the finance department.

The average ceilings set for the different types of investment permitted for pension funds are as follows:

ASSET SEGMENT	PBS-Telemar	Telemar Prev	CEL PREV	PBS-TNCP	BrTPREV	TCS PREV	PBS-A
Fixed income	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Variable income	70.00%	70.00%	70.00%	70.00%	70.00%	70.00%	70.00%
Structured investments	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%	20.00%
Investments abroad	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
Real estate	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
Loans to participants	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%	15.00%

The allocation of plan assets as at December 31, 2012 is as follows:

ASSET SEGMENT	PBS-Telemar	Telemar Prev	CEL PREV	PBS-TNCP	BrTPREV	TCS PREV	PBS-A
Fixed income	81.00%	81.00%	81.79%	87.72%	81.00%	81.00%	73.83%
Variable income	11.00%	11.00%	14.98%	11.17%	11.00%	11.00%	17.80%
Structured investments	6.00%	6.00%			6.00%	6.00%	0.05%
Investments abroad							
Real estate	1.00%	1.00%			1.00%	1.00%	7.34%
Loans to participants	1.00%	1.00%	3.23%	1.11%	1.00%	1.00%	0.98%
Total	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

**(b) Employee profit sharing**

In the period ended December 31, 2012, the Company and its subsidiaries recognized provisions based on individual and corporate goal attainment estimates totaling R\$423,055 (R\$20,734 in 2011).

The differences between the accrued amounts and the amounts stated in the income statements refer to increases in prior years' estimates, when the benefit is effectively paid.

## **Oi S.A. and Subsidiaries**

### **Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)**

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#### **(c) Share-based payment plans**

We had a share-based payment plan with a vesting period ending on December 31, 2011 and the related stock options were fully vested on this date.

TNL, merged by us as a result of the corporate reorganization approved on February 27, 2012, and subsidiaries TMAR and TNL PCS had a stock option program, effective in the last fiscal year, which involved TNL stock and that was terminated as prescribed by Paragraph 11.2 of the Stock Option Program Charter. Accordingly, all the stock options granted that remained unvested were canceled.

## **27. SEGMENT INFORMATION**

The Company's management uses operating segment information for decision-making. The operating segments are identified according to the nature of the services and the technology used to provide the telecommunications services.

- Fixed-line telephony/data: basically offers local and long distance voice transmission and data communication services;
- Mobile telephony: offers primarily mobile voice, 3G data communication, and additional services, which include messaging services and interactivity; and
- Other: includes the segment (i) internet service provider, whose revenue is mainly derived from Internet access services and on-line advertising, (ii) call center, whose revenue is mainly derived from third-party telemarketing services and customer service, (iii) TV, whose revenue is derived from pay TV services using both cable and DTH (Direct to home) technology, and (iv) means of payment, whose revenue is derived from accreditation and payment administration services using credit systems.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

## Oi S.A. and Subsidiaries

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The performance of each segment is obtained in the Company's accounting records and is segregated as follows:

	Fixed telephony/data		Mobile telephony		All other segments (i)		Eliminations		Total	
	2012 Restated	2011	2012 Restated	2011	2012 Restated	2011	2012 Restated	2011	2012 Restated	2011
<b>Revenue</b>	<b>18,117,484</b>	<b>8,047,558</b>	<b>10,983,334</b>	<b>2,006,083</b>	<b>1,066,416</b>	<b>606,955</b>	<b>(4,998,004)</b>	<b>(1,415,341)</b>	<b>25,169,230</b>	<b>9,245,255</b>
<b>Cost of services</b>	<b>(11,294,488)</b>	<b>(4,087,477)</b>	<b>(5,628,479)</b>	<b>(1,309,000)</b>	<b>(469,312)</b>	<b>(351,188)</b>	<b>4,719,026</b>	<b>1,161,100</b>	<b>(12,673,253)</b>	<b>(4,586,565)</b>
Interconnection	(5,574,892)	(1,833,752)	(2,243,941)	(525,698)	(7,133)		3,911,423	648,231	(3,914,543)	(1,711,219)
Depreciation and amortization	(1,447,700)	(608,043)	(1,178,788)	(232,004)	(13,582)	(2,052)			(3,932,810)	(842,099)
Grid maintenance service	(1,829,284)	(627,366)	(325,580)	(59,114)	(3,321)	(277)	126,984		(2,031,201)	(686,757)
Rents and insurance	(1,314,227)	(653,896)	(617,804)	(334,300)	(38,955)	(21,968)	678,046	505,803	(1,292,940)	(504,361)
Cost of handsets and accessories			(507,465)	(23,850)				19	(507,465)	(23,831)
Other costs and expenses	(1,128,385)	(364,420)	(754,901)	(134,034)	(406,321)	(326,891)	2,573	7,047	(2,287,034)	(818,298)
<b>Gross profit</b>	<b>6,822,996</b>	<b>3,960,081</b>	<b>5,354,855</b>	<b>697,083</b>	<b>597,104</b>	<b>255,767</b>	<b>(278,978)</b>	<b>(254,241)</b>	<b>12,495,977</b>	<b>4,658,690</b>
<b>Operating income (expenses)</b>	<b>(4,952,668)</b>	<b>(2,441,345)</b>	<b>(2,851,826)</b>	<b>(648,714)</b>	<b>(480,719)</b>	<b>(255,689)</b>	<b>549,375</b>	<b>254,345</b>	<b>(7,878,629)</b>	<b>(3,091,403)</b>
<b>Sales of services</b>	<b>(2,948,143)</b>	<b>(992,231)</b>	<b>(2,077,912)</b>	<b>(435,669)</b>	<b>(449,751)</b>	<b>(134,719)</b>	<b>628,509</b>	<b>401,826</b>	<b>(4,847,297)</b>	<b>(1,160,793)</b>
Allowance for doubtful accounts	(221,538)	(259,719)	(265,562)	(64,653)	(15,520)	(8,430)	111	(6)	(502,509)	(332,808)
Sales commissions	(643,913)	(637)	(918,165)	(11,415)	(83,741)		122,041		(1,523,778)	(12,052)
Call center	(819,869)	(339,820)	(259,864)	(26,506)	(58,458)	(17,626)	401,435	358,875	(736,756)	(25,077)
Posting and collection	(416,927)	(122,077)	(97,473)	(25,941)	(14,203)	(4,578)	294		(528,309)	(152,597)
Advertising and publicity	(149,692)	(77,386)	(328,271)	(59,716)	(24,401)	(12,359)	59,371	1,304	(442,993)	(148,157)
Other third-part services	(192,026)	(95,204)	(57,917)	(212,611)	(7,923)	(14,651)	19,186	21,215	(238,680)	(301,250)
Other costs and expenses	(504,178)	(97,388)	(150,660)	(34,827)	(245,505)	(77,075)	26,071	20,438	(874,272)	(188,852)
<b>General and administrative expenses</b>	<b>(2,175,934)</b>	<b>(1,193,147)</b>	<b>(665,760)</b>	<b>(168,645)</b>	<b>(165,557)</b>	<b>(101,352)</b>	<b>8,814</b>	<b>18,517</b>	<b>(2,998,437)</b>	<b>(1,444,627)</b>
<b>Other operating income (expenses), net</b>	<b>171,409</b>	<b>(255,967)</b>	<b>(108,154)</b>	<b>(44,400)</b>	<b>134,589</b>	<b>(19,618)</b>	<b>(87,948)</b>	<b>(165,998)</b>	<b>109,896</b>	<b>(485,983)</b>
Other operating income	1,604,404	600,387	316,848	45,915	215,401	13,149	(140,531)	(99,091)	1,996,122	560,360
Other operating expenses	(1,432,995)	(856,354)	(425,002)	(90,315)	(80,812)	(32,767)	52,583	(66,907)	(1,886,226)	(1,046,343)
<b>Operation income before financial income (expenses) and taxes</b>	<b>1,870,328</b>	<b>1,518,736</b>	<b>2,503,029</b>	<b>48,369</b>	<b>116,385</b>	<b>78</b>	<b>270,397</b>	<b>104</b>	<b>4,760,139</b>	<b>1,567,287</b>
<b>Financial income (expenses)</b>	<b>(2,631,455)</b>	<b>(554,516)</b>	<b>686,718</b>	<b>466,594</b>	<b>(393)</b>	<b>16,114</b>	<b>(270,397)</b>	<b>(104)</b>	<b>(2,215,527)</b>	<b>(71,912)</b>
Financial income	2,128,245	927,977	841,838	665,847	55,651	20,559	(750,362)	(208,513)	2,275,372	1,405,870
Financial expenses	(4,759,700)	(1,482,493)	(155,120)	(199,253)	(56,044)	(4,445)	479,965	208,409	(4,490,899)	(1,477,782)
<b>Income (loss) before taxes</b>	<b>(761,127)</b>	<b>964,220</b>	<b>3,189,747</b>	<b>514,963</b>	<b>115,992</b>	<b>16,192</b>			<b>2,544,612</b>	<b>1,495,375</b>
Income tax and social contribution	249,784	(365,143)	(942,457)	(108,097)	(67,012)	(16,385)			(759,685)	(489,625)
<b>Profit (loss) for the year</b>	<b>(511,343)</b>	<b>599,077</b>	<b>2,247,290</b>	<b>406,866</b>	<b>48,980</b>	<b>(193)</b>			<b>1,784,927</b>	<b>1,005,750</b>
Profit attributable to owner of the Company									1,784,890	1,005,731
Profit attributable to non-controlling interests									37	19
<b>Additional disclosures</b>										
Services provided	16,783,677	7,502,208	7,126,238	1,469,069	679,894	263,259			24,589,809	9,234,536
Sales			579,421	10,719					579,421	10,719
<b>Revenue from external customers</b>	<b>16,783,677</b>	<b>7,502,208</b>	<b>7,705,659</b>	<b>1,479,788</b>	<b>679,894</b>	<b>263,259</b>			<b>25,169,230</b>	<b>9,245,255</b>
Intersegment revenue	1,333,807	545,350	3,277,675	526,295	386,522	343,696				
<b>Total revenue</b>	<b>18,117,484</b>	<b>8,047,558</b>	<b>10,983,334</b>	<b>2,006,083</b>	<b>1,066,416</b>	<b>606,955</b>				
Depreciation and amortization	1,899,360	768,016	1,271,530	257,697	57,210	18,513			3,228,100	1,044,226
Increase of tangibles and intangibles	3,769,102	1,118,006	2,593,483	166,678	113,807	12,371			6,476,392	1,297,055
<b>Balance sheet information</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Assets	93,653,830	24,751,717	23,571,370	8,925,657	2,765,578	637,754	(50,913,884)	(2,651,097)	69,076,894	31,664,031

**Oi S.A. and Subsidiaries****Notes to the Financial Statements  
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- (i) Even though the Company's executive committee does not assess the internet, cable TV, and means of payment segments separately, the table below shows, as required by CPC 22, paragraph 13, the main data on these segments:

	Internet		Pay TV		Means of payment	
	2012	2011	2012	2011	2012	2011
Revenue from external customers	359,628	252,250	323,074		3,552	
Interest income	25,514	13,153	1,120		17,059	
Interest expenses	(7,374)	(4,165)	(990)		(10,801)	
Depreciation and amortization	(21,100)	(18,513)	(20,054)		(16,055)	
Profit (loss) for the year	80,597	1,887	(111,327)		(83,061)	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Assets	965,070	487,329	853,202		77,820	

The table below shows the revenue components by product line.

	2012	2011
Residential	8,940,830	3,763,824
Personal mobility	8,016,200	1,615,418
Business/Corporate	7,695,184	3,369,954
Other services	517,016	496,059
<b>Total</b>	<b>25,169,230</b>	<b>9,245,255</b>

In reporting based on geographic segments, the segment's revenue is based on the locations of the country where the services are provided. The segment's non-current assets are based on the location of the assets.

In view of their immateriality, revenue and non-current assets of operations in foreign countries are being jointly disclosed.

Geographical information	Revenue from external customers		Non-current assets (*)	
	2012	2011	2012 Restated	2011
In the host country	25,090,945	9,181,673	34,850,577	11,914,048
In foreign countries	78,285	63,582	3,451,120	148,465
<b>Total</b>	<b>25,169,230</b>	<b>9,245,255</b>	<b>38,301,697</b>	<b>12,062,513</b>

(\*) Except for financial instruments, assets related to pension funds and deferred taxes, as required by CPC 22 Operating Segments.

**Oi S.A. and Subsidiaries**
**Notes to the Financial Statements  
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**28. RELATED-PARTY TRANSACTIONS****Consolidated related-party transactions**

	COMPANY		CONSOLIDATED	
	2012	2011	2012	2011
<b>Assets</b>				
<b>Trade receivables</b>	<b>204,489</b>	<b>160,771</b>		<b>51,617</b>
BrT Call Center	3,142	1,985		
BrTI	4,344	1,572		
BrT CS	37			
iG Brasil	3,985	4,619		
BrT Multimídia	792	4,357		
BrT Celular	139,312	128,259		
VANT	4	170		
iG Part		8		
TMAR	49,838	12,333		25,722
Oi Internet	1,958	742		17,207
TNL PCS	1,077	6,726		8,688
<b>Due from related parties</b>	<b>1,501</b>	<b>6,703</b>		
BrT Call Center	10	9		
VANT		6,694		
BrT Multimídia	15			
BrTI	1,476			
<b>Dividends and interest on capital receivable</b>	<b>663,884</b>	<b>430,377</b>		
TMAR	368,424			
BrT Celular		170,000		
BrT Multimídia	90,823	84,606		
BrT CS	203,000	175,126		
BrT Card	1,637	645		
<b>Debentures</b>				<b>2,217,682</b>
TMAR				2,217,682
<b>Other</b>	<b>134,205</b>	<b>54,499</b>		
TMAR	40,281			
TNL PCS	150			
BrT Call Center	30,448	17,574		
BrT of America		67		
BrTI	266	245		
BrT Bermudas		30		
BrT CS	94	94		
BrT Venezuela		9		
iG Brasil	240	242		
BrT Multimídia	17,645	2,831		
BrT Celular	45,081	33,404		
VANT		2		
iG Part		1		

**Oi S.A. and Subsidiaries**
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	COMPANY		CONSOLIDATED	
	2012	2011	2012	2011
<b>Liabilities</b>				
<b>Trade payables</b>	<b>296,715</b>	<b>143,216</b>		<b>51,785</b>
BrT Call Center	62,089	3,684		
BrT CS	47,084	48,764		
iG Brasil	3,027	1,348		
BrT Multimídia	12,042	3,549		
BrT Celular	103,866	60,154		
TMAR	19,747	18,088		24,123
TNL PCS	8,880			14,919
Oi Internet	32,721	7,383		7,383
Pointer Networks	564	246		5,360
Paggo Administradora	6,695			
<b>Borrowings and financing</b>	<b>3,309,802</b>	<b>1,483,527</b>		
BrT Celular	223,875	1,483,527		
TMAR	1,487			
Oi Holanda	3,084,440			
<b>Debentures</b>	<b>5,467,867</b>			
TMAR	879,633			
TNL PCS	4,588,234			
<b>Dividends payable</b>		<b>123,913</b>		<b>123,913</b>
Coari		123,913		123,913
<b>Other payables</b>	<b>58,074</b>	<b>777,654</b>		<b>747,171</b>
Coari		740,221		740,221
BrT Call Center	401	204		
BrTI	24,915	17,427		
BrT Bermudas		587		
iG Brasil	30	30		
BrT Multimídia	20,048	5,917		
BrT Celular	11,790	6,197		
BrT CS	10	10		
VANT		111		
TMAR	880	1,010		1,010
TNL		5,940		5,940

**Oi S.A. and Subsidiaries**
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	COMPANY		CONSOLIDATED	
	2012	2011	2012	2011
<b>Revenue</b>				
<b>Revenue from services provided</b>	<b>467,775</b>	<b>449,337</b>	<b>52,671</b>	<b>335,933</b>
BrTI	2,738	2,095		
BrT Bermudas		176		
BrT CS	144	79		
iG Brasil	7,159	10,874		
BrT Multimídia	3,049	4,677		
BrT Celular	324,174	313,277		
VANT	300	1,363		
TMAR	106,794	91,599	47,333	273,858
Oi Internet	2,357	4,543	1,620	21,437
TNL PCS	21,060	20,654	3,718	40,638
<b>Other operating income</b>	<b>50,337</b>	<b>53,089</b>		
BrT Call Center	7,296	7,684		
BrT CS		1		
iG Brasil	1,703	2,846		
BrT Multimídia	2,552	2,712		
BrT Celular	38,786	39,843		
VANT		3		
<b>Financial income</b>	<b>45,298</b>	<b>12,258</b>	<b>48,233</b>	<b>306,548</b>
BrT Call Center	1	785		
BrT Celular	9,919	10,961		
VANT	576	512		
BrTI	89			
TNL PCS	4,967			
TMAR	29,746		48,233	306,548

	COMPANY		CONSOLIDATED	
	2012	2011	2012	2011
<b>Operating costs and expenses</b>	<b>(1,399,335)</b>	<b>(1,334,001)</b>	<b>(58,163)</b>	<b>(301,903)</b>
BrT CS	(91,552)	(132,456)		
BrT Multimídia	(38,270)	(38,577)		
BrT Celular	(682,595)	(556,129)		
TMAR	(76,673)	(88,289)	(15,018)	(92,773)
TNL PCS	(102,807)	(190,206)	(37,090)	(201,101)
Pointer Networks	(3,897)	(246)	(808)	(251)
Paggo Administradora	(926)		(623)	
Oi Internet	(40,208)	(7,778)	(4,624)	(7,778)
BrT Call Center	(358,710)	(316,566)		
iG Brasil	(3,697)	(3,752)		
BrT Colombia		(2)		
<b>Financial expenses</b>	<b>(663,989)</b>	<b>(171,798)</b>		<b>(43,819)</b>
BrT Call Center		(9)		
BrT Celular	(149,738)	(127,970)		
TNL	(6,770)	(40,930)		(40,930)
TMAR	(89,515)	(2,889)		(2,889)
Oi Holanda	(38,941)			
TNL PCS	(379,025)			

## Oi S.A. and Subsidiaries

### Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)

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#### Credit facilities

The purpose of the credit facilities extended by the Company to its subsidiaries is to provide them with working capital for their operating activities and the maturities of these borrowings can be rescheduled according to these companies' projected cash flows. The disbursed amounts bear interest equivalent to 115% of CDI (115% of CDI in 2011).

#### Private debentures payable

Due to the corporate reorganization approved at the Extraordinary Shareholders' Meeting held on February 27, 2012, the debentures issued by TMAR on December 9, 2008 and March 15, 2011, in the amounts of R\$1,500,000 and R\$2,500,000, respectively, subscribed by TNL PCS, were merged by the Company. The final maturities of the debentures were December 11, 2013 and March 15, 2016, without interim amortizations, and pay interest equivalent to the CDI + 4.0% per year and 115% of CDI, respectively.

The Company also merged the debenture issued by TMAR, on November 10, 2010, subscribed by Copart 4, amounting to R\$999,295, with final maturity on June 10, 2022. Interest will be paid payable semiannually on May 10 and November 10 of each year, starting May 10, 2011 until May 10, 2022, with final payment on this issuance's maturity date, June 10, 2022. In June 2012 the Company amortized in advance R\$128,386.

#### Lease of transmission infrastructure

The transactions conducted with TMAR, TNL PCS and BrT Celular refer to the provision of services and the assignment of means involving mainly interconnection and Industrial Exploration of Dedicated Line (EILD).

The transactions conducted with Oi Internet, subsidiary of TMAR, refer to the provision of dial port rental services.

#### Guarantees

As a result of the corporate reorganization, the financing facilities extended by BNDES, the public debentures and the other borrowings started to be guaranteed by Oi. The Company recorded for the year ended December 31, 2012, as commission on TNL's guarantees, expenses amounting to R\$43,172 (R\$37,744 in 2011). Additionally, TMAR provided guarantees on the CRI transaction at the cost of 0.5% of the outstanding balance per year. Related expenses for the year ended December 31, 2012 totaled R\$492 (R\$550 in 2011).

#### Unconsolidated related-party transactions

	COMPANY		CONSOLIDATED	
	2012	2011	2012	2011
<b>Assets</b>				
<b>Trade receivables</b>	<b>984</b>	<b>2,126</b>	<b>11,526</b>	<b>2,126</b>
Portugal Telecom	941	2,126	4,248	2,126
Unitel			2,278	

**Oi S.A. and Subsidiaries****Notes to the Financial Statements  
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Contax	43		4,930	
PT Inovação			70	

	COMPANY		CONSOLIDATED	
	2012 Restated	2011	2012 Restated	2011
<b>Liabilities</b>				
<b>Trade payables</b>	<b>8,461</b>	<b>2,153</b>	<b>48,214</b>	<b>5,867</b>
Portugal Telecom	203	126	1,084	126
Contax	2,361	2,027	25,179	5,741
TODO	5,897		16,957	
Ability			400	
PT Inovação			4,523	
Veotex			71	
<b>Dividends payable</b>	<b>203,298</b>		<b>203,298</b>	
Telemar Participações S.A.	67,948		67,948	
Bratel Brasil S.A.	69,391		69,391	
AG Telecom Participações S.A.	20,274		20,274	
LF Tel. S.A.	20,276		20,276	
Caixa de Previdência dos Funcionários do Banco do Brasil	16,038		16,038	
BNDES Participações S.A. BNDESPAR	7,120		7,120	
Fundação dos Economistas Federais – FUNCEF	1,870		1,870	
Fundação Petrobras de Seguridade Social – PETROS	381		381	

	COMPANY		CONSOLIDATED	
	2012	2011	2012	2011
<b>Revenue</b>				
<b>Revenue from services provided</b>	<b>2,793</b>	<b>1,400</b>	<b>48,475</b>	<b>1,400</b>
Portugal Telecom	2,059	1,400	9,705	1,400
Unitel			1,085	
Contax	686		34,296	
TODO	48		1,319	
Ability			2,070	

	COMPANY		CONSOLIDATED	
	2012	2011	2012	2011
<b>Costs/expenses</b>				
<b>Operating costs and expenses</b>	<b>(25,821)</b>	<b>(140)</b>	<b>(119,960)</b>	<b>(140)</b>
Portugal Telecom	(426)	(140)	(2,949)	(140)
PT Inovação			(4,758)	
PT Sistemas de Informação			(513)	
Veotex			(7,110)	
TODO	(25,395)		(59,140)	
Ability			(45,490)	

**Services provided by Contax**

## Oi S.A. and Subsidiaries

### Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)

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The Company and subsidiaries TMAR, BrT Celular and TNL PCS engaged *call center* and collection services from Contax, which is controlled by the controlling shareholders of TmarPart. Contax provides customer services to fixed-line telephony customers, outbound telemarketing services to capture new mobile telephony customers, support to prepaid and subscription mobile telephony customers, technical support to Velox subscribers (ADSL), and collection services. Total costs of services provided by Contax for the year ended December 31, 2012 were R\$49,997 (R\$46,384 in 2011), Company, and R\$1,279,551 (R\$103,095 in 2011) on a consolidated basis.

#### Financing agreements with the BNDES

The Company entered into financing agreements with BNDES, controlling shareholder of BNDESPAR, which holds 13.05% (13.05% in 2011) of the voting capital of TmarPart, holding company of the Group and, therefore, a Company related party.

The balance due related to BNDES financing, at December 31, 2012, was R\$2,202 million (R\$1,522 million in 2011), Company, and R\$6,367 million (R\$2,229 million in 2011), on a consolidated basis, and related financial expenses totaling R\$186 million (R\$100 million in 2011), Company, and R\$451 million (R\$154 million in 2011), on a consolidated basis, were recognized.

#### Compensation of key management personnel

The compensation of the officers responsible for planning, managing and controlling the Company's activities, including the compensation of the directors and executive officers, is as follows:

	COMPANY		CONSOLIDATED	
	2012	2011	2012	2011
Salaries and other short-term benefits	14,489	2,844	17,205	3,510
Share-based compensation		1,143		1,411
<b>Total</b>	<b>14,489</b>	<b>3,987</b>	<b>17,205</b>	<b>4,921</b>

## 29. INSURANCE

During the concession period, the concessionary has the obligation of maintaining the following insurance coverage, over the prescribed terms: "all risks" policy that covers property damages to all insurable assets belonging to the concession, insurance against economic losses to insure the continuity of services, and insurance guaranteeing payment of obligations related to the quality and universal services, as provided for by the Concession Agreements. All material and/or high-risk assets and liabilities in are insured. The Company and its subsidiaries maintain insurance coverage against property damages, loss of revenue arising from such damages (loss of profits), etc. Management understands that the amount insured is sufficient to assure the integrity of assets and the continuity of operations, and the compliance with the rules set out in the Concession Agreements.

## Oi S.A. and Subsidiaries

### Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)

The insurance policies provide the following coverage, per risk and type of asset:

	CONSOLIDATED	
	2012	2011
<b>Insurance line</b>		
Operational risks and loss of profits	500,000	800,000
Civil liability - third parties (*)	163,480	150,064
Fire – inventories	100,000	100,000
Concession warranty - TMAR	75,227	
Concession warranty - Oi	28,616	40,443
Theft - inventories	20,000	20,000
Civil liability - general	20,000	15,000
Civil liability - vehicles	3,000	3,000

(\*) Based on the foreign exchange rate prevailing at December 31, 2012 (ptax): US\$1.00=R\$2.0435

### 30. OTHER INFORMATION

#### (a) Shareholder compensation policy

On April 16, 2012, the Company's Board of Directors approved a Shareholder Compensation Policy for the period 2012-2015 (concerning fiscal years 2011-2014).

The approved Compensation Policy consists of the payment of a total of R\$8,000,000,000.00, according to the following calendar: (i) R\$2,000,000,000.00 to be declared at the Annual Shareholders' Meeting that reviews the financial statements for the year ended December 31, 2011, (ii) R\$1,000,000,000.00 in August 2012, R\$1,000,000,000.00 in August 2013 and R\$1,000,000,000.00 in August 2014; and (iii) R\$1,000,000,000.00 at the Annual Shareholders' Meeting that reviews the financial statements for the years ended December 31, 2012, 2013 and 2014, in addition to the dividends paid in August of each year as described in topic (ii).

The Compensation Policy will be subject to the market conditions, the financial stability of the Company and the relevant legal/regulatory environment. The Policy can be implemented through the distribution of dividends, the payment of interest on capital, capital bonuses, redemptions, reduction or any other forms that permit the distribution of funds to shareholders, within, in each year, a maximum leverage corresponding to 3.0 x ratio net debt (including dividends payable in the year)-to-EBITDA (for the year prior to the payment of compensation).

#### (b) Revision of the STFC Concession Agreements

On June 30, 2011, the Company with ANATEL and the Ministry of Communications entered into revisions of the STFC concession agreements and the Commitment Term Sheet to ensure the attainment of the objectives set out in Decree 7175/2010 (National Broadband Plan (PNBL)).

One of the main changes introduced by the revisions of STFC concession agreements is the end of the restriction that prevented associates of telecommunications service concessionaires to provide pay TV services.

## **Oi S.A. and Subsidiaries**

### **Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)**

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The revision also complies with the new version of the General Universal Service Targets Plan (PGMU III), which is one of the appendices to said concession agreements. Under this new version, the Company agrees to install payphones (TUPs) in rural areas (schools, health clinics, and other locations), offering individual access to rural populations, and special individual class access (AICE) to lower-income subscribers enrolled on the Single Register for Federal Government Social Programs.

The Presidential Decree that enacts the new PGMU III establishes that the technical feasibility of the prescribed obligations must be ensured and limits the installation of TUPs in rural areas to the balance resulting from the waiver of installing urban TUPs, in line with the provision of the General Telecommunications Law and the concession agreements in effect.

The TUP density target in urban areas was reduced from six to four for every 1,000 inhabitants and is immediately effective. Rural area TUP and rural individual access targets are all on demand and will only start to be met after a network coverage using a radio communication system operating in 451 MHz to 458 MHz and 461 MHz to 468 MHz radiofrequency sub-bands is in place, to be built by the winner of the bidding process that will be held on a date not yet set.

Concurrently with the execution of the amendment to the concession agreements and the enactment of the new PGMU, the Company voluntarily entered into a Commitment Term Sheet with the Ministry of Communications and ANATEL, joining the PNBL. Under this Commitment Term Sheet, the Oi Group companies agree to offer low-cost broadband services ('Retail Offering') and a 'Wholesale Offering', both aimed at meeting the Federal Government's objectives of expanding and disseminating broadband use in Brazil.

#### **(c) Increase of Switched Fixed-line Telephone Services Tariff**

On December 21, 2011, ANATEL approved the increase of STFC tariffs. These increases, effective beginning December 24, 2011, are 1.97% for local (subscription and traffic) and TU-RL interconnection services, and 1.63% for the payphone rate.

## **31. SUBSEQUENT EVENTS**

### **Change of CEO**

On January 22, 2013, the Company's Board of Directors approved the appointment of Mr. José Mauro Mettrau Carneiro da Cunha as CEO of the Company and its subsidiaries, replacing Mr. Francisco Tosta Valim Filho. Mr. José Mauro Mettrau Carneiro da Cunha resigned as Chairman of the Company's Board and his alternate, Mr. José Augusto da Gama Figueira, was appointed as Chairman.

### **Corporate Reorganization**

## **Oi S.A. and Subsidiaries**

### **Notes to the Financial Statements for the Years Ended December 31, 2012 and 2011 (Amounts in thousands of Brazilian reais, unless otherwise stated)**

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On January 31, 2013, as a sequence to the Corporate Reorganization, the Board of Directors authorized the Company to increase the capital of its wholly-owned subsidiary TMAR by R\$30,324, through the transfer of investments, other assets, intercompany debentures.

The purposes of this reorganization are to streamline the corporate structure, reduce intragroup debt, and obtain operating synergy gains.

#### **Increase of Switched Fixed-line Telephone Services Tariff**

The STFC tariff adjustment authorized by the ANATEL for Company and its subsidiary TMAR is effective beginning February 8, 2013. A 0.55% adjustment to the local and domestic long-distance service tariffs was authorized and the local interconnection (TU-RL) tariffs will be adjusted by 10.4% beginning February 7, 2013.

#### **Credit facilities**

In March 2013, the Company entered into an export credit facility agreement with the Office National Du Ducroire/Nationale Delcrederedienst in the aggregate principal amount of US\$257 million. As of the date of this annual report, no disbursements have been made under this export credit facility.

#### **Dividends receivable**

On April 19, 2013, the Portugal Telecom's Annual Shareholders' Meeting approved the distribution of profits for the year equivalent to €0.325 per share, to be paid to shareholders on May 17, 2013. TMAR, as holder of PT shares, will receive dividends amounting to €29,137, which on the date of the disclosure made by PT, correspond to R\$76,478.

#### **Assigning of the right of commercial operation of towers**

On April 11 and 19, 2013, the company and its subsidiary TMAR entered into agreements to assign the right to use some towers of our infrastructure for commercial operations by companies whose core operations consist of providing transmission tower and radiofrequency management and maintenance services, for the aggregate amount of approximately R\$1.09 billion. The completion of this transaction is subject to fulfillment of certain conditions precedent.

(Convenience Translation into English from the Original Previously Issued in Portuguese)

## Oi S.A. and Subsidiaries

### Appendix - Statements of Value Added for the Year Ended December 31, 2012 and 2011 (In thousands of Brazilian reais - R\$, unless otherwise stated)

	Company		Consolidated	
	2012 Restated	2011	2012 Restated	2011
<b>Revenue</b>				
Sales of goods and services	13,392,030	13,716,360	39,910,417	16,406,661
Voluntary discounts and returns	(3,897,516)	(3,423,855)	(5,908,606)	(3,830,034)
Allowance for doubtful accounts	(97,781)	(263,398)	(502,509)	(332,808)
Other income	881,981	538,133	1,968,648	532,321
	10,278,714	10,567,240	35,467,950	12,776,140
<b>Inputs purchased from third parties</b>				
Interconnection costs	(1,649,919)	(1,833,753)	(3,914,543)	(1,711,219)
Supplies and power	(246,040)	(274,435)	(858,183)	(325,141)
Cost of sales			(576,664)	(27,081)
Third-part services	(2,217,240)	(2,366,402)	(8,118,028)	(2,569,297)
Other	(73,559)	(76,151)	(980,323)	(192,831)
	(4,186,758)	(4,550,741)	(14,447,741)	(4,825,569)
<b>Gross value added</b>	6,091,956	6,016,499	21,020,209	7,950,571
<b>Retentions</b>				
Depreciation and amortization	(700,037)	(711,122)	(3,228,100)	(1,044,226)
Provisions (includes inflation adjustment)	(323,677)	(686,403)	(633,612)	(737,759)
Other expenses	(195,250)	(89,478)	(168,854)	(104,365)
	(1,218,964)	(1,487,003)	(4,030,566)	(1,886,350)
<b>Wealth created by the Company</b>	4,872,992	4,529,496	16,989,643	6,064,221
<b>Value added received as transfer</b>				
Share of profits of subsidiaries	2,481,715	676,070		
Financial income	1,150,927	768,508	2,275,372	1,405,870
	3,632,642	1,444,578	2,275,372	1,405,870
<b>Wealth for distribution</b>	8,505,634	5,974,074	19,265,015	7,470,091
<b>Wealth distributed</b>				
<b>Personnel</b>				
Salaries and wages	(499,034)	(302,691)	(1,520,077)	(568,720)
Benefits	(82,164)	(71,425)	(310,347)	(165,741)
Severance Pay Fund (FGTS)	(36,979)	(27,926)	(113,859)	(49,801)
Other	(12,237)	(498)	(56,535)	(1,817)
	(630,414)	(402,540)	(2,000,818)	(786,079)
<b>Taxes and fees</b>				
Federal	(123,337)	(620,041)	(2,099,277)	(1,087,405)
State	(2,081,849)	(2,384,141)	(7,385,316)	(2,811,414)
Municipal	(13,066)	(6,768)	(74,459)	(23,540)
	(2,218,252)	(3,010,950)	(9,559,052)	(3,922,359)

## Oi S.A. and Subsidiaries

### Appendix - Statements of Value Added for the Years Ended December 31, 2012 and 2011 (In thousands of Brazilian reais, unless otherwise stated)

(continued)

	COMPANY		CONSOLIDATED	
	2012 Restated	2011	2012 Restated	2011
<b>Lenders and lessors</b>				
Interest and other financial charges	(3,397,640)	(1,241,898)	(4,317,744)	(1,304,988)
Rents, leases and insurance	(474,438)	(312,955)	(1,602,474)	(450,915)
	<u>(3,872,078)</u>	<u>(1,554,853)</u>	<u>(5,920,218)</u>	<u>(1,755,903)</u>
<b>Shareholders</b>				
Non-controlling interests			(37)	(19)
Dividends	(416,686)	(251,433)	(416,686)	(251,433)
Retained earnings	(1,368,204)	(754,298)	(1,368,204)	(754,298)
	<u>(1,784,890)</u>	<u>(1,005,731)</u>	<u>(1,784,927)</u>	<u>(1,005,750)</u>
<b>Wealth distributed</b>	<u>(8,505,634)</u>	<u>(5,974,074)</u>	<u>(19,265,015)</u>	<u>(7,470,091)</u>