Companhia de Telecomunicações do Brasil Central

Parent Company and Consolidated

Financial statements

December 31, 2011 and 2010

(A translation of the original report in Portuguese containing the parent company and consolidated financial statements prepared in accordance with accounting practices adopted in Brazil and International Financial Reporting Standards, respectively)

KPMG

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Contents

MANAGEMENT REPORT

DEAR SHAREHOLDERS:

The management of Algar Telecom ("Company", "Company", or "Algar Telecom") is pleased to submit to you for your analysis the Management's Report and the Parent Company and Consolidated Financial Statements of the Company, with the Independent Auditors' Report and the Fiscal Council's Report, for the year ended December 31, 2011. The monetary values are expressed in million of Brazilian Reais, unless otherwise indicated.

1. MESSAGE FROM THE BOARD

For Algar Telecom, 2011 began with many challenges and ended with the realization of a certainty already shared by the Board of Directors and the Executive Board: thanks to a vision of the future that has always been a part of our path, the Company has been ready, in all aspects, for the ambitious targets that we set for ourselves.

A great deal of our attention was focused on our retail business expansion program in the state of Minas Gerais (what we call "Minas Expansion"). The project was started early in December 2010, when we acquired in an auction the authorization for the H Band, the last frequency available in Brazil for providing telecommunication services in the 3G platform, in municipalities just outside the area in which we already work.

The entire process was supported by a detailed work plan, the continuous dedication of our associates, and the long experience arising from our 58 years of work in the area, and especially the creation of new telecommunication companies from scratch (green field projects). After meeting all operating structure and personnel requirements, we were very pleased to enjoy the success obtained in the first part of the expansion, by reaching nineteen new municipalities with high-quality internet, fixed and mobile telephony and satellite TV.

In keeping with the Company's sustainable ideals, the expansion supply is based on international cutting edge technology, which uses equipment that consumes 30% less energy when compared to those currently in the market. In addition, the new offices are prepared to provide excellent service and customer relations and were conceived under a regionalist concept. That means keeping a close relationship with the customers in the new locations, which matches Algar Telecom's nature of respect for the specific features of regional habits and culture and giving priority to hiring local talents.

The infrastructure in regional offices ensures a close relationship with customers and is one of our added values in the corporate segment in the Company's authorized area. Our supply of voice and data solutions for medium-sized and large companies has once more shown the speed of our evolution and closed the year with a 32.9% growth in revenues. Although the Company is authorized for this kind of offer all over Brazil, the strategy adopted in the last few years has been to deliver a service that ensures data quality and speed, through a modern IP network, to the regions of higher commercial interest surrounding our backbone - which covers twelve cities in the states of Goiás, Minas Gerais, Rio de Janeiro, São Paulo and Paraná, in addition to Brasilia, in Distrito Federal.

The fast and innovating carrying out of our expansion plan, the growth of the services provided to the business sector in the Company's area of authorization, and the meeting or exceeding of other targets in 2011 have provided evidence of the efficiency of the Company's management model, which, year, after year, contributes to consolidate the Company's growth. Algar Telecom closed 2011 with net revenues of R$ 1,682 million, which represents an increase of 11.3% in relation to the performance of the prior year. In turn, its net income amounted to R$ 144 million, a 10.2% growth when compared to that of 2010.

The Company's achievements are an evidence of the seriousness with which we develop and establish our strategies for all Company segments. In addition to the Telecom advancements, the revenue was positively impacted by achievements in the area of outsourcing for business processes and technology. The investments in infrastructure and the effort to obtain certifications enabled us to understand and better meet the market's demands and attract new customers. Once again, a crucial point determining the agility and quality of our delivery was the model performance provided by Engeset. At the same time, the Company, with a focus on telecommunication engineering and operation all over Brazil reaffirmed its capacity for growth in the market, by expanding its customer portfolio.

In turn, Algar Mídia used the opportunities of the digital media sector and increased its portfolio with the Alooh Network, formed by 600 electronic information monitors installed in large circulation and people concentration areas. With the name of Digital Media Out of Home, the solution shows great potential for growth over the next five years.

Other good news provides evidence for the correctness of the strategic decisions: Algar Telecom once again took the first place in profitability in the ranking of the Best and Greatest in Brazil for 2011, and had its rating increased for the second consecutive year by the reputable agency Standard & Poor's. Based on criteria such as cash generation, business diversification and adequate indebtedness, the Company's risk classification improved from "brA+" to "brAA-".

Also deserving highlight is the fact that Algar Telecom's operating and economic growth is in line with the best corporate governance practices, which includes the work of a board of directors and three advisory committees, one of which is in charge of risk monitoring. Regarding our team, we have a Human Talent policy focused on increasing the value of the employees by means of professional development and personal satisfaction.

We maintain a management model based on meritocracy, in which we reward dedication and good performance, and are truly concerned with our employees' personal and professional growth since, after all, the individual progress of our professionals and their teams significantly contribute towards the Company's performance. The investments in professional training, health and well-being, and the opportunities for growth established in the career plan, and especially the good relationship with the professionals, have shown positive results. In 2011, Algar Telecom’s figures in the rank of The Best Place to Work in Brazil, given by Great Place to Work Institute, in partnership with ComputerWorld. Were also similar awards the Algar Tecnologia (70 Best IT and Telecommunication Companies) and Algar Mídia (Best Small and Medium Companies to Work in Brazil).

Another index that motivates the Company to continuously practice and disseminate its beliefs and values is that of customer satisfaction. Last year Algar Telecom obtained excellent performance in terms of classification in the Customer Service Performance Index evaluated by the National Telecommunications Agency (ANATEL), which measures the quality of the telecom operation companies. The Company was frequently placed in the 1st and 2nd positions in national long distance, local and mobile telephony.

These and other achievements, the numbers evidencing Algar Telecom's solidness and also the promising outlook for 2012 in the segments in which we operate are presented in a transparent manner in this Annual Report. A deserved space is also earned by the environmental and social projects which we are eager and proud to maintain, in an innovating way and with a degree of relevance similar to that of any other aspect of our businesses. In both cases, the work focus was, and will continue to be over the next several years, that of placing a high value on education - Algar Telecom believes that disseminating knowledge and simple sustainable practices can contribute towards the construction of a better world.

We use this opportunity to express our gratitude to all those who somehow helped us build the history of Algar Telecom in their everyday activities: customers, advisors, shareholders, government, regulators, suppliers and employees. With our confidence in always being able to count on the motivation of those professionals, and always committed to maintaining and expanding the Company's founder's humanist vision, we are welcoming the new year of 2012.

Divino Sebastião de Souza
Chief Executive Officer of Algar Telecom

Luiz Alexandre Garcia
CEO of the Algar Group

2. THE YEAR'S HIGHLIGHTS

- ✓ Algar Telecom starts retail operations in 19 new cities in the state of Minas Gerais - the band H concession, by providing high quality and high speed internet packages, fixed and mobile telephony, and satellite TV;

- ✓ Increase of the Company's *rating* from "A+" to "AA-", in the national scale, by Standard and Poor's*;*

- ✓ Winning the following awards: Modern Consumer's award for Excellence in Customer Service, 2011 (first place in the category of fixed telephony); and 1st in profitability (within the telecommunications category) in Exame Magazine's ranking for the Best and Largest of 2011;

- ✓ Achievement of ISO 14001 Certification, which establishes the basic guidelines for creating an effective environmental management system;

- ✓ Elected one of the Best Companies to Work for by the Great Place to Work Institute and one of the best in IT and Telecom;

- ✓ Consolidated net revenues of R$ 1,682.2 million, an 11.3% growth in relation to 2010;

- ✓ Revenue from voice and data solutions for the corporate market authorization, and outsourcing services of business process and technology increases 32.9%and 24.1%, respectively.;

- ✓ The net income (loss) attains R$ 144.4 million, 10.2% greater than in 2010.

3. SECTOR'S CONTEXT

The Brazilian macroeconomic scenario once more proved favorable to the telecommunications sector in 2011, in spite of the unfolding international financial crisis. That panorama had in 2011 the contribution of a strengthening domestic economy: low unemployment rate (4.7%); real increase in the worker's average income (of 2.7%); and consumer stimulation by the credit supply. The trend for growth in the demand for services, especially mobile telephony and internet services, occurred again among end users who, stimulated by the popularity of social networks, want to be plugged to the entire world, all the time and everywhere.

In the cable TV area, Algar Telecom started providing HDTV channels at the end of 2011, and this product seemed promising and had a good acceptance by consumers. The corporate sector also remained buoyant throughout the year. In addition to the greater demand for connectivity by already established companies, the domestic economy's stability favors the opening of new companies. The more new companies are created, the higher is the demand for telecommunication products and services.

Regarding the challenges faced, one of the sector's main concerns in the year has been personnel cost. Telecommunication companies continued to be among the top job creators in Brazil. However, in spite of the higher net revenue, factors such as the increase in the minimum salary and the drop in the unemployment rate, significantly impacted its margins, and this was the reason for the great effort by the sector to influence the Federal Government to approve the law that would result in reducing the payroll burden for software and IT services until 2014.

Another challenge in the telecom and IT sectors is the increasingly staunch competition. The promising scenario has attracted new international players, which establish themselves in Brazil with the purpose of approaching this market in several fronts. In view of that reality, the market has proved to be favorable to the most innovating companies that are able to provide high-quality products and services at competitive prices, and to companies that differ for their customer service quality.

4. REGULATORY ENVIRONMENT

The regulatory environment in 2011 was marked by relevant discussions, especially in connection with the participation of telecommunication service providers in the Federal Government's Digital Inclusion Program.

In May 2011, Algar Telecom joined the National Wide Band Program of the Ministry of Communications and National Telecommunications Agency (ANATEL) thus starting the provision of internet access at popular prices in its area of operation. The National Wide Band Program was approved by Decree No. 7175 of May 12, 2010, and its purpose is to encourage and publicize the use and supply of goods and services in the field of information technology and telecommunication in Brazil.

Also in May 2011, fixed commuted telephone service concession agreements were revised and the main change was the establishment of a new General Plan of Universalization Goals, approved by Decree No. 7512 of June 30, 2011, establishing that the provision of telecommunication services in rural areas by the use of radio frequencies of 450 MHz that will be sold through a bidding process in 2012.

In September 2011, Law No. 12,485 was enacted, creating the Conditioned Access Service (SeAC), a replacement for pay TV services in Brazil, and established other rules regarding the provision of audiovisual content, including the obligation, for TV programmers in Brazil, to distribute national content. Some of that law's provisions still require a specific regulation to be issued by ANATEL and the Brazilian Cinema Agency (ANCINE).

The important facts for the telecommunication sector occurred in October 2011:

(i) Public Consultation No. 41 was completed, whereby ANATEL presented a proposal for a General Plan of Competition Targets in the Brazilian telecommunication sector. Algar Telecom actively participated in the discussions with the aim of contributing for the perfecting of the sector's competitive environment in Brazil;

(ii) with Resolution No. 576 of October 31, 2011, ANATEL approved the Tariff Criteria Regulation for Fixed Switched Telephone Service calls to Personal Mobile Service and Specialized Mobile Service, which is to result in a gradual reduction in the amounts charged from the users of those services, and a consequent reduction in the remuneration for the use of mobile networks in Brazil;

(iii) with Resolutions No. 574 and 575, both of October 28, 2011, ANATEL established new quality targets for the Personal Mobile Service and Multimedia Communication Service and their definitive implementation is scheduled for November 2012.

5. PROFILE

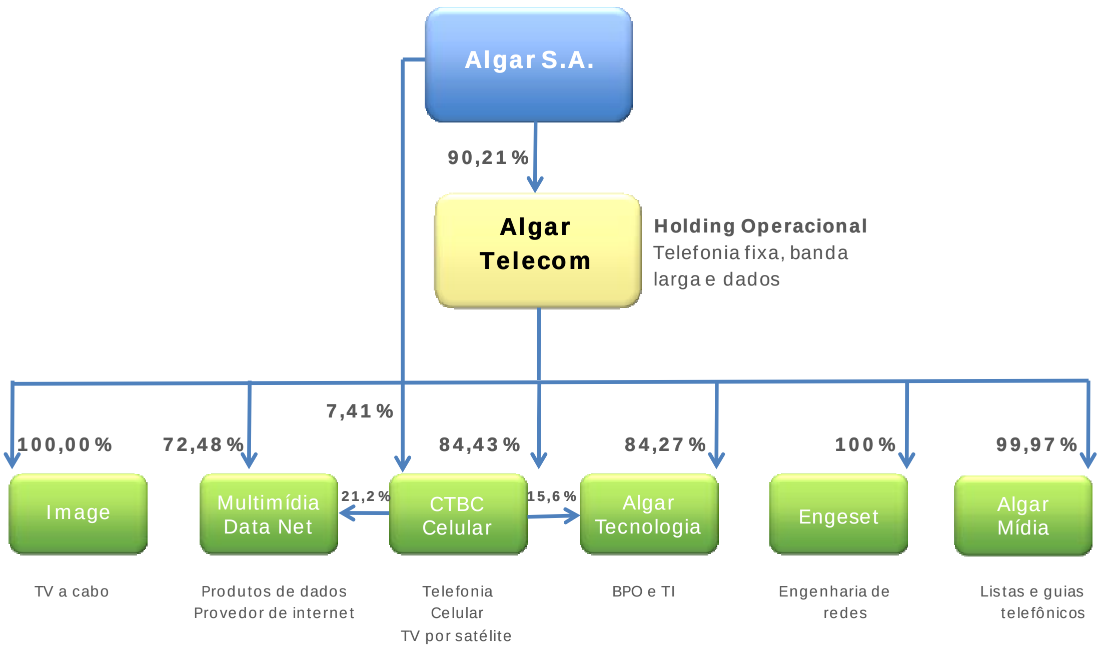
Algar Telecom is a Brazilian telecommunication and IT company that belongs to the Algar Group, which is differentiated by its customer service efficiency, closeness in customer relationships, a strong innovation culture, and a continuous concern with sustainability in all its spheres of action. The Company is the holder of the CTBC brand and has direct control over six subsidiaries. Together, the companies provide a product and service portfolio in three complementary business segments.

The **Telecom** segment includes fixed telephony, wide-band internet, data communications, mobile telephony, internet provider and pay TV. The provision of **business processes and IT outsourcing services** is under the responsibility of Algar Tecnologia. In the **Complementary Business area**, Engeset operates with telecommunication network construction and maintenance, and Algar Mídia is in charge of the production of telephone books and listings and other converging media solutions. In 2011, those three segments accounted for, respectively, 77%, 18% and 5% of Algar Telecom's consolidated gross revenue.

The Company has its main offices in the city of Uberlândia (state of Minas Gerais) and its operations reach all over Brazil and currently it is physically present in seven Brazilian states: Minas Gerais, São Paulo, Rio de Janeiro, Distrito Federal, Goiás, Mato Grosso do Sul and Paraná. It has a customer base of over 800 thousand retail and corporate customers, with whom it maintains a close and lasting relationship. Since CTBC was founded in 1954, and originated today's Algar Telecom, founder Knight Alexandrino Garcia was personally concerned about good relationships with customers, suppliers and governmental institutions, the well-being of employees, providing high-quality and really useful services to the population, the economic and social development of the region, ethical handling of the businesses, and several issues that are today called sustainability and good corporate governance practices. Therefore, the concern with disseminating sustainable practices to the entire chain of value is present in the Company's DNA and is currently structured into a solid corporate governance policy.

Algar Telecom closed 2011 with 15 thousand "associates", as the Company calls its employees, and consolidated net revenue of R$ 1,682.2 million. The results are evidence of a management focused on sustainable growth and on meeting the interest of all its *stakeholders*.

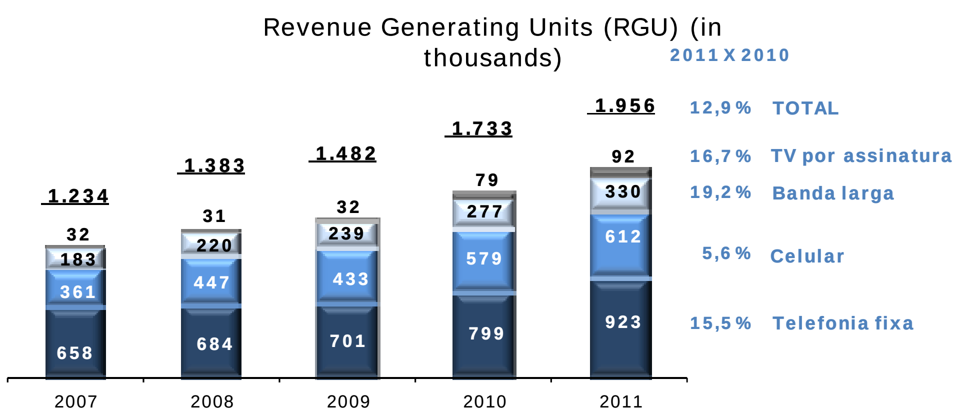
6. SHAREHOLDING STRUCTURE



7. OPERATING PERFORMANCE:

TELECOM

At the end of 2011, Algar Telecom had 1.9 million revenue generating units (RGU) in its telecom segment, a 13.2% increase in relation to 2010, boosted by all its services.



- Fixed telephony

The Company closed 2011 with a 15.8% growth in the number of fixed telephony terminals, reflecting service growths both in authorization and in the concession. In the area of authorization, the increase in the number of terminals was 41.5%, a result of the provision of joint voice and data solutions for corporate customers, which had a 32.9% growth in revenues in the period. In the concession, fixed lines added up to 693 thousand lines by year end, 9.1% higher than in 2010, boosted by the provision of packages combining fixed telephony, wide band and pay TV.

- Mobile telephony

In mobile telephony, the Company is the leader among all operators in Brazil in two important indicators: percentage of postpaid customers, which, in December 2011 reached 34%, and average revenue per user (ARPU) of R$ 34.50. In 2011 Algar Telecom's mobile telephony customer base grew 5.6% in relation to 2010, closing the year with 612 thousand customers. The postpaid segment had the largest growth, of 12.0% in relation to 2010, reaching 205 thousand. The pre-paid segment grew 2.7%, and added up to 406 thousand customers.

- Broadband

Wide band accesses, which is the Company's strategic focus, grew 20.1%, from 277 thousand in 2010 to 332 thousand in 2011. Out of these, 276 thousand are of ADSL (I and II) accesses - a number equivalent to 40% of all fixed terminals in the concession area, where the Company serves the residential market. Always attentive to the customers and aware of market advances, Algar Telecom launched, at the end of 2011, Ultra-Wide Band internet plans able to transmit data at speeds of up to 100 Mb per second made available through hybrid optic fibers and coaxial cables (HFC). Initially launched in some geographical areas of the state of Minas Gerais, the service will be expanded into other cities in 2012.

In 3G technology, an important supply complementation, the number of customers jumped from 38 thousand in 2010 to 56 thousand in 2011, a 46.5% growth, resulting from the Company's repositioning of the product.

- Pay TV

Customers of satellite TV were 61 thousand at the end of 2011, a 33.1% growth in relation to May 2010, when the service was launched. It is now provided to 103 municipalities and in December 2011 started having HDTV resolution. Satellite TV has been leveraging the sale of packages combining fixed telephony, wide-band internet and TV.

Including the 31 thousand customers in cable TV operations in the cities of Uberlândia and Araguari (MG), the Company closed the year with 94 thousand TV customers, with a 18.4% growth in relation to 2010. It should be noted, though, the launch in December 2011, HDTV resolution of the plans for both cable TV and satellite.

▪ Data solutions for the corporate market

Together with voice services, the Company offers data solutions for the corporate market in its area of authorization - which includes the main cities of the Southeast region of Brazil. With a differential in customer service and relationships and with its modern IP network, Algar Telecom has been quickly increasing its number of customers. In 2011, the revenues from those services reached R$ 380.8 million, 32.9% higher than in 2010.

OUTSOURCING OF BUSINESS PROCESSES AND IT

In 2011 Algar Tecnologia, a wholly-owned subsidiary of the Company, had growth in contact center services - with activation of large operations, and in IT services - with its expansion into new geographic areas. To strengthen the transition of its portfolio of revenues, which aims at a higher share for IT services, Algar Tecnologia started an operating efficiency improvement plan to increase profitability.

Aiming at the transition of its portfolio, with the strategic focus on increasing the share of IT services, Algar Tecnologia started a plan for increasing operating efficiency expected to increase profitability, and, for that, terminated certain agreements with less than adequate profitability and not showing an outlook of recovery. In 2011, the services gowned 35% and already represents 24% of the total revenue of the Company.

COMPLEMENTARY BUSINESSES

The telecommunication engineering business, provided by subsidiary Engeset, made new contracts in 2011, especially for providing ADSL and data installation and project management services. Also important was Engeset's service agility and quality, which proved essential for the Company to enter new geographic areas won in the H band auction.

Algar Mídia, in turn, showed growth, especially in guidebook and listing businesses, and in on-line services.

8. ECONOMIC FINANCIAL PERFORMANCE (R$ MILLION)

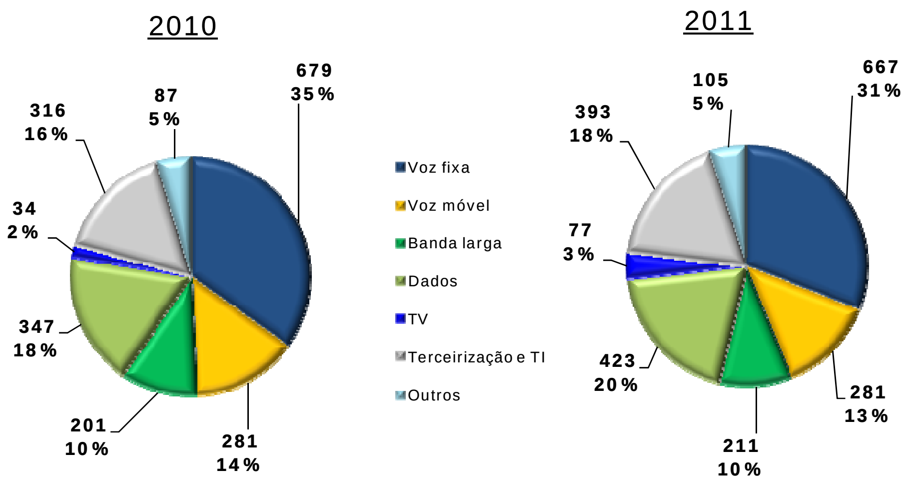
SUMÁRIO FINANCEIRO CONSOLIDADO	2010	2011	% var.
RECEITA BRUTA	**1.944,8**	**2.156,5**	**10,9%**
Telecom	1.540,9	1.659,1	7,7%
Terceirização de processos de negócios/TI	316,4	392,7	24,1%
Negócios Complementares	87,5	104,7	19,7%
RECEITA LÍQUIDA	**1.510,8**	**1.682,2**	**11,3%**
EBITDA	**409,4**	**411,1**	**0,4%**
LUCRO LÍQUIDO	**131,0**	**144,4**	**10,2%**
INVESTIMENTOS	**237,4**	**371,9**	**56,6%**
DÍVIDA LÍQUIDA	**471,5**	**636,5**	**35,0%**
DÍVIDA LÍQUIDA/EBITDA	**1,2**	**1,5**	**-**

Consolidated gross revenue

In 2011 Algar Telecom's consolidated gross revenues reached R$ 2,156.5 million, 10.9% higher than in 2010, boosted mainly by voice and data services for the corporate market in the authorization area (32.9%), outsourcing of business processes (24.1%), and IT and pay TV (124.5%). The revenue profile progressed in line with the Company's strategic planning. At the end of 2011, less than half of total revenues was from voice (44%); 30% was from data and wide band, 18% from business process outsourcing services and IT, and 5% from other services. Those results are evidence of the Company's ability to diversify its revenues and develop new businesses and services.

The main changes and analyses by business segment are detailed below. The revenues are consolidated and therefore already consider elimination of intercompany balances.

Distribution of consolidated gross revenues - R$ million



TELECOM

Revenues from telecom services, which represented 77% of the Company's total revenue in 2011, amounted to R$ 1,659.1.0 million, a 7.7% growth in relation to 2010. This increase was mostly the result of greater revenues from voice and data solutions for the corporate market in the area of authorization, pay TV and wide-band internet services, which more than offset the drop in revenues from fixed telephony local traffic, long distance and cards.

OUTSOURCING OF BUSINESS PROCESSES AND IT

The consolidated gross revenue from the business process outsourcing and IT service segment (18% of total revenue) recorded R$ 392.7 million in 2011, a 24.1% increase in relation to 2010 - when the recorded amount was R$ 316.4 million. The growth arose from revenues from outsourcing of processes, 18.5 higher, and the 35% increase in IT revenues. At the end of 2011, IT services, a strategic focus for the Company, accounted for 24% of total revenues.

COMPLEMENTARY BUSINESSES

In 2011, Algar Telecom's consolidated revenue generated by complementary businesses amounted to R$ 104.7 million, compared to R$ 87.5 million in 2010, an increase of 19.7%. The telecommunication engineering business showed growth of 28.3% due to the contracts signed in the year. The revenue from telephone lists and guides, in turn, presented and increase of 9.0%, arising from a better performance of the lists and guides businesses and on-line services.

Consolidated net income

Algar Telecom's consolidated net revenue reached R$ 1,682.2 million in 2011, compared to R$ 1,510.8 million in 2010 - an 11.3% growth.

Consolidated operating costs and expenses

	2010	2011	% var.
CUSTOS E DESPESAS OPERACIONAIS	**(1.252,3)**	**(1.416,7)**	**13,1%**
Pessoal	(450,6)	(545,0)	21,0%
Materiais	(42,2)	(43,7)	3,7%
Serviços de terceiros	(245,2)	(288,3)	17,6%
Interconexão	(220,0)	(210,1)	-4,5%
Meios de Conexão - EILD	(29,6)	(39,7)	34,3%
Propaganda e Marketing	(27,2)	(29,3)	7,5%
PCLD	(12,5)	(16,7)	33,3%
Outros*	(74,7)	(98,3)	31,6%

* Inclui outras receitas (despesas) operacionais.

Operating costs and expenses (excluding depreciation and amortization) amounted to R$1,416.7 million. The 13.1% increase recorded in the year-to-year comparison is principally the result of:

✓ Personnel costs and expenses (+R$ 94.4 million): cost of personnel of business process outsourcing and IT business increased by R$ 69.0 million - direct cost for serving new contracts; personnel expenses in the 3 business segments increased R$ 23.7 million, due to collective bargaining agreement and higher expenditures on sales commissions and increases of the professional board to support the Company expansion;

✓ Costs and expenses with outsourced services (+R$ 43.1 million): costs of satellite TV programming and transmission maintenance - product launched in May 2010, which increased R$ 20.2 million; costs related to expansion of business process outsourcing and IT services, including maintenance and repair of branches, personnel and advisor transportation, which increased R$ 8.2 million; and costs of network maintenance, product development, and training, which increased R$ 4.4 million; back office cost and consultants increased in R$ 4 million and invoicing higher in R$ 1 million, due to increased customers.

✓ Costs of Industrial Exploitation of Dedicated Line (+R$ 10.1 million): higher expenditures with last-mile contracting to serve corporate customers in the Company's area of authorization;

✓ Costs and expenses with "Others" (+R$ 23.6 million): rental costs in the business process outsourcing and IT business, which increased R$ 6.5 million due to the rental of websites for implementing new *contact center operations;* other operating revenues, which decreased R$ 5.9 million; infrastructure rental costs, which increased R$ 5 million due to the Company's entry in new geographical areas, and rental costs of vehicles and real estate business telecommunications engineering major at R$3.5 million.

EBITDA

R$ million

EBITDA e margem	2010	2011	% var.
Telecom (1)	**350,4**	**361,8**	**3,3%**
margem	*30,5%*	*29,3%*	-
Terceirização / TI (2)	**43,7**	**36,1**	**-17,6%**
margem	*12,9%*	*8,7%*	-
Negócios complementares (3)	**14,3**	**13,1**	**-8,3%**
margem	*11,1%*	*8,2%*	-
EBITDA CONSOLIDADO	**409,4**	**411,1**	**0,4%**
margem	*27,1%*	*24,4%*	-

(1) Telefonia fixa, celular, comunicação de dados e TV por assinatura.

(2) Terceirização de processos de negócios e TI.

(3) Engenharia de telecomunicações e listas e guias telefônicos.

The EBITDA of the telecom segment reached R$ 361.8 million in 2011, or 3.3% higher than in 2010. Margin was 29.3%, compared to 30.5%, a 1.1 percentage point drop due to localized expenditures on strategic consulting and training for the expansion of the Company's retail services into new geographical areas.

The segment of business process outsourcing and IT showed an EBITDA of R$ 36.1 million in 2011, down from R$ 43.7 million in 2010, with margins of 8.7% and 12.9% respectively. The drop in the margin arose mostly from the activation of large service operations of *contact center* services, which generate ramp revenue, from the expansion of IT operations in new geographical areas, which demand *start up* costs, and the termination of certain contracts not generating adequate profitability and showing low outlook for recovery. To face the new *start ups'* stabilization period, and to strengthen their revenue portfolio transition, which calls for a greater participation in IT services, Algar Tecnologia started a new operating efficiency plan aiming at optimizing costs and expenses and increasing profitability.

The EBITDA of complementary businesses was R$ 13.1 million in the year, 8.3% lower than in 2010. The EBITDA margin was 8.2%, down from 11.1% in 2010. That drop arises from telecommunication engineering agreements still in the *startup* stage, when deployment costs are incurred before the full counterpart in revenues.

As a consequence of the changes mentioned above, Alga Telecom's consolidated EBITDA in 2011 was R$ 411.1 million, or 0.4% higher than in 2010. The consolidated margin was 24.4%, down from 27.1% in 2010.

Net financial income (loss)

Algar Telecom's net financial expenses amounted to R$ 87.5 million in 2011, up from R$ 67.3 million in 2010. The 30.0% increase is the result of higher expenses on contingency charges and financial transactions tax ("IOF") in new funding operations.

Net income

The Company showed a consolidated net income of R$ 144.4 million in the year ended in 2011, which is 10.2% higher than that recorded in the previous year, of R$ 131.0 million. The net margin was 8.7%, stable in relation to 2010.

9. INDEBTEDNESS

At the end of 2011 Algar Telecom's gross debt was R$ 814.8 million (R$ 667.5 million in 2010), of which 93% is denominated in local currency and 7% in foreign currency - fully covered by exchange hedge transactions. The net debt, in turn, was R$ 636.5 million, up from R$ 471.5 million in 2010. The increase, of R$ 165.0 million, is explained by the funding operations for financing part of the year's investments, which amounted to R$ 371.9 million. The net debt/EBITDA ratio was 1.5 in 2011, up from 1.2 in 2010.

The debt has a long-term profile, with 22.8% maturing in the short term. Out of the total debt, 74% was indexed to interbank deposit rate, 19% to long-term interest rate and 7% to the expanded consumer price index (IPCA). Its average cost in 2011 was 11.79%.

10. INVESTMENTS

In 2011, investments amounted to R$ 371.9 million, which was 57% higher than in 2010, when it amounted to R$ 237.4 million. Out of the total investments, 27% was channeled to voice and data products, 17% to operation continuity, 12% to wide band services, and other 12% to pay TV, and 11% to the program called "CTBC & You", which calls for migrating all Company networks to the *Next Generation Network* (NGN), 7% to the business process outsourcing and IT business and the remaining 9% distributed to other Company services and segments.

11. HUMAN TALENT POLICY

Just like in the other companies of the Algar Group, all Algar Telecom professionals are called "associates". As defined in the Aurélio Dictionary, "bound by common interest to one or more people; the same as partner", the word's meaning mirrors the concept of "Network Company" adopted by the Company. The model encourages commitment and autonomy with responsibility, which enables the associates to take part in corporate decision making.

Recognizing the importance of each professional for the sustainable growth of the businesses also entails assuming the commitment with education, quality of living and human and professional development of the personnel. Based on its values and beliefs, the Company's policy for Human Talents considers professional training, a pleasant work environment and attractive compensation and career-building policies, so as to make associates proud and motivated to be a part of Algar Telecom. Detailed information on associates' profile, training programs, career building, among other, can be found in the Company's Sustainability Report.

Número de associados	2011
Telecom	1.634
Terceirização de processos e TI	10.913
Negócios complementares	2.513
TOTAL	15.060

12. SOCIETY AND ENVIRONMENT

The belief that it is possible to grow in a sustainable manner, and involve the entire relationship network into practices contributing towards the building of a better world, has been a characteristic of Algar Telecom since its foundation. The same conviction is shared by all companies of the Algar Group, which is a signatory of the Global Pact - an initiative of the United Nations (UN) for the purpose of mobilizing the business community for the adoption of values in the areas of human rights, work relationships, environment and fighting corruption.

At Algar Telecom, those values materialize by means of programs in a double path approach - the environmental and the educational - which are fully complementary. Detailed information on these programs can be found in the Company's Sustainability Report.

13. OUTLOOK

Last year's good performance, which provides evidence of the correctness of Algar Telecom's strategic plan, and the good outlook for the telecommunication market are good indicators of the ways for 2012. The Company is prepared to grow and make use of the new opportunities both in retail and in the corporate sector.

In the telecom area, the Company will continue with the Minas Project, started in 2011, to gradually increase its presence in the market of 233 municipalities made available by the license. Another alternative used by the Company to expand the retail customer base and also grow within the current portfolio is extending the Ultra Wide Band Network and Pay TV with HD resolution - products launched at the end of last year - to more municipalities. In the corporate segment, an important growth vector for the Company, expansion will continue in the regions where the Company is already present, attracting customers by means of high quality solutions and relationship differentials.

In Business process outsourcing and IT, the strategy is to continue investing in infrastructure and in the supply of new customized solutions. It is expected that the segment, whose share in the Company's consolidated result has been increasing over the past several years, will reach even more satisfactory results after the enactment of the federal law supporting the Greater Brazil Plan, which establishes a decrease in payroll burden for *software* and IT service companies in the next three years.

In Complementary Businesses, the outlook is also very positive. Engeset, at the same time it maintains an expanding addressable market, continues having a strategic function for the development of the Company's telecom segment. At Algar Mídia, the focus is making even more use of the new opportunities in the *out of home* digital media market.

Progressing in corporate governance and in the matter of sustainability are also commitments that the Company has reaffirmed year after year. The Company's planning for 2012 calls for continuing with the process of improving its risk controls started in 2010 and, in the environmental area, one of the innovations will be the use of solar and eolic energy in cell phone towers in the city of Patrocínio (state of Minas Gerais). That is a pilot project in partnership with Ericsson - after Kenya and India, Brazil will be the third country to receive a radio base station (RBS) powered by renewable energy. Its primary sources of electricity will be the sun and wind, and the public power lines will work only as a *backup*. Once its efficiency is evidenced, the test of the new technology will be taken to other Algar Telecom towers, reinforcing the Company's practices of energy consumption reduction and lower emissions of greenhouse gases.

In general lines, the planning for 2012 shows confidence in Brazil's economy and strengthen Algar Telecom's faith in its own future.

14. RELATIONS WITH INDEPENDENT AUDITORS

Our parent company and consolidated financial statements for the year ended December 31, 2011 were audited by KPMG Auditores Independentes. In compliance with the provisions of CVM Instruction No. 381/03, article 2, we inform that our auditors have not provided any services other than the audit to Algar Telecom.

The Management's Report includes information on projected and made investments, operating data such as revenue generating units, lines in service, number of customers and employees, which are not included in the scope of audit of the Financial Statements and consequently were not audited by KPMG Auditores Independentes.

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Independent auditors' report on the financial statements

(A translation of the original report in Portuguese containing the parent company and consolidated financial statements prepared in accordance with accounting practices adopted in Brazil and International Financial Reporting Standards, respectively)

To
The Management and Shareholders of
Companhia de Telecomunicações do Brasil Central
Uberlândia – Minas Gerais

We have audited the parent company and consolidated financial statements of Companhia de Telecomunicações do Brasil Central ("Company"), identified as Parent Company and Consolidated, respectively, which comprise of the balance sheet as of December 31, 2011 and the related statements of income, changes in shareholders' equity and cash flows for the year then ended, as well as the summary of accounting practices and others explanatory notes to the financial statements.

Management´s responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these individual financial statements in accordance with the accounting practices adopted in Brazil and the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board – IASB and the accounting practices adopted in Brazil, as well as for the internal controls that it deemed necessary to enable the preparation of these financial statements that are free of material misstatements, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements, relying on our audit which was conducted in accordance with the Brazilian and international auditing standards. Those standards require the fulfillment of ethical requirements by the auditors and that the audit be planned and performed for the purpose of obtaining reasonable assurance that the financial statements are free from material misstatement.

An audit involves performing selected procedures to obtain audit evidence about the amounts and disclosures presented in the financial statements. The procedures selected depend on the auditor's judgment, including an assessment of the risks of material misstatement in the financial statements, regardless of whether due to fraud or error. In those risk assessments the auditor considers relevant internal control for the preparation and fair presentation of the Company's financial statements, to plan audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. An audit also includes evaluating the appropriateness of the accounting practices used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements taken as a whole.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion on the individual financial statements

In our opinion, the parent company financial statements referred to above present fairly, in all material respects, the financial position of Companhia de Telecomunicações do Brasil Central as of December 31, 2011, the performance of its operations and its cash flows for the year then ended, in accordance with accounting practices adopted in Brazil.

Opinion on the consolidated financial statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Companhia de Telecomunicações do Brasil Central as of December 31, 2011, the performance of its operations and its cash flows for the year then ended, in conformity with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board – IASB and accounting practices adopted in Brazil.

Emphasis of matter

As described in Note 2, the parent company financial statements were prepared in accordance with accounting practices adopted in Brazil. In the case of Companhia de Telecomunicações do Brasil Central, these practices differ IFRS applicable to the separate financial statements only as regards the valuation of investments in subsidiaries under the equity income method, as, for IFRS purposes, they would be valued at cost or fair value.

Other subjects

Statements of added value

We also examined the individual and consolidated statements of added value (DVA) for the year ended December 31, 2011, whose presentation is required by Brazilian Corporation Law for publicly-held companies and as supplementary information under IFRS, which does not require the presentation of DVA. These statements were submitted to the same audit procedures previously described and, in our opinion, are adequately presented, in all material respects, in relation to the financial statements taken as a whole.

São Paulo, February 17, 2012

KPMG Auditores Independentes
CRC 2SP014428/O-6-F-MG

Original report in Portuguese signed by
Jean Paraskevopoulos Neto
Accountant CRC SP 193.052/O-0-S-MG

Companhia de Telecomunicações do Brasil Central
Parent Company and Consolidated

Balance sheets
December 31, 2011 and 2010
(In thousands of Reais)

Assets		**Consolidated**		**Parent Company**	
Current assets	**Note**	**2011**	**2010**	**2011**	**2010**
Cash and cash equivalents	4	178,253	189,991	96,000	78,379
Accounts receivable	5	239,728	225,358	74,351	85,076
Inventories	6	11,742	8,222	477	592
Recoverable taxes	7	39,809	27,073	9,286	15,114
Income and social contribution tax recoverable	8a	-	-	2,382	-
Notes receivable	21	1,445	5,742	3,739	2,849
Dividends	21	-	-	16,822	6,570
Prepaid expenses	5	14,130	5,208	4,031	1,868
Other receivables		10,484	7,294	3,897	2,369
Total current assets		495,591	468,888	210,985	192,817
Non-current assets					
Long-term assets					
Notes receivable	21	2,805	2,662	39,887	2,662
Recoverable taxes	7	29,902	28,715	16,404	14,055
Deferred income and social contribution taxes	8b	107,778	91,968	47,548	43,703
Judicial deposits	18	83,747	74,884	37,005	34,798
Other receivables		3,022	4,477	936	1,508
		227,254	202,706	141,780	96,726
Investments	9	79	199	458,369	400,210
Intangible assets	10	255,043	198,512	96,280	76,681
Property, plant and equipment	11	1,068,518	896,384	464,824	413,773
Total non-current assets		1,550,894	1,297,801	1,161,253	987,390
Total assets		**2,046,485**	**1,766,689**	**1,372,238**	**1,180,207**

See the accompanying notes to the financial statements.

Companhia de Telecomunicações do Brasil Central
Parent Company and Consolidated

Balance sheets
December 31, 2011 and 2010
(In thousands of Reais)

Liabilities and shareholders' equity		**Consolidated**		**Parent Company**	
Current liabilities	**Note**	**2011**	**2010**	**2011**	**2010**
Loans and financing	12	100,522	119,738	53,294	38,249
Debentures	13	84,520	49,721	84,520	49,721
Suppliers of equipment	14	339	9,599	339	4,454
Suppliers		116,589	111,393	32,268	35,016
Interconnection traffic obligations and joint collection		19,447	32,386	18,034	22,832
Taxes, duties and contributions	15	48,771	43,370	23,624	23,867
Income and social contribution tax payable	8a	809	8,479	-	2,551
Tax installments	17	7,517	16,784	3,365	3,007
Salaries, provisions and social charges	16	107,891	92,359	27,594	24,660
Dividends and interest on own capital	19e	37,742	32,099	36,274	31,956
Refunds to shareholders	19b	-	28,634	-	15,404
Telecommunication service concession and authorization payable		3,457	12,024	22	7,120
Other liabilities		18,540	15,645	4,940	7,427
Total current liabilities		546,144	572,231	284,274	266,264
Non-current liabilities					
Loans and financing	12	461,994	274,107	282,561	152,800
Debentures	13	142,857	214,286	142,857	214,286
Telecommunication service authorization payable	14	24,530	-	-	-
Suppliers		2,610	3,747	-	-
Tax installments	17	25,596	32,894	1,331	15,584
Deferred income and social contribution taxes	8b	62,493	47,368	26,776	20,561
Provisions	18	186,923	138,936	95,782	68,158
Deferred income		4,593	6,791	-	-
Other liabilities		9,401	7,653	5,115	936
Total non-current liabilities		920,997	725,782	554,422	472,325
Shareholders' equity	19				
Capital		271,641	271,641	271,641	271,641
Profit reserve		220,877	129,849	220,877	129,849
Equity evaluation adjustment		27,199	27,743	27,199	27,743
Additional dividends proposed		13,825	12,385	13,825	12,385
Shareholders' equity attributable to the controlling shareholders		533,542	441,618	533,542	441,618
Shareholders' equity attributable to the non-controlling shareholders		45,802	27,058	-	-
Total shareholders' equity		579,344	468,676	533,542	441,618
Total liabilities and shareholders' equity		**2,046,485**	**1,766,689**	**1,372,238**	**1,180,207**

See the accompanying notes to the financial statements.

Companhia de Telecomunicações do Brasil Central
Parent Company and Consolidated

Statements of income
Years ended December 31, 2011 and 2010
(In thousands of Reais, except basic and diluted earnings per share, expressed in Reais)

		Consolidated		Parent Company	
	Note	**2011**	**2010**	**2011**	**2010**
Net operating revenue	22	1,682,158	1,510,744	745,325	739,318
Cost of goods sold and services rendered	23	(1,005,724)	(883,115)	(401,993)	(421,150)
Gross Income		676,434	627,629	343,332	318,168
Operating income (expenses)					
Sales expenses	24	(243,894)	(224,369)	(117,624)	(111,719)
Administrative and general expenses	25	(169,527)	(153,229)	(91,182)	(89,146)
Other operating income (expenses), net	27	2,492	8,435	(2,179)	373
Operating income before financial income and equity income		265,505	258,466	132,347	117,676
Financial income	26	31,435	35,272	14,116	18,591
Financial expenses	26	(118,887)	(102,558)	(71,235)	(62,731)
Equity in net income of subsidiaries	9	-	-	77,211	89,934
Income before income and social contribution taxes		178,053	191,180	152,439	163,470
Social contribution	8c	(9,046)	(16,406)	(3,984)	(10,770)
Income tax	8c	(24,623)	(43,751)	(10,791)	(29,347)
Net income for the year		144,384	131,023	137,664	123,353
Net Income attributable to controlling shareholders		137,664	123,353	137,664	123,353
Net Income attributable to non-controlling shareholders		6,720	7,670	-	-
Net income for the year		144,384	131,023	137,664	123,353
Basic and diluted earnings per common share (281,933 shares) in R$				404.42	362.38
Basic and diluted earnings per preferred share (58,464 shares) in R$				404.42	362.38

See the accompanying notes to the financial statements.

Companhia de Telecomunicações do Brasil Central
Parent Company and Consolidated

Statements of changes in shareholders' equity
Years ended December 31, 2011 and 2010
(In thousands of Reais)

	Consolidated								
		Profit reserves							
	Capital	Legal reserve	Profit retention reserve	Equity evaluation adjustment in subsidiaries	Additional dividends proposed	Retained earnings (loss)	Total	Interest of non-controlling shareholders	Total
Balances at December 31, 2009	271,641	6,580	70,429	27,723	7,534	(25,631)	358,276	20,196	378,472
Net income for the year	-	-	-	-	-	123,353	123,353	7,670	131,023
Realization of assigned cost adjustments	-	-	-	20	-	(1,758)	(1,738)	(808)	(2,546)
Formation of legal reserve	-	6,168	-	-	-	(6,168)	-	-	-
Minimum compulsory dividend	-	-	-	-	-	(30,872)	(30,872)	-	(30,872)
Additional dividends proposed	-	-	-	-	12,385	(12,385)	-	-	-
Additional dividends approved	-	-	-	-	(7,534)	-	(7,534)	-	(7,534)
Adjustment for unrealized profit	-	-	-	-	-	133	133	-	133
Profit retention	-	-	46,672	-	-	(46,672)	-	-	-
Balances at December 31, 2010	271,641	12,748	117,101	27,743	12,385	-	441,618	27,058	468,676
Net income for the year	-	-	-	-	-	137,664	137,664	6,720	144,384
Paid-up capital in subsidiary of minority shareholders	-	-	-	-	-	-	-	13,368	13,368
Realization of assigned cost adjustments	-	-	-	(544)	-	544	-		-
Formation of legal reserve	-	6,884	-	-	-	(6,884)	-	-	-
Minimum compulsory dividend	-	-	-	-	-	(33,355)	(33,355)	(1,344)	(34,699)
Additional dividends proposed	-	-	-	-	13,825	(13,825)	-		-
Additional dividends approved	-	-	-	-	(12,385)	-	(12,385)	-	(12,385)
Profit retention	-	-	84,144	-	-	(84,144)	-	-	-
Balances at December 31, 2011	271,641	19,632	201,245	27,199	13,825	-	533,542	45,802	579,344

See the accompanying notes to the financial statements.

Companhia de Telecomunicações do Brasil Central
Parent Company and Consolidated

Statements of changes in shareholders' equity
Years ended December 31, 2011 and 2010
(In thousands of Reais)

	Parent Company						
		Profit reserves					
	Capital	Legal reserve	Profit retention reserve	Equity evaluation adjustment in subsidiaries	Additional dividends proposed	Retained earnings (loss)	Total
Balances at December 31, 2009	271,641	6,580	70,429	27,723	7,534	(25,631)	358,276
Net income for the year	-	-	-	-	-	123,353	123,353
Realization of assigned cost adjustments	-	-	-	20	-	(1,758)	(1,738)
Formation of legal reserve		6,168	-	-	-	(6,168)	-
Minimum compulsory dividend	-	-	-	-	-	(30,872)	(30,872)
Additional dividends proposed	-	-	-	-	12,385	(12,385)	-
Additional dividends approved	-	-	-	-	(7,534)	-	(7,534)
Unrealized profit adjustment - CPCs	-	-	-	-	-	133	133
Profit retention	-	-	46,672	-	-	(46,672)	-
Balances at December 31, 2010	271,641	12,748	117,101	27,743	12,385	-	441,618
Net income for the year	-	-	-	-	-	137,664	137,664
Realization of assigned cost adjustments	-	-	-	(544)	-	544	-
Formation of legal reserve	-	6,884	-	-	-	(6,884)	-
Minimum compulsory dividend	-	-	-	-	-	(33,355)	(33,355)
Additional dividends proposed	-	-	-	-	13,825	(13,825)	-
Additional dividends approved	-	-	-	-	(12,385)	-	(12,385)
Profit retention	-	-	84,144	-	-	(84,144)	-
Balances at December 31, 2011	271,641	19,632	201,245	27,199	13,825	-	533,542

See the accompanying notes to the financial statements.

Companhia de Telecomunicações do Brasil Central
Parent Company and Consolidated
Statements of cash flows
Years ended December 31, 2011 and 2010
(In thousands of Reais)

	Consolidated		Parent Company	
	2011	**2010**	**2011**	**2010**
Cash flow from operating activities				
Net income for the year	144,384	131,023	137,664	123,353
Adjustments to reconcile income to cash flow generated by operating activities:				
Sale of investments	-	-	984	-
Depreciation and amortization	144,815	150,237	70,205	83,784
Equity in net income of subsidiaries	-	-	(77,211)	(89,934)
Fixed asset and intangible asset write-offs, net	(1,315)	414	35	61
Average interest rate	87,453	74,242	57,089	50,085
Provision for impairment	15,883	12,538	7,404	7,337
Deferred income and social contribution tax write-offs	9,046	18,101	3,984	24,640
Formation of provisions	47,987	7,152	27,624	1,905
Income and social contribution taxes	45,977	42,056	22,340	15,447
	494,230	435,763	250,118	216,678
Changes in assets and liabilities				
(Increase) decrease in accounts receivable	(30,253)	(30,615)	3,321	22,441
(Increase) decrease in inventories	(3,520)	2,670	115	2,406
Increase (decrease) in recoverable current and non-current taxes	(13,923)	(9,693)	3,479	(1,891)
Increase in judicial deposits	(8,863)	(10,561)	(2,207)	(2,946)
Increase in other current and non-current taxes	(7,545)	(90)	(3,235)	(12,490)
Increase (decrease) in suppliers	5,196	21,185	(2,748)	(1,519)
Increase in social security obligations	15,532	18,047	2,934	1,807
Decrease in tax liabilities	(18,834)	(5,290)	(16,689)	(7,020)
Decrease in other current and non-current liabilities	(66,474)	(4,681)	(42,273)	(6,613)
Income and social contribution taxes on paid profits	(34,279)	(28,064)	(15,644)	(8,397)
	(162,963)	(47,092)	(72,947)	(14,222)
Net cash and cash equivalents generated by operational activities	331,267	388,671	177,171	202,456
Cash flow from investment activities				
In investments in subsidiaries	(185)	(4,469)	-	(64,000)
In fixed and intangible assets	(372,399)	(255,845)	(140,890)	(94,681)
Dividends received	-	-	6,570	5,431
Net cash and cash equivalents used in investment activities	(372,584)	(260,314)	(134,320)	(153,250)
Cash flow from financing activities				
Additions to loans and debentures	342,399	112,916	184,562	39,907
Payment of loan and debenture principal amounts	(208,006)	(134,565)	(78,780)	(45,769)
Payment of interest/monetary variation of loans and debentures	(80,980)	(55,425)	(52,251)	(41,846)
Payment of principal amounts of suppliers and financing	22,435	2,681	611	70
Payment of interest/monetary restatement of suppliers and financing	(4,353)	(1,315)	(644)	(742)
Increase of active loan	-		(36,883)	
Payment of dividends and interest on own capital	(41,916)	(25,243)	(41,845)	(25,243)
Net cash and cash equivalents generated (used in) financing activities	29,579	(100,951)	(25,230)	(73,623)
Increase (decrease) in cash and cash equivalents	(11,738)	27,406	17,621	(24,417)
Cash and cash equivalents at the beginning of the year	189,991	162,585	78,379	102,796
Cash and cash equivalents at the end of the year	178,253	189,991	96,000	78,379

See the accompanying notes to the financial statements.

Companhia de Telecomunicações do Brasil Central
Parent Company and Consolidated

Statements of added value
Years ended December 31, 2011 and 2010
(In thousands of Reais)

	Consolidated		Parent Company	
	2011	**2010**	**2011**	**2010**
Revenues	2,182,611	1,959,959	1,024,495	1,007,651
Sales of goods and services	2,143,258	1,937,073	1,002,889	995,983
Other income	55,236	35,410	29,010	19,006
Provision for impairment	(15,883)	(12,524)	(7,404)	(7,338)
Inputs acquired from third parties (includes: ICMS, IPI, PIS, and COFINS)	(667,211)	(621,113)	(426,375)	(419,781)
Cost of goods sold and services rendered	(402,888)	(417,607)	(296,196)	(301,889)
Materials, energy, outsourced services and other	(264,323)	(203,506)	(130,179)	(117,892)
Gross added value	1,515,400	1,338,846	598,120	587,870
Depreciation and amortization	(144,815)	(150,237)	(70,205)	(83,784)
Net value added generated by the Company	1,370,585	1,188,609	527,915	504,086
Added value received as transfer	31,435	35,272	91,327	108,525
Equity income	-	-	77,211	89,934
Financial income	31,435	35,272	14,116	18,591
Total added value payable	1,402,020	1,223,881	619,242	612,611
Distribution of added value	1,402,020	1,223,881	619,242	612,611
Personnel	484,463	393,708	90,317	89,680
Taxes, duties and contributions	594,495	547,767	292,661	311,334
Interest	118,887	102,558	71,235	62,731
Rents	60,304	48,827	27,365	25,512
Dividends and interest on own capital	34,752	30,872	33,356	30,872
Retained earnings for the year	109,119	100,149	104,308	92,482
Minority interest in retained earnings	6,720	7,670	-	-

See the accompanying notes to the financial statements.

Companhia de Telecomunicações do Brasil Central
Individual and Consolidated

Notes to the financial statements

Years ended December 31, 2011 and 2010

(In thousands of reais, unless otherwise indicated)

1 Operations

Companhia de Telecomunicações do Brasil Central ("CTBC Telecom" or "Company"), with main offices in the city of Uberlândia, state of Minas Gerais, is a publicly-held company and its main activities include the provision of fixed telephony services and data communication services, in accordance with the concessions, authorizations and permissions granted to it by the National Telecommunications Agency ("ANATEL"). The Company is the operating holding of Algar Group technology and telecommunications area, whose operations, including those carried out by its subsidiaries, include the provision of cell phone, telecommunications and multi-media, Contact Center, Business Process Outsourcing ("BPO"), IT and specialized advisory services. It also includes graphic services, publication of newspaper and telephone directory, cable TV, distribution of TV and audio signal through subscription and via satellite ("DTH"), data communication, broadband, data center, telecommunication engineering services and other related to telecommunication activities.

Operations of main subsidiaries

The operating context of main subsidiaries, all headquartered in Uberlândia, Minas Gerais State, is as follows:

CTBC Celular S.A. ("CTBC Celular") - The organization provides Personal Mobile Service ("SMP") to a great part of Triângulo Mineiro region and some municipalities of Alto Paranaíba region, Northwest of São Paulo State, South of Goiás State and Northeast of Mato Grosso do Sul State. It explores the service of distributing TV and audio signals, through subscription and via satellite (DTH), for an indefinite period of time, and is also authorized by ANATEL to offer SMP services of the 3G type in more than 230 municipalities of Minas Gerais State, according to the H Band exploration license.

Algar Tecnologia e Consultoria S.A. ("Algar Tecnologia") - The main operating activities are the rendering of Contact Center, BPO (Business Process Outsourcing) services, distance IT technical support, development, implementation, operation and management of applications and programs, solutions for connection, access, storage and data recovery, as well as training on IT Technology. It also involves the promotion of import and rental of equipment and accessories to activities listed above, among other services to integrate the relationship between its clients and their consumers.

CTBC Multimídia Data Net S.A. ("CTBC Multimídia") - It is the provider of SCM (multi-media switching service) private telecommunication network, broadband convergent communication and access to Internet services, both dialed and broadband, and offers co-location and hosting services.

Engeset - Engenharia Serviços de Telecomunicações S.A. ("Engeset") - Its operations include civil construction and advisory and the provision of engineering project services.

Image Telecom TV Vídeo Cabo Ltda. ("Image") - It distributes television signal through subscription and provides Internet access services through its cable network in the municipalities of Uberlândia and Araguari.

Algar Mídia S.A. ("Algar Mídia"), formerly denominated S.A. Brasileira de Empreendimentos **-** SABE, **-** the entity is engaged in providing graphic services on demand, and in publishing newspapers, telephone directories, journals, magazines and books.

Concessions and authorizations

Services offered by the Company and tariffs charged are regulated by ANATEL, agency responsible for the regulation of the telecommunications segment in Brazil, in compliance with the General Telecommunications Act and its respective regulations. In this context, the Company and its subsidiaries CTBC Celular, CTBC Multimídia and Image hold the following concessions and authorizations:

(In thousands of reais, unless otherwise indicated)

Company	**Grant**	**Coverage area**	**Maturity**
CTBC Telecom	Concession for the provision of fixed switched telephone service ("STFC")	Triângulo Mineiro region and some municipalities of Alto Paranaíba region, Northwest of São Paulo State, South of Goiás State and Northeast of Mato Grosso do Sul State.	12/31/2025
CTBC Telecom	Authorization to provide STFC, domestic and international long distance services	All regions of Brazil	Undetermined
CTBC Celular	Authorizations, adjusted to Authorization Terms for Personal Mobile Service "SMP"	Triângulo Mineiro region and some municipalities of Alto Paranaíba region, Northwest of São Paulo State, South of Goiás State and Northeast of Mato Grosso do Sul State.	21/01/2023
CTBC Celular	Authorization to provide telephony services with 3G ("third generation") technology, at frequencies of 1,900 Mhz and 2,100 Mhz	Triângulo Mineiro region and some municipalities of Alto Paranaíba region, Northwest of São Paulo State, South of Goiás State and Northeast of Mato Grosso do Sul State.	April 28, 2023, renewable for additional 15 years
CTBC Celular	Authorization to explore the service of distributing TV and audio signals through subscription, via satellite (DTH)	All regions of Brazil	Undetermined

CTBC Celular	Authorization to provide telephony services with 3G technology, at 1,800 Mhz frequency, denominated H Band,	in municipalities with area codes 34, 35 and 37, Minas Gerais State.	April 28, 2023, renewable for additional 15 years
CTBC Multimídia	Authorization to provide muti-media communication services	All regions of Brazil	Undetermined
Image	Concession of cable TV services and adequacy to Conditional Access Services	Cities of Uberlândia and Araguari, both in Minas Gerais State	Undetermined

Corporate events occurred in 2011 and 2010

Through an agreement for the purchase and sale of shares, dated March 15, 2010, subsidiary Algar Tecnologia acquired all capital shares (757,424) of Synos Consultoria e Informática Ltda. ("Synos"), provider of IT and information technology services. Acquisition was based on economic appraisal report issued by a firm specialized in equity assessment and resulted in goodwill of R$ 17,722, based on expected future profitability, in accordance with accounting standards effective on operation date. This goodwill will not be amortized and its recovery value will be analyzed at least on an annual basis.

On April 2, 2011, subsidiary Sabe Participações was merged into indirect subsidiary Algar Mídia, which is now a direct subsidiary of the Company, which holds 99.97% of its capital shares.

The Extraordinary Shareholders' Meeting held on September 16, 2011 ratified the capital increase of subsidiary CTBC Celular through the capitalization of an advance for future capital increase ("AFAC") contributed by CTBC Telecom, in the amount of R$ 72,500 and corresponding to 387,867 nominative shares with no par value, in addition to a capital payment by other shareholders in the amount of R$ 13,379, corresponding to 71,520 nominative shares without par value. Accordingly, subsidiary CTBC Celular capital increased by R$ 85,869, with issuance of 459,387 new shares, of which 249,715 are common shares and 209,672 are preferred shares.

2 Preparation basis

a. Statement of compliance (in relation to IFRS standards and CPC standards)

These financial statements include:

- The consolidated financial statements which were prepared in accordance with the International Financial Reporting System (IFRS) issued by the International Accounting Standards Board (IASB) and also in accordance with the accounting practices adopted in Brazil (BR GAAP), including the standards by the Brazilian Securities Commission (CVM); and

- The individual financial statements of the parent company which were prepared according to the BR GAAP, including the standards issued by the Brazilian Securities Commission (CVM);

The parent company financial statements were prepared according to the BR GAAP. However, these practices differ from the IFRS applicable to separate financial statements due to the fact that investments in subsidiaries and affiliated companies are valued under the equity method in BR GAAP, whereas, for IFRS purposes, these investments would be carried at cost or fair value.

There is no difference between the Company's consolidated shareholders' equity and parent company shareholders' equity and the same occurs with income for the year. Accordingly, the consolidated financial statements and the parent company's financial statements are being presented side by side in a single set of financial statements.

The parent company and consolidated statements of comprehensive income are not being submitted, as there are no amounts to be presented on this concept; in other words, net income for the year is equal to the total comprehensive net income.

The issue of parent company and consolidated financial statements was authorized by the Executive Board on February 3, 2012.

b. Measuring basis

The parent company and consolidated financial statements were prepared based on the historical cost, except for the following material items recognized in the balance sheets:

- Non-derivative financial instruments measured at fair value through profit or loss, and
- Financial assets available for sale measured at fair value through profit or loss.

c. Functional currency and presentation currency

The parent company and consolidated financial statements are being presented in Brazilian Real (R$), which is the functional and presentation currency of the Company and its subsidiaries. All financial information presented in Brazilian Reais has been rounded to the nearest value, except otherwise indicated.

d. Use of estimates and judgments

The preparation of the parent company and consolidated financial statements according to IFRS and CPS standards requires Management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported values of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and assumptions are reviewed in a continuous manner. Reviews in relation to accounting estimates are recognized in the year in which the estimates are reviewed and in any future years affected.

Information regarding critical judgments referring to the accounting policies adopted which impact the amounts recognized in the parent company and consolidated financial statements are included in the following notes:

Note 5 - Accounts receivable and provision for impairment
Note 8 - Deferred income and social contribution taxes
Note 10 - Intangible assets
Note 11 – Property, plant and equipment
Note 18 – Provision and judicial deposits

Information on uncertainties as to assumptions and estimates that pose a high risk of resulting in a material adjustment within the next financial year are included in the following notes:

Note 5 **-** Accounts receivable and provision for impairment
Note 6 **-** Inventories
Note 8 **-** Deferred income and social contribution taxes
Note 10 **-** Intangible assets
Note 11 – Property, plant and equipment
Note 18 – Provision and judicial deposits

3 Description of significant accounting policies

The accounting policies described below have been consistently applied by the Company and its subsidiaries to the two years presented in this parent company and consolidated financial statements.

a. Consolidation bases

a.1 - Subsidiaries

Subsidiaries are entities in which the parent company, including indirect parent companies, has partner rights that ensure preponderance on resolutions and the power to elect the majority of management members.

Subsidiaries become wholly consolidated as of the date in which control is transferred to the Company, and are no longer consolidated, if applicable, beginning as of the date in which control no longer exists.

Notes to the financial statements

(In thousands of reais, unless otherwise indicated)

a.2 Subsidiaries included in the consolidated financial statements

	Ownership interest (%)			
	In capital stock		In the voting capital	
	2011	**2010**	**2011**	**2010**
Direct interest:				
CTBC Celular	84.43	84.43	94.13	94.00
CTBC Multimídia	72.48	72.48	89.47	89.47
Image	100	100	100	100
Algar Tecnologia	84.27	84.27	84.34	84.34
Engeset	100	100	100	100
Algar Mídia	99.97	-	99.97	-
Sabe Participações	-	99.97	-	99.97
Indirect interest:				
CTBC Multimídia	17.87	17.87	7.91	7.91
Algar Tecnologia	13.21	13.21	14.72	14.72
Algar Mídia	-	99.97	-	99.97
Synos	84.27	84.27	84.34	84.34

For the preparation of consolidated financial statements, subsidiaries' individual financial statements for the same base date were used, consistent with the parent company's accounting policies.

Main consolidation procedures include the horizontal sum of balance sheet accounts and of income of companies included in consolidation, with the following eliminations:

- Of consolidated intercompany asset and liability account balances;
- Of investments in the shareholders' equity of subsidiaries and associated companies;
- Of intercompany income and expense balances and unearned income arising from intercompany transactions;

Interests of minority shareholders in shareholders' equity and income are segregated in a different caption of financial statements.

b. *Foreign currency transactions*

Transactions in foreign currency are translated into the respective functional currency of the Company and its subsidiaries at the exchange rates on the dates of the transactions. Monetary assets and liabilities denominated and calculated in foreign currencies on the date of presentation are converted into the functional currency at the exchange rate determined on that date. Exchange gain or loss in monetary items is the difference between the amortized cost of the functional currency at the beginning of the period, adjusted by interest and effective payments during the period, and the amortized cost in foreign currency translated at the corresponding exchange rate at the end of the year.

Non-monetary assets and liabilities denominated in foreign currency and measured at fair value are translated into the entity's functional currency at the rate prevailing at the end of the period in which fair value was determined. Foreign currency differences arising from translation are directly recognized in income for the year. Non-monetary items measured at historic cost in foreign currency are translated at the rate prevailing on transaction date.

c. *Financial instruments*

c.1- Non-derivative financial assets

The Company and its subsidiaries recognize loans, receivables and deposits as of the initial date when they were originated. All other financial assets (including assets designated at fair value through profit or loss) are initially recognized on the date of the negotiation under which the Company and its subsidiaries become a party to the contractual provisions of the instrument.

The Company and its subsidiaries write-off a financial asset when the contractual rights to the cash flows of the asset expire, or when the Company and its subsidiaries transfer the rights to reception of the contractual cash flows on a financial asset in a transaction in which essentially all the risks and benefits of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Company and its subsidiaries is recognized as a separate asset or liability.

Financial assets and liabilities are offset and the net amount reported in the balance sheet only when there is a legally enforceable right of the Company and its subsidiaries to set off and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

The Company and its subsidiaries have the following non-derivative assets: financial assets recorded at fair value through profit or loss, investments held to maturity and loans and receivables.

c.2 - Financial assets recorded at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is held for trading, that is, stated as such when initially recognized. Financial instruments are stated at fair value through profit or loss if the Company and its subsidiaries manage these investments and make decisions on investment and redemption based on fair value according the strategy of investment and risk management documented by the Company and its subsidiaries. After the initial recognition, the attributable transaction costs are recognized in profit or loss when incurred. Financial instruments at fair value through profit or loss are measured at fair value, and their fluctuations are recognized in profit or loss for the year.

c.3 - Financial assets held to maturity

These are non-derivative assets with fixed or determinable payments, with defined maturities for which the Company has the positive intention and capacity to hold its debt instruments until maturity, these are classified as held to maturity. Investments held to maturity are measured by the amortized cost using the effective interest rate method, deducting any impairment. Any sale or reclassification of a significant amount of held-to-maturity investments not close to their maturity date would result in the reclassification of all held to-maturity investments as available-for-sale, preventing the Company from classifying investments as held-to-maturity for the current and the following two financial years.

c.4 - Loans and receivables:

Loans and receivables are financial assets with fixed or determinable payments, but not quoted on any active market. Such assets are initially recognized at fair value plus any transaction costs directly assignable. After their initial recognition, loans and receivables are measured at amortized cost using the effective interest rate method, reduced by any impairment losses.

Loans and receivables embody trade accounts receivable and other receivables, including receivables from agreements or concession of services.

c.5 - Derivative financial instruments

The Company holds derivative financial instruments to hedge risks relating to foreign currencies and interest rate risks Interest.

Derivatives are initially recognized at fair value. The attributable transaction costs are recognized in income (loss) when incurred. After the initial recognition, derivatives are measured at fair value and changes are accounted for in profit or loss except in the circumstances described below for accounting hedge transactions.

c.6 - Fair value hedge

Changes in the fair value of a derivative instrument of coverage designated as *hedge* of fair value are recognized in the result. The hedged item is also measured by the fair value in relation to the risk to be covered, and the gain or loss assignable to the covered risk is recognized in the result, with the value of the hedged item adjusted.

For the years ended December 31, 2011 and 2010, the Company had fair value hedge. Its subsidiaries had no cash flow hedge, fair value hedge, or foreign investment hedge.

Current and non-current assets

d. Cash and cash equivalents

Include cash balances, demand bank deposits in current accounts, and short term interest earning bank deposits redeemable within up to 90 days after the balance sheet date, or considered highly liquid or promptly convertible into a known sum of cash and subject to an insignificant risk of change of value. Interest earning bank deposits are presented at cost plus income calculated up to the balance sheet date and do not overcome the market value.

e. Trade accounts receivable

Accounts receivable from users of telecommunication services are evaluated at the tariff valid on the date service was provided and include credits for services provided and not billed up to balance sheet date, amounts receivable from network use and amounts receivable from cell phone and accessory sales.

When applicable, trade accounts receivable are adjusted to present value, and include the respective direct taxes for which the Company is responsible, less the taxes withheld, which are considered tax credits.

The calculation of present value is made for each transaction based on an interest rate that reflects the term, the currency, and the risk of each transaction. The corresponding entry of adjustments to present value of accounts receivable is the gross revenue in income (expenses) for the period. The difference between the present value of a transaction and the face value of the turnover is considered financial revenue and will be allocated with a basis on the amortized cost method and method of the effective interest rate over the maturity period of the transaction.

f. Inventories

Inventories are valued based on the historical cost of acquisition, increased by expenditures related to transportation, storage and non-recoverable taxes. Represented by cell phones and accessories, and maintenance material. The amounts of inventories do not exceed the market value.

g. *Investments*

Investments in subsidiaries and affiliated companies of which the Company has significant administrative influence on, or holds an interest of 20% or more in the voting stock, as well as investments in companies within the same group or under common control are assessed using the equity method.

Other investments that do not fit into the category above are stated at cost of acquisition, less the provision for loss on investment, when applicable.

h. *Property, plant and equipment*

h.1- Recognition and measuring

Items of property, plant, and equipment are measured at acquisition or construction cost, net of taxes recoverable, accumulated depreciation and *impairment* losses, when applicable.

The costs of items recorded under fixed assets include all those directly attributable to the acquisition or formation of the asset. The costs of assets constructed by the Company itself include the cost of materials and salaries of employees directly involved in the projects of construction or formation of such assets, as well as any other costs directly attributable to such asset until it is able to be used for the purposes foreseen by the Company, which include costs of impairment of assets and restoration of the sites where such assets are installed, and costs of loans of qualifiable assets.

Purchased software that is integral to the functionality of a piece of equipment is capitalized as part of that equipment.

When parts of a fixed asset have significantly different useful lives, these parts constitute individual items and are recorded and controlled separately, also for depreciation purposes.

Gains and losses on disposal of an asset are originated by the difference upon the tracing of the disposal value and the net value resulting from the cost value deducted from the residual value and the accumulated depreciation of this asset, and are recognized at the net value of such difference directly in the result for the year.

(In thousands of reais, unless otherwise indicated)

h.2 - Subsequent costs

Subsequent expenditures are capitalized in accordance with the probability that associated future benefits may be earned by the Company. Maintenance expenses and recurring repairs are recorded in the income.

h.3 - Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value.

Depreciation is recognized in income (loss) using the straight-line method, since this is the method that best reflects the consumption pattern of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term or the estimated useful life of the asset, unless it is reasonably certain that the Company will obtain ownership at the end of the lease term. Land is not depreciated.

Estimated useful lives for the current period, as well as for comparison periods, are as follows:

	Average useful life in years	
	2011	**2010**
Buildings and improvements (i)	20	15
Switching equipment	10	10
Terminal equipment	4	4
Equipment and transmission means	17	17
Power and air conditioning equipment (ii)	11	7
Infrastructure (iii)	33	25
Vehicles	6	6
Furniture and fixtures	10	8
Data processing equipment	6	6

(i) The useful lives of leasehold improvements are in accordance with the terms of rental contracts

(ii) Useful lives differ according to the type of equipment, varying from 2 to 25 years, with acquisitions and write-offs influencing average useful lives.

Useful lives differ according to the type of equipment and vary from 10 to 40 years, with acquisitions and write-offs influencing average useful lives.

The depreciation methods, useful lives and residual values will be reviewed at each reporting date and potential adjustments will be recognized as a change in accounting estimates.

i. Leases

Finance lease agreements are recognized under property, plant and equipment in assets and under "Loans and financing" in liabilities, at the present value of the mandatory minimum installments of the agreement, or at the fair value of the asset, whichever is lower, plus, when applicable, the direct initial costs incurred in the transaction. Amounts recorded in property, plant and equipment are depreciated considering the lower of assets' estimated economic useful lives and estimated duration of lease contract. Loans and financing interests are recognized in income, according to contract duration, at the effective interest rate method.

Operating lease agreements are recorded as expenses based on a system which represents the period in which the benefit over the leased asset is obtained, even if such payments are not made this way.

j. Intangible assets and goodwill

j.1 - Goodwill

Goodwill from business acquisition is included in intangible assets of consolidated financial statements and is measured at cost less impairment losses.

j.2 - Research and development

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are recognized in profit or loss as incurred.

Development activities involve a plan or project for the commercialization of new or substantially improved products. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and use or sell the asset. The expenditures capitalized include the cost of materials, direct labor and deployment costs that are directly attributable to preparing the asset for its intended use, and borrowing costs. Other development expenses are recognized in profit or loss as incurred.

Capitalized development expenditures are measured at cost less accumulated amortization and accumulated impairment losses.

j.3 - Concessions and licenses

The Company recognizes intangible assets resulting from concession or authorization agreements when it is evidenced that end users of infrastructure or exploration rights used it, as in the case of radiofrequency wave spectrum (PPDUR) right of use, and Backbone right of use, among others.

Intangible assets received as payment for infrastructure construction work or service expansion are measured at fair value upon initial recognition.

j.4 - Other intangible assets

Acquired computer program ("software") and corporate management systems' use licenses are measured at cost. Expenditures with the acquisition and implementation of business management systems are capitalized as intangible assets when it is probable that future economic benefits generated by it will be higher than respective cost, considering its economic and technological feasibility.

j.5 - Subsequent expenses

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in profit or loss as incurred.

(In thousands of reais, unless otherwise indicated)

j.6 - Amortization

Intangible assets with finite service lives are amortized based on their actual use or a method that reflects the economic benefit of the corresponding asset. Amortization is calculated on the cost value of this intangible asset, or on another value that substitutes cost value, minus the residual value of such intangible asset. Amortizations are recognized in income for the year at the straight line basis, based on assets' estimated useful lives.

Intangible assets' estimated useful lives for the current period, as well as for comparative periods, are as follows:

	Average useful life - in years	
	2011	**2010**
IT systems (i)	7	5
PPDUR - Radio Frequency Public Price	14	14
Right of use of TV via Satellite -DTH (ii)	6	-
Backbone right of use (iii)	9	5
Trademarks and patents	7	-
Regulatory grant (iv)	14	19

(i) Useful lives are defined in accordance with expected systems use. In 2011, process management tools with useful lives of 13 years were acquired for BackOffice management.
(ii) Useful lives are in accordance with contracts and, in 2011, we acquired a DTH license with 6-year useful life.
(iii) Useful lives are in accordance with contract validity.
(iv) Useful lives are in accordance with contracts and, in 2011, we acquired an H band grant with 11-year useful life.

k. Impairment

k.1 - Financial assets (including receivables)

A financial asset not measured at fair value through profit or loss is assessed at each reporting date for objective evidence of impairment loss. An asset is impaired when there is objective evidence that a loss event has occurred after the initial recognition of the asset, and that such loss event had a negative effect on the projected future cash flows of that asset that can be reliably estimated.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of the amount due to the Company and its subsidiaries on terms that the Company and its subsidiaries would not consider otherwise, indication that the debtor or issuer will file for bankruptcy, or disappearance of an active market for a security. In addition, for an equity instrument, a significant or prolonged decrease in the fair value of the asset, below its cost, is objective evidence of impairment.

k.2 - Financial assets measured by the amortized cost

The Company and its subsidiaries consider loss evidence of asset values measured at amortized cost (for receivables and investment securities held to maturity) both at individual and collective levels. Individually significant receivables are assessed for impairment. All the receivables and investment securities held to maturity which are material on an individual basis, identified as non-impaired on an individual basis are collectively assessed for any impairment loss not yet identified. Individually significant assets are assessed on an aggregate basis in relation to impairment by grouping the notes with similar risk characteristics.

When assessing impairment on an aggregate basis the Company and its subsidiaries make use of historical trends of probability of default, the recovery term and the amounts of losses incurred, adjusted to reflect the management's judgment in relation to the assumptions, if the current economic and credit conditions are such that the actual losses will probably be higher or lower than those suggested by historical trends.

A decrease in the recoverable value of a financial asset measured at amortized cost is calculated as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The losses are recognized in an allowance in the income statement against receivables or assets held to maturity. When a subsequent event causes the amount of the impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

The provision for impairment of trade accounts receivable is recognized based subsidiaries' losses history, which normally refers to credits overdue for more than 90 days, whose recovery is considered unlikely by Management.

k.3 - Non-financial assets

The carrying amounts of the non-financial assets of the Company and its subsidiaries, except for inventories and deferred income and social contribution taxes are reviewed at each reporting date for indication of impairment. If such indication exists, the asset's recoverable amount is estimated. For goodwill and intangible assets with an undefined useful life, the recoverable value is estimated on an annual basis.

An impairment loss is recognized when the carrying amount of an asset or its CGU (cash generating unit) exceeds its recoverable value.

The recoverable value of an asset or cash-generating unit is the greater of its value in use and its fair value less selling expenses. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market conditions as to the recoverability period of capital and the risks specific to the asset or CGU. For the purpose of impairment testing, the assets that cannot be individually tested are grouped together into the smallest group of assets that generates cash inflows that are largely independent of the cash flows of other assets or group of assets (the cash generating unit or CGU). For goodwill recoverable value testing purposes, the goodwill amount calculated in a business combination is allocated to the cash generating unit or group of units to which the benefit of the combination synergies is expected. That allocation reflects the lowest level in which the goodwill is monitored for internal purposes and is not greater than an operating segment determined under IFRS 8 and CPC 22.

Impairment losses are recognized in profit or loss. Losses recognized for CGUs are initially allocated to reduce any goodwill attributed to the CGUs (or group of CGUs) and then to reduce other assets within the CGU (or group of CGUs) on a pro-rata basis.

An impairment loss related to goodwill is not reversed. Regarding other assets, impairment losses are reversed only with the condition that the book value of the asset does not exceed the book value that would have been calculated, net of depreciation or amortization, if the value loss had not been recognized.

Management reviews the net book value of assets annually in order to assess events or changes in economic, operating, or technological circumstances likely to point out impairment or loss of their recoverable value. When these evidences are detected and the net book value exceeds recoverable value, a deterioration provision is created to adjust net book value to recoverable value. These losses, if applicable, are accounted for as other operating expenses.

Current and non-current liabilities

Current and non-current liabilities are stated at known or calculable amounts, plus, when applicable, the corresponding charges, monetary and/or exchange variations incurred up to the balance sheet date. When applicable, the current and non-current liabilities are recorded at present value, calculated for each transaction, based on interest rates that reflect the term, currency and risk of each transaction. The contra-entry of adjustment at present value is the statement of income account that gave rise to such liability. The difference between the present value of one transaction and the face value of the liability is recognized in profit or loss throughout the term of the contract based on the amortized cost and the effective interest rate method.

l. Concession of telecommunication services payable

Recorded based on rules issued by ANATEL at the percentage of 2% of net revenues from switched fixed telephony service calculated in the year prior to payment, net of taxes and social contributions.

m. Provisions

A provision is recognized in the balance sheet when the Company and its subsidiaries have a legal or constructive obligation as a result of a past event, which can be reliably estimated, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are recorded considering the best estimates of the risk involved.

The provision for contingencies is determined by Management, according to the expected losses, based on the opinion of internal and external legal consultants, by amounts considered sufficient to cover losses and risks.

n. Employee benefits

n.1 - Pension plan

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity (Pension Fund) and will have no legal or constructive obligation to pay further amounts.

Obligations for contributions to defined contribution pension plans are recognized as employee benefit expenses in profit or loss for the periods in which the services are rendered by the employees.

Prepaid contributions are recognized as an asset to the extent that a cash refund or a reduction in the future payments is available.

n.2 - Short-term benefits to employees, including profit sharing

Obligations for short-term employee benefits are measured on a non-discounted basis and incurred as costs or expenses as the related service is rendered.

The liability is recognized at the amount expected to be paid under the cash bonus plans or short-term profit sharing if the Company and its subsidiaries have a legal or constructive obligation to pay this amount as a result of prior service rendered by the employee, and the obligation can be reliably estimated.

o. *Income and social contribution taxes*

The income and social contribution taxes, both current and deferred, are calculated based on the rates of 15% plus a surcharge of 10% on taxable income in excess of R$ 240 for income tax and 9% on taxable income for social contribution on net income. Offset of tax loss carryforwards is considered, limited to 30% of annual taxable income.

Deferred income tax and social contribution are recognized in relation to temporary differences between assets' and liabilities' accounting values and corresponding amounts used for taxation purposes.

Deferred income tax and social contribution are measured at rates that are expected to be applied to temporary differences that are reversed, based on laws that were enacted or substantially enacted up to financial statements presentation date.

To determine current and deferred income tax, the Company and its subsidiaries take into consideration the impact of uncertainties on positions taken on taxes and if the additional income tax and interest payment has to be made.

The Company and its subsidiaries believe that the provision for income tax recorded in liabilities is adequate for all outstanding tax periods, based on its evaluation of several factors, including interpretations of tax laws and past experience. This evaluation is based on estimates and assumptions that may involve several judgments on future events. New information may be provided, making the Company and its subsidiaries change their judgment on the existing provision adequacy; such changes will impact income tax expenses for the year in which they are made.

Deferred tax assets and liabilities are offset when there is a legal enforceable right to set off current tax assets against tax liabilities, and the latter relate to income taxes levied by the same tax authority on the same taxable entity.

A deferred income tax and social contribution asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable income will be available against which the unused tax losses and credits can be utilized.

Deferred income and social contribution tax assets are reviewed at each reporting date and reduced when their realization is no longer probable.

p. Recognition of income

Operating income (expense) is determined in conformity with the accrual basis of accounting of the year.

p.1 -Sale of services

Revenues related to telephony services are accounted for at the tariff value effective on the date service was provided, and are comprised of tariffs for subscription, network use, and maintenance services and other services provided to subscribers and clients. All services are billed on a monthly basis, in accordance with measurement made by operating systems that identify information for accounting recognition and recording in proper revenue components. Services provided from billing date to month end are calculated and accounted for as revenue for the month in which service was provided. Revenues from pre-paid cell phone recharge are deferred and recognized in income upon effective consumption.

p.2 - Sale of goods

Sales of assets that are used in the Company and its subsidiaries' regular activities are measured at fair value of amounts received or receivable, net of returns, commercial discounts, and monetary abatements on certain transactions. Revenue is recognized when: (i) there is persuasive evidence of the existence, normally in the form of sale agreements already entered into by the parties, according to which (ii) risks and benefits from asset ownership have already been transferred to the buyer, and when (iii) associated costs may be reliably measured, as well as (iv) possible return of assets, (v) there is no further involvement of the Company's management and its subsidiaries with assets sold and (vi) revenue value may be reliably measured.

p.3 -Interchange transactions with assets and services

Entities CTBC Telecom and CTBC Multimídia have interchange transactions with assets and services, i.e., interchange of services and infrastructure with companies of the same segment or different segments. These revenues are recognized on a monthly basis.

The purpose of Infrastructure interchange is mainly to guarantee redundancy of services provided by entities, as a strategy to guarantee the continuity of services in case of damage caused to computerized networks or systems, or any other eventuality that may jeopardize service rendering by entities. The purpose of this procedure is to reduce or even eliminate risks to these services' final clients.

Certain interchange transactions do not characterize a commercial transaction. In transactions with this characteristic, the Company and its subsidiaries do not recognize revenues or costs in the statements of income, and recognizes only taxes levied on billing of these infrastructure interchange contracts.

Interchange transactions of commercial essence are normally recognized as regular transactions, i.e., their revenues and costs are recognized as in any other commercial transaction of the Company.

p.4 - Construction contracts

Contract revenue includes the original amounts agreed on in the contract plus variations arising from additional requests, complaints and contractual incentive payments, provided that it is probable that they will result in revenue and may be reliably measured. As soon as the result from a construction contract may be reliably estimated, contract revenue is recognized in income, according to contract completion stage. Contract expenses are recognized when incurred, unless they create an asset related to future contract activity.

The stage of completion is evaluated by reference to research on accomplished works. When income from a construction contract cannot be reliably measured, contract revenue is recognized up to the limit of costs recognized, provided that incurred costs may be recovered. Contract losses are immediately recognized in income.

Revenue is not recognized if there is a significant uncertainty on its realization or measurement of its value.

q. Government subsidies

Unconditional government grants, when characterized as receivables, are directly recognized in income for the year under caption other operating revenues.

Government grants that can be completed before subsidiary Algar Tecnologia is entitled to such grants are recognized as deferred revenues at fair value when there is reasonable assurance that conditions will be complied with and that the Company will actually be entitled to receiving such grants.

Grants that characterize offset or reimbursement of expenses already incurred by Algar Tecnologia are recognized in income for the year under caption other operating expenses, on a systematic basis, in the same periods in which expenses are recognized. Grants that characterize offset or reimbursement of an asset construction costs are recognized in income for the year based on said asset useful life.

r. Financial income and expenses

Financial income include interest on investments made by the Company and its subsidiaries (including financial investments), adjustments to present value of financial assets, gains on disposal of financial assets, changes to fair value of financial assets evaluated at fair value through income, and gains on derivative financial instruments.

Financial expenses are comprised of expenses with loan and financing interest, inflation adjustment of taxes in installments and reserves for contingencies, changes to fair value of financial assets at fair value through income, impairment losses, *("impairment")* and losses in derivative financial instruments that are recognized in income for the year. Loan costs that are not directly attributable to acquisition, construction or production of a qualifiable asset are recognized in income for the year, at the accrual basis.

Foreign exchange variation gains or losses are stated at net value in income for the year.

s. *Income per share*

The basic earnings per share are calculated based on the result for the financial year attributable to the Company's controlling and non-controlling shareholders and the weighted average of outstanding common and preferred shares in the respective year. The diluted earnings per share are calculated based on the mentioned average of outstanding shares, adjusted by instruments that can potentially be converted into shares, with a dilution effect, in the years presented.

t. *Statement of added-value*

The Company prepared individual and consolidated statements of value added (DVA), pursuant to the terms of technical pronouncement CPC 09 - Statement of Value Added, which is presented as an integral part of financial statements, in conformity with BRGAAP applicable to publicly-held companies, while for IFRS they represent an additional financial information.

u. *Segment information*

Information per operating segment is presented consistently with internal reports provided to members of the Executive Board, which are responsible for the assignment of funds and the evaluation of operating segments' performance.

The Executive Board defined the Company's operating segments based on reports used to make strategic decisions, which are segmented mainly by type of services provided.

Defined segments are as follows:

- Telecom - provision of fixed telephony, broadband Internet, data communication, cell phone and pay TV services.

- BPO/TI - operates in the corporate market offering technology solutions for business processes through IT infrastructure, managed services, business applications, business management and relationship with clients.

- Supplementary business - include complete solutions in information technology, telecommunications, and communication vehicles infrastructure, such as: telephone directory, guides and newspapers.

Information referring to each reportable segment results are included in Note 29. Performance is evaluated based on the segment EBITDA, as Management believes that this information is more relevant for the evaluation of results from some segments related to other entities that operate in these industries.

v. New standards and interpretations not yet adopted

During 2011, the IASB published a package of five new or revised standards (called the "*package of five*,") addressing the accounting treatment for consolidation, involvement in joint agreements and disclosure of involvement with other entities.

These standards will be applicable to annual periods beginning on or after January 1, 2013, with advanced application permitted, considering that each of the standards in the "*package of five*" is also applied in advance (advanced application by entities in Brazil is generally not permitted until these standards are issued in the form of CPC and approved by CVM - Brazilian Securities and Exchange Commission and CFC - Federal Accounting Council).

However, it is permitted to incorporate the disclosures required by IFRS 12 into the financial statements, without characterizing early application of this standard and, consequently, the other four rules issued. One of the most significant changes is the edition of IFRS 11 "*Joint Arrangements*," which replaces IAS 31, eliminating the option available in this standard of accounting for investments in jointly controlled entities by the proportional consolidation method (maintaining only the equity method, unlike what is now required in Brazil by CPC 19).

The “package of five” includes the following standards:

- IFRS 10 – “Consolidated Financial Statements”,
- IFRS 11 – “Joint Arrangements”,
- IFRS 12 – “Disclosure of Interests in Other Entities”,
- IAS 27 – “Separate Financial Statements”,
- IAS 28 – “Investments in Associates and Joint Ventures”.

Management will apply resolutions of pronouncements applicable to the Company and its subsidiaries after the issuance of these standards by CPC and approval by CVM. In 2011, IASB also published IFRS 13 "*Fair Value Measurement*", which replaces, through a single standard, guidelines for measurements at fair value included in IFRS literature. However, it does not introduce any new or revised requirement as to which items should be measured at fair value or which should have their fair value disclosed. IFRS 13 is applicable to annual periods that start on or after January 1, 2013, with advanced application permitted (advanced application by Brazilian entities is generally not permitted until the standard is issued as a CPC and approved by CVM and/or CFC). Management will apply resolutions of applicable pronouncements to the Company and its subsidiaries after the issuance of these standards by CPC and approval by CVM.

The Company and its subsidiary did not estimate the extent of impacts of these new standards on the Company's financial statements.

w. Shareholders' equity

w.1 - Reserves, dividends and interest on capital

- *Earnings reserve* - Refers to a type of assignment for net income for the year and is applicable to the Company, in years reported, to legal reserve and profit retention reserve.

- *Legal reserve* - The Company recognizes a legal reserve in conformity with the Brazilian Corporate Law and its Bylaws, at 5% of net income for the year, complying with the limit of 20% of capital.

- *Earnings retention reserve* - Based on requirements of Law 11,638/2007, the Company reclassified accumulated earnings remaining balances to earnings reserve, so that they may be applied to modernization and expansion, based on budget to be approved in a Shareholders' Meeting, as proposed by the Company's management.

- *Dividends and interest on capital* - Holders of preferred shares (with no voting rights) are entitled to reimbursement of capital and dividends that are 10% higher than that of common shares. Interest on capital paid during the year was calculated based on Law no. 9,249/1995. In order to comply with tax provisions, interest on capital payable is accounted for as financial expenses. However, in the preparation of financial statements, interest on capital expense is reclassified to accumulated earnings, stated as distribution of income, in compliance with accounting practices adopted in Brazil.

x. Determination of the fair value

A number of the Company's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, additional information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

i. Interest rate swap

The fair value of interest rate *swap* contracts is based on brokers' quotations. These quotations are tested for reasonability through estimated future cash flows discount based on contract conditions and expiration and using market interest rates of a similar instrument on measurement date. Fair values reflect the instrument credit risk and include adjustments to consider the credit risk of the Company and its subsidiaries and the counterpart, if applicable.

(In thousands of reais, unless otherwise indicated)

ii. Other non-derivative financial liabilities

The fair value that is determined for disclosure purposes is calculated based on the present value of principal and future cash flows, discounted at market interest rate on the date of presentation of the financial statements. For liability convertible debt securities, the market interest rate is calculated by referring to similar liabilities that do not have the conversion option. For financial leases, the interest rate is calculated by referring to similar lease agreements.

4 Cash and cash equivalents

	Consolidated		**Parent Company**	
	2011	**2010**	**2011**	**2010**
Cash and banks	27,497	36,494	8,454	20,144
Interest earnings bank deposits	150,756	153,497	87,546	58,235
	178,253	189,991	96,000	78,379

Financial investments refer mainly to bank deposit certificates, remunerated at Interbank Deposit Certificate (CDI) rate variation, redeemable in up to 90 days after balance sheet date.

The exposure of the Company and its subsidiaries to interest rate risks, and a sensitivity analysis for financial assets and liabilities are disclosed in Note 28.

(In thousands of reais, unless otherwise indicated)

5 Accounts receivable

	Consolidated		Parent Company	
	2011	**2010**	**2011**	**2010**
Amounts billed	237,187	215,452	83,326	96,009
Unbilled amounts	65,509	68,338	24,583	24,978
	302,696	283,790	107,909	120,987
Provision for impairment	(62,968)	(58,432)	(33,558)	(35,911)
	239,728	225,358	74,351	85,076

Financial assets included in trade accounts receivable are classified as loans and receivables stated at amortized cost. Their net book value is similar to their fair value.

Subsidiary CTBC Celular, after better characterizing the assets' nature, reclassified the amount referring to cell phone sale unrecorded subsidies from caption "Accounts receivable" to "Prepaid expenses". As of December 31, 2011, value was R$ 6,259, and R$ 4,647 in 2010.

The exposure of the Company and its subsidiaries to credit risks and impairment losses, related to trade accounts receivable, are disclosed in Note 28.

a. The aging list of overdue amounts receivable is as follows:

	Consolidated		Parent Company	
	2011	**2010**	**2011**	**2010**
Up to 30 days overdue	48,608	32,013	17,358	5,030
Overdue between 31 and 60 days	15,531	8,310	4,451	4,726
Overdue between 61 and 90 days	5,274	4,792	2,126	2,431
Overdue between 91 and 120 days	6,119	4,036	1,834	2,277
Overdue for more than 120 days	60,346	56,161	30,669	32,747
	135,878	105,312	56,438	47,211

(In thousands of reais, unless otherwise indicated)

b. Changes in the provision for impairment are as follows:

	Consolidated		**Parent Company**	
	2011	**2010**	**2011**	**2010**
Opening balance	58,432	63,492	35,911	39,270
Formation of provision, net	18,068	12,538	7,404	7,337
Write-offs against accounts receivable	(13,532)	(17,598)	(9,757)	(10,696)
Closing balance	62,968	58,432	33,558	35,911

6 Inventories

	Consolidated		**Parent Company**	
	2011	**2010**	**2011**	**2010**
Inventory for resale	11,159	7,554	477	592
Storeroom and others	583	668	-	-
	11,742	8,222	477	592

(In thousands of reais, unless otherwise indicated)

7 Recoverable taxes

	Consolidated		Parent Company	
	2011	**2010**	**2011**	**2010**
ICMS - fixed assets	37,828	35,880	21,024	18,151
COFINS	712	812	32	52
PIS	331	175	21	11
ISS recoverable	2,937	1,218	301	336
INSS recoverable	2,580	1,272	-	-
IRPJ/CSLL	9,587	11,112	16	8,847
ICMS recoverable	8,216	2,611	1,047	446
IRRF	3,237	1,797	406	984
Others	4,283	911	2,843	342
Total	69,711	55,788	25,690	29,169
Portions of current assets	39,809	27,073	9,286	15,114
Portions of non-current assets	29,902	28,715	16,404	14,055

Amounts corresponding to "ICMS - property, plant and equipment" refer to ICMS credits arising from the acquisition of assets for property, plant and equipment, available for offset at the rate of 1/48 per month, in accordance with Supplementary Law no. 102/2000.

8 Income and social contribution taxes

a. *Income and social contribution tax recoverable (payable)*

	Consolidated		Parent Company	
	2011	**2010**	**2011**	**2010**
Income and social contribution taxes	(39,649)	(40,142)	(15,122)	(15,478)
Advance of income and social contribution taxes	38,592	31,663	17,504	12,927
	(1,057)	(8,479)	2,382	(2,551)

(In thousands of reais, unless otherwise indicated)

b. Deferred income and social contribution tax liabilities and assets

	Consolidated		Parent Company	
	2011	**2010**	**2011**	**2010**
Assets				
Income tax:				
Tax losses	34,364	21,960	15,938	9,436
Provision for contingencies and others	44,805	45,584	18,964	22,639
	79,169	67,544	34,902	32,075
Social contribution:				
Negative basis	12,451	6,751	5,819	3,478
Provision for contingencies and others	16,158	17,673	6,827	8,150
	28,609	24,424	12,646	11,628
	107,778	91,968	47,548	43,703

The Company and its subsidiaries, based on their expectations of generating future taxable income, determined by a technical study prepared by the Company and approved by the Executive Board in meeting held on February 3, 2012, recognized tax credits on tax losses, negative basis of social contribution and temporary differences, for which there is no statutory limitation period.

Based on the technical study regarding estimated generation of future taxable income, the Company and its subsidiaries foresee the recovery of tax credits in the following years:

	2011	
	Consolidated	**Parent Company**
2012	21,062	6,257
2013	24,714	6,257
2014	16,661	7,077
2015	19,770	8,621
2016	11,780	7,784
2017 onwards	13,791	11,552
	107,778	47,548

Notes to the financial statements

(In thousands of reais, unless otherwise indicated)

	Consolidated		Parent Company	
Liabilities	**2011**	**2010**	**2011**	**2010**
Income tax:				
Temporary exclusions	11,628	11,628	11,628	11,628
Income tax - Law 11638/2007	34,362	23,201	8,059	3,489
	45,990	34,829	19,687	15,117
Social contribution:				
Temporary exclusions	4,187	4,187	4,187	4,187
Social contribution - Law 11638/2007	12,316	8,352	2,902	1,257
	16,503	12,539	7,089	5,444
	62,493	47,368	26,776	20,561

c. *Income* (loss) for the year

	Consolidated		Parent Company	
	2011	**2010**	**2011**	**2010**
Current				
Income tax	(33,630)	(30,445)	(16,353)	(11,229)
Social contribution	(12,347)	(11,611)	(5,987)	(4,248)
	(45,977)	(42,056)	(22,340)	(15,477)
Deferred assets				
Income tax	9,007	(13,306)	5,562	(18,118)
Social contribution	3,301	(4,795)	2,003	(6,522)
	12,308	(18,101)	7,565	(24,640)
Total	**(33,669)**	**(60,157)**	**(14,775)**	**(40,117)**

The reconciliation between income and social contribution tax expense as calculated by the combined nominal rates and expense charged to income is presented below:

(In thousands of reais, unless otherwise indicated)

	Consolidated		Parent Company	
	2011	**2010**	**2011**	**2010**
Income (loss) before income and social contribution taxes	178,053	191,180	152,439	163,470
Income and social contribution taxes at the nominal combined statutory rate of 34%	(60,538)	(65,001)	(51,829)	(55,580)
Corporate Income Tax (IRPJ)/ Social Contribution on Net Income (CSLL) on addition (exclusion) items:				
Equity income (loss)	-	-	26,252	30,578
Interest on own capital	1,280	2,431	1,280	2,431
Unbilled suppliers	(1,468)	3,030	(383)	1,321
Provision of variable remuneration and premium on result	728	-	293	-
Provision for impairment	(637)	-	-	-
Write-off of amounts to be refunded to shareholders	9,672	-	5,203	-
Permanent additions/exclusions	9,344	-	5,036	-
Recognition (write-off) of deferred income tax and social contribution	13,033	(3,998)	6,659	(15,770)
Incentive to technological innovation	881	-	589	-
Amortization of goodwill	7,349	4,626	349	182
Reserve for contingencies and other processes	(13,073)	(1,245)	(7,787)	(3,279)
Others	(240)	-	(437)	-
Income and social contribution tax expenses in income for the year	(33,669)	(60,157)	(14,775)	(40,117)
Effective rate	18.91%	31.47%	9.69%	24.54%

9 Investments

	Consolidated		Parent Company	
	2011	**2010**	**2011**	**2010**
Interest in controlled companies	-	-	458,369	400,210
Other investments	79	199	-	-
	79	199	458,369	400,210

Notes to the financial statements

(In thousands of reais, unless otherwise indicated)

a. Change in investments

	CTBC Celular	CTBC Multimídia	Engeset	Algar Tecnologia	Sabe Particip.	Algar Mídia	Image	Total
Balances at December 31, 2010	137,835	109,608	18,835	88,790	32,453	-	12,689	400,210
Reimbursement to shareholders	-	-	-	-	(984)	-	-	(984)
Merger	-	-	-	-	(31,469)	31,469	-	-
Dividends	(3,882)	(7,002)	(2,655)	(1,390)	-	(951)	(2,188)	(18,068)
Equity in net income of subsidiaries	15,830	43,138	5,301	6,750	-	4,004	2,188	77,211
Balance at December 31, 2011	149,783	145,744	21,481	94,150	-	34,522	12,689	458,369

b. Information on main subsidiaries, based on financial statements as of December 31, 2011 and 2010.

	2011					
	CTBC Celular	CTBC Multimídia	Image	Engeset	Algar Tecnologia (*)	Algar Mídia
Current assets	60,599	110,622	8,909	36,350	68,987	26,480
Non-current assets	396,836	325,949	17,151	41,467	210,734	29,420
Total assets	457,435	436,571	26,060	77,817	279,721	55,900
Current liabilities	83,343	69,122	7,243	30,724	84,895	15,111
Non-current liabilities	190,568	96,159	6,035	22,992	81,216	6,257
Shareholders' equity	182,699	275,629	12,689	23,392	113,610	34,532
Capital	163,138	245,620	12,689	12,751	59,594	15,884
Net income	313,711	246,804	20,007	119,842	390,818	41,217
Net income for the year	18,698	59,658	2,188	5,933	6,945	4,005

Notes to the financial statements

(In thousands of reais, unless otherwise indicated)

	2010					
	CTBC Celular	**CTBC Multimídia**	**Image**	**Engeset**	**Algar Tecnologia (*)**	**Sabe Particip.**
Current assets	68,496	96,935	7,878	29,287	64,599	26,541
Non-current assets	297,732	286,998	14,705	28,014	194,647	27,823
Total assets	366,228	383,933	22,583	57,301	259,246	54,364
Current liabilities	135,436	77,808	5,099	18,665	76,207	15,116
Non-current liabilities	75,517	80,353	4,795	18,522	74,724	6,786
Shareholders' equity	82,775	225,772	12,689	20,114	108,315	32,462
Capital	77,270	245,620	12,689	12,751	59,594	62,745
Net income	282,908	206,509	20,316	91,214	338,068	37,843
Net income for the year	23,987	61,529	1,809	4,254	16,039	4,695

(*) information Consolidated

	Parent Company - 2011					
	CTBC Celular	**CTBC Multimídia**	**Image**	**Engeset**	**Algar Tecnologia (*)**	**Algar Mídia**
Quantity of shares or quotas held:						
ON Shares	375,728	4,149,326	-	3,831,614	8,109	9,251,158
Preferred shares	243,814	1,157,705	-	693	3	-
Quotes	-	-	2,215,989	-	-	-
Percentage of direct ownership of the parent company:						
In capital stock	84.43%	72.48%	100%	100%	84.34%	99.97%
In the voting capital	94.13%	89.47%	100%	100%	84.27%	100%

(In thousands of reais, unless otherwise indicated)

	Parent Company - 2010					
	CTBC Celular	**CTBC Multimídia**	**Image**	**Engeset**	**Algar Tecnologia**	**Sabe Particip.**
Quantity of shares or quotas held:						
ON Shares	140,502	4,149,326	-	3,831,614	8,109	60,259,378
Preferred shares	91,173	1,157,705	-	693	3	-
Quotes	-	-	2,215,989	-	-	-
Percentage of direct ownership of the parent company:						
In capital stock	84.43%	72.48%	100%	100%	84.34%	99.97%
In the voting capital	94.00%	89.47%	100%	100%	84.27%	100%

10 Intangible assets

a. Cost movement

	Consolidated				
	2010	**Additions**	**Write-offs**	**Transfers (*)**	**2011**
Trademarks and patents	36	-	(1)	-	35
PPDUR - Radio Frequency Public Price	5,996	-	1	677	6,674
Right of use of Backbone	50,909	-	-	23,832	74,741
Right of use of satellite TV (DTH)	7,137	-	1	-	7,138
Regulatory grants	38,970	-	(1)	25,823	64,792
IT systems	191,680	563	(1,267)	38,098	229,074
Goodwill from investment in subsidiaries	115,346	-	-	-	115,346
	410,074	563	(1,267)	88,430	497,800

Notes to the financial statements

(In thousands of reais, unless otherwise indicated)

b. Changes to accumulated amortization

	Consolidated					
	Average useful life (years)	2010	Additions	Write-offs	Transfers (*)	2011
Trademarks and patents	7	(28)	(3)	-	-	(31)
PPDUR - Radio Frequency Public Price	14	(1,469)	(570)	1	(66)	(2,104)
Right of use of Backbone	9	(24,857)	(5,414)	-	-	(30,271)
Right of use of satellite TV (DTH)	6	(1,078)	(1,083)	-	-	(2,161)
Regulatory grants	14	(8,210)	(2,610)	-	-	(10,820)
IT systems	7	(114,202)	(22,737)	1,038	249	(135,652)
Goodwill from investment in subsidiaries	-	(61,718)	-	-	-	(61,718)
		(211,562)	(32,417)	1,039	183	(242,757)
Balance		198,512	(31,854)	(228)	88,613	255,043

(*)Transfers refer to reclassification of Constructions in progress values, identified as intangible assets.

c. Cost movement

	Parent Company			
	2010	Write-offs	Transfers (*)	2011
PPDUR - Radio Frequency Public Price	5,284	-	677	5,961
Right of use of Backbone	21,209	-	23,832	45,041
Regulatory grants	2,637	-	-	2,637
IT systems	112,855	(666)	13,042	125,231
Goodwill from investment in subsidiaries	31,958	-	-	31,958
	173,943	(666)	37,551	210,828

(In thousands of reais, unless otherwise indicated)

d. Changes to accumulated amortization

	Parent Company					
	Average useful life (years)	**2010**	**Additions**	**Write-offs**	**Transfers (*)**	**2011**
PPDUR - Radio Frequency Public Price	14	(1,289)	(481)	-	(66)	(1,836)
Right of use of Backbone	9	(10,771)	(4,058)	-	-	(14,829)
Regulatory grants	14	(2,056)	(41)	-	-	(2,097)
IT systems	7	(72,159)	(13,585)	666	279	(84,799)
Goodwill from investment in subsidiaries	-	(10,987)	-	-	-	(10,987)
		(97,262)	(18,165)	666	213	(114,548)
Balance		76,681	(18,165)	-	37,764	96,280

(*) Transfers refer to reclassification of Constructions in progress values, identified as intangible assets.

e. Goodwill

Includes goodwill of R$ 17,722 arising from a share purchase and sale contract dated March 15, 2010, in which subsidiary Algar Tecnologia acquired all capital shares of Synos, company headquartered in Belo Horizonte, Minas Gerais State, and operating in Brasília, Rio de Janeiro and São Paulo, through branches established in those cities.

The acquired company operates in software development and maintenance activities and offers solutions such as outsourcing and maintenance of applications, software projects, advisory, training and licensing. Acquisition of Synos is a key synergy factor with the activities of Algar Tecnologia and will permit the expansion of its operating basis and penetration in several market segments.

In addition to supplementing Algar Tecnologia portfolio, that offers hosting co-location services, service desk, IT security, credit recovery, among others, Synos will strengthen its portfolio by adding approximately 40 clients of the public and private sectors which will position the company at operating levels compatible with growth projections and business sustainability.

(In thousands of reais, unless otherwise indicated)

Based on the balance sheet of the acquired company as of February 28, 2010, a goodwill on acquisition was determined based on future profitability, as follows:

Statement of goodwill based on future profitability

Consideration effectively transferred/ to transfer	10,000
Fair value of investee's identifiable assets and liabilities:	
Current assets	
Cash and cash equivalents	119
Accounts receivable	1,371
	1,490
Non-current assets	
Deferred income and social contribution taxes	4,041
Property, plant and equipment	409
Intangible assets	14
	4,464
	5,954
Current liabilities	
Suppliers	(602)
Tax and labor liabilities	(454)
Other liabilities	(540)
	(1,596)
Non-current liabilities	
Provision for contingencies	(11,886)
Other liabilities	(194)
	(12,080)
	(13,676)
Goodwill for future profitability	17,722

f. Impairment test for cash generating units containing goodwill:

As of December 31, 2011, the Company and its subsidiaries evaluated the recovery of goodwill accounting value based on its value in use, using the discounted cash flow model for the cash generating unit (CGU). The process to estimate value in use involves assumptions, judgments and estimates of future cash flows and represent the best Company's estimate, approved by Management. The asset recovery test conducted by the Company concluded that it is not necessary to recognize impairment losses.

Combined goodwill accounting value for each CGU is as follows:

Identified CGUs	**2011**
CTBC Telecom	20,971
CTBC Celular	24,392
CTBC Multimídia	37,366
Algar Tecnologia	17,722
Algar Mídia	11,851

CGU's recoverable values were based on their values in use. The methodology applied to determine CGU's values is the discounted cash flow. The basic concept of this methodology is the calculation of free cash flows in a determined period, as a result:

- of the operating income;
- of the return of property, plant and equipment depreciation, which was recognized in income for the year, to operating income; e
- of incremental net working capital requirement, determined as a result of the subsidiaries' financial cycle.

Cash balances per period are calculated at present value, which is discounted by applying the rate that determines Weighted Average Cost of Capital (WACC). This rate considers several components of financing, debt and own capital used by the Company to finance its activities. The Company and its subsidiaries' capital cost were calculated at the CAPM (Capital Asset Pricing Model) method.

A cash flow period of five to seven years, according to the Company and its subsidiaries' projections, was considered, plus residual value calculated by the perpetuity of cash balance on the fifth or seventh year, discounted to present value at WACC.

(In thousands of reais, unless otherwise indicated)

The main assumptions used to calculate CGU's value in use as of December 31, 2011 are as follows:

Identified CGUs	**Discount Rate WACC (i)**	**EBITDA (ii)**
CTBC Telecom	7.9%	200,956
CTBC Celular	7.9%	59,952
CTBC Multimídia	7.9%	135,879
Algar Tecnologia	8.4%	19,252

(i) Discount rate was calculated before taxes.
(ii) Average EBITDA of the 5-year budgeted period.

Management determined budgeted EBITDA based on past performance and on expected market development. Average weighted growth rates are consistent with estimates included in the segment's report. Discount rate used corresponds to rates before taxes and reflects specific risks in relation to relevant operating segments.

Sensitivity analysis upon change of assumptions

The Company and its subsidiaries evaluated, as of December 31, 2011, the effects of change in main assumptions used to determine the recoverable value of assets. Management identified two main assumptions for which possible changes may result in accounting value higher than recoverable value. These assumptions are associated to the increase of 1 percentage point in the discount rate resulting from the increase in business risk and the 1 percentage point reduction in the Company's EBITDA margin, simultaneously to risk increase.

The table below presents the amount for which simultaneous changes in two basic assumptions may result in recoverable value lower than accounting value:

Identified CGUs	**Increase (reduction) in accounting value**
CTBC Telecom	12,511
CTBC Celular	12,547
CTBC Multimídia	25,173
Algar Tecnologia	1,718

(In thousands of reais, unless otherwise indicated)

11 Property, plant and equipment

a. Cost movement

	Consolidated				
	12/31/2010	**Additions**	**Write-offs**	**Transfers (*)**	**12/31/2011**
Buildings and improvements	148,373	-	(51)	7,743	156,065
Switching equipment	297,758	-	(18,848)	10,556	289,466
Terminal equipment	141,959	-	(625)	34,167	175,501
Transmission equipment and medium	889,680	1,917	(7,910)	12,089	895,776
Power and air conditioning equipment	78,414	9	(2,479)	10,033	85,977
Infrastructure	102,621	498	(202)	3,637	106,554
Vehicles	18,363	772	(1,233)	1,757	19,659
Furniture and fixtures	55,842	231	(534)	2,462	58,001
Data processing systems and others	295,454	2,284	(4,847)	19,959	312,850
	2,028,464	5,711	(36,729)	102,403	2,099,849
Land	30,204	-	(124)	64	30,144
Work in progress	235,915	366,125	4,632	(191,790)	414,882
	2,294,583	371,836	(32,221)	(89,323)	2,544,875

b. Changes to accumulated depreciation

	Consolidated					
	Average useful life (years)	**12/31/2010**	**Additions**	**Write-offs**	**Transfers (*)**	**12/31/2011**
Buildings and improvement	20	(41.562)	(8.292)	42	(30)	(49.842)
Switching equipment	10	(229.276)	(10.403)	18.848	(1)	(220.832)
Terminal equipment	4	(102.422)	(22.763)	568	(4)	(124.621)
Transmission equipment and medium	17	(659.432)	(32.004)	5.465	(204)	(686.175)
Power and air conditioning equipment	11	(53.697)	(4.722)	2.439	(118)	(56.098)
Infrastructure	33	(53.337)	(3.295)	202	60	(56.370)
Vehicles	6	(7.894)	(2.066)	773	1.449	(7.738)
Furniture and fixtures	10	(41.542)	(2.147)	527	(359)	(43.521)
Data processing systems	6	(209.037)	(26.706)	4.672	(89)	(231.160)
		(1.398.199)	(112.398)	33.536	704	(1.476.357)
Balance		896.384	259.438	1.315	(88.619)	1.068.518

(*) Transfer balance refers to reclassifications of property, plant and equipment in progress values, identified as intangible.

Notes to the financial statements

(In thousands of reais, unless otherwise indicated)

c. Cost movement

	Parent Company				
	12/31/2010	Additions	Write-offs	Transfers (*)	12/31/2011
Buildings and improvement	46,625	-	(51)	3,550	50,124
Switching equipment	249,382	-	(379)	1,242	250,245
Terminal equipment	104,031	-	(502)	16,362	119,891
Transmission equipment and medium	617,848	8	(2,996)	5,972	620,832
Power and air conditioning equipment	41,775	-	(1,926)	4,116	43,965
Infrastructure	68,991	-	(202)	3,361	72,150
Vehicles	2,876	-	(19)	1,566	4,423
Furniture and fixtures	27,090	-	(89)	592	27,593
Data processing systems	166,228	-	(2,184)	8,237	172,281
	1,324,846	8	(8,348)	44,998	1,361,504
Land	5,261	-	(19)	33	5,275
Work in progress	109,249	140,882	-	(82,582)	167,549
	1,439,356	140,890	(8,367)	(37,551)	1,534,328

d. Changes to accumulated depreciation

	Parent Company					
	Average useful life (years)	12/31/2010	Additions	Write-offs	Transfers (*)	12/31/2011
Buildings and improvement	20	(15,374)	(3,804)	42	4	(19,132)
Switching equipment	10	(203,446)	(5,720)	379	(1)	(208,788)
Terminal equipment	4	(76,241)	(13,944)	501	(4)	(89,688)
Transmission equipment and medium	17	(501,653)	(11,924)	2,996	2	(510,579)
Power and air conditioning equipment	11	(34,696)	(2,413)	1,922	(4)	(35,191)
Infrastructure	33	(42,638)	(1,531)	202	-	(43,967)
Vehicles	6	(1,732)	(611)	19	-	(2,324)
Furniture and fixtures	10	(24,109)	(743)	89	(164)	(24,927)
Data processing system	6	(125,694)	(11,350)	2,182	(46)	(134,908)
		(1,025,583)	(52,040)	8,332	(213)	(1,069,504)
Balance		413,773	88,850	(35)	(37,764)	464,824

(*)Transfers refer to reclassification of Constructions in progress values, identified as intangible assets.

(In thousands of reais, unless otherwise indicated)

Additional information on property, plant and equipment

As provided for in CPC-27 and Technical Interpretation 10 (ICPC-10) issued by CPC, the company implemented internal policies for the periodic review of the useful lives of property, plant and equipment items, which is performed at least once every year.

a. Assets linked to the Concession

In accordance with STFC concession contracts, the assets of parent company CTBC Telecom that were considered indispensable to render services and were qualified as "reversible assets", upon concession extinction will be automatically transferred to ANATEL, and the Company will not be obliged to pay indemnities provided for in legislation and in respective concession agreements.

2010 amounts presented below refer to the reversible assets list forwarded to ANATEL and approved in April 2011. These amounts replace those disclosed upon presentation of 2010 financial statements, which were considered as previous at the time. Assets listed in 2011 comprise a previous list of reversible assets to be submitted to ANATEL approval in April 2012, in conformity with regulation.

Values of reversible assets' are as follows (unaudited).

	Consolidated					
	2011			2010		
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
Buildings and improvements	17,426	(4,351)	13,075	17,377	(3,863)	13,514
Power and air conditioning equipment	42,698	(34,820)	7,878	41,319	(34,498)	6,821
Switching equipment	239,496	(206,014)	33,482	239,873	(201,777)	38,096
Data processing equipment	44,974	(39,594)	5,380	44,766	(36,391)	8,375
Transmission equipment and medium	606,461	(506,077)	100,384	609,353	(497,946)	111,407
Terminal equipment	39,578	(30,815)	8,763	39,103	(27,787)	11,316
Infrastructure	67,324	(43,660)	23,664	67,523	(42,531)	24,992
PPDUR concession licenses	5,419	(1,743)	3,676	5,255	(1,286)	3,969
Furniture and fixtures	15,861	(14,857)	1,004	15,942	(14,535)	1,407
Regulatory grants	2,637	(2,097)	540	2,637	(2,056)	581
IT systems	93,188	(69,703)	23,485	92,074	(60,021)	32,053
Land	4,266	-	4,266	4,285	-	4,285
Vehicles	2,396	(532)	1,864	865	(288)	577
	1,181,724	(954,263)	227,461	1,180,372	(922,979)	257,393

(In thousands of reais, unless otherwise indicated)

b. Assets given in guarantee and pledges

As of December 31, 2011 and 2010, the Company and its subsidiaries had property, plant and equipment items pledged in guarantee of lawsuits and loans and financing, including lease, as follows:

	Consolidated					
	2011			2010		
	Cost	Accumulated depreciation	Net	Cost	Accumulated depreciation	Net
Buildings and improvements	62,021	(13,542)	48,479	27,865	(2,345)	25,520
Power and air conditioning equipment	384	(355)	29	386	(286)	100
Switching equipment	405	(240)	165	405	(183)	222
Data processing equipment	4,277	(3,176)	1,101	5,496	(3,587)	1,909
Equipment and transmission means	3,342	(2,750)	592	7,425	(4,597)	2,828
Terminal equipment	5	(3)	2	1,239	(1,235)	4
Infrastructure	45	(32)	13	45	(29)	16
Furniture and fixtures	1,221	(560)	661	1,711	(793)	918
IT systems	-	-	-	124	(124)	-
Vehicles	4,298	(1,603)	2,695	4,124	(1,839)	2,285
	75,998	(22,261)	53,737	48,820	(15,018)	33,802

c. Loan cost balances capitalized in property, plant and equipment

The Company capitalized the cost of loans for qualifiable items of property, plant and equipment in the amount of R$ 6,074 (R$ 4,201 in 2010)

d. Operating lease expenses

Subsidiaries Algar Tecnologia, Engeset and Synos have operating leases that generated expenses of R$ 764 for the year (R$ 655 in 2010: Algar Tecnologia).

12 Loans and financing

This note provides information on contract terms of loans and financing bearing interest, which are measured at the amortized cost. For more information on the group's exposure to interest, foreign currency and liquidity risks, see Note 28.

Notes to the financial statements

(In thousands of reais, unless otherwise indicated)

	Consolidated		Parent Company	
	2011	**2010**	**2011**	**2010**
Loans:				
In foreign currency	53,054	3,115	32,843	3,115
In local currency	296,786	240,759	163,864	76,342
Financing in local currency:				
Banco de Desenvolvimento de Minas Gerais - BDMG	58,754	31,031	26,441	28,633
Banco Nacional de Desenvolvimento Econômico e Social – BNDES*	149,186	117,490	108,550	82,833
Leases	4,736	1,450	4,157	126
	562,516	393,845	335,855	191,049
Portions in current liabilities	100,522	119,738	53,294	38,249
Portions in non-current liabilities	461,994	274,107	282,561	152,800

(*) Amounts correspond to direct financing and fund on lending through BDMG, Brasil and Unibanco.

In 2011, the Company and its subsidiaries raised approximately R$ 340,000 from financial institutions, for the purpose of supplying investment needs of projects related to its operations. Development banks BDMG and BNDES represent 20% of that amount. The amount of R$ 32,733 was raised from BDMG and R$ 35,218, corresponding to releases referring to agreements signed in December 2009, was released by BNDES.

Other material amounts were raised with Banco IBM, in the approximate amount of R$ 88,370. Banco Safra was responsible for the release of R$ 52,500 in December 2011. The Company and its subsidiary Algar Tecnologia also entered into contracts with Banco HSBC, in the amounts of R$ 60,000 and R$ 5,000, respectively. In April 2011, subsidiary CTBC Celular entered into a contract with CEF in the amount of R$ 30,000.

Notes to the financial statements

(In thousands of reais, unless otherwise indicated)

Other funds were raised with Bradesco and Banco do Brasil, in the amount of R$3,900 and R$ 21,800, respectively. Lease contracts amounting to R$ 10,335 were signed with SG Equipment Finance and HP Financial Services.

Loan and financing contracts of the Parent company and subsidiaries are indexed as follows:

	Consolidated		**Parent Company**	
	2011	**2010**	**2011**	**2010**
CDI	299,769	237,288	168,021	76,468
TJLP	150,939	122,411	108,550	82,833
Dollar	53,054	3,115	32,843	3,115
IPCA	58,754	31,031	26,441	28,633
Total	562,516	393,845	335,855	191,049

Annual interest rates on loans and financing are as follows:

	Parent Company		
Interest	**Financial institution**	**2011**	**2010**
4.5% to 6%	BNDES and Leasing	19,187	12,023
From 8% to 10%	BNDES	9,165	10,540
From 10% to 12%	BDMG, BNDES, HSBC, IBM, Rabobank, Standard, Unibanco and Leasing	224.183	80,394
From 12% to 15%	BDMG, Bradesco, CEF, Itaú BBA, Rabobank, Safra, Standard and Unibanco.	83.320	88,092
Total		335,855	191,049

Notes to the financial statements

(In thousands of reais, unless otherwise indicated)

	Subsidiaries		
Interest	**Financial institution**	**2011**	**2010**
4.5% to 6%	BNDES, HSBC, and Safra.	3,580	2,506
From 8% to 10%	BDMG, BNDES, and Brasil.	5,714	5,618
From 10% to 12%	BDMG, BNDES, Brasil, IBM, Itaú BBA, Rabobank, Standard, Unibanco, and Leasing	78,154	112,827
From 12% to 15%	BNDES, Brasil, CEF, Credit Suisse, HSBC, IBM, Itaú BBA, Rabobank, Safra, Standard, Unibanco, and Leasing.	139,081	81,797
From 15% to 18%	Brasil and Leasing	132	48
Total		226,661	202,796
Total Consolidated		562,516	393,845

Total current loan and financing balance refers to current maturity of long-term contracts. Long-term loans mature as follows:

	2011	
	Consolidated	**Parent Company**
2013	103,803	64,099
2014	119,053	70,746
2015	118,663	71,590
2016 onwards	120,475	76,126
	461,994	282,561

(In thousands of reais, unless otherwise indicated)

Break of contract clauses (covenants)

Some loan and financing contracts of the Company and its subsidiaries establish maximum indebtedness rates and minimum rates for debt coverage, which should be maintained during respective contract periods.

The Company and its subsidiaries CTBC Celular, CTBC Multimídia and Image Telecom have entered into loan and financing contracts containing restrictive clauses ("*covenants*") that total R$408,188 as of December 31, 2011 (R$ 477,821 in 2010), maturing from 2012 to 2018. According to contract clauses, indices are required on consolidated bases and are calculated on a quarterly basis to verify compliance.

Failure to comply with agreed on indices implies the anticipated maturing of loans and financing covered by this contract provision.

As of December 31, 2011 and 2010, required indicators were complied with and are as follows:

	Consolidated			
Indicators		**2011**		**2010**
Net debt / EBITDAR (*) - *realized*	=	1.54	=	1,15
BNDES, Itaú, Rabobank (quarterly target)	≤	2.25	≤	2,25
EBITDAR / Net financial expenses - *realized*	=	4.70	=	6,08
BNDES, Itaú, Rabobank (quarterly target)	≥	2.00	≥	1,75
Price earnings ratio (PL / AT) - *realized*	=	0.28	=	0,27
BNDES (quarterly target)	≥	0.25	≥	0,20
Short-term net financial debt (**) / EBITDAR- *realized*	=	0.02	=	(0,04)
BNDES (quarterly target)	≤	0.35	≤	0,35

(In thousands of reais, unless otherwise indicated)

(*) Gross income balance less selling, general and administrative expenses and other net operating expenses/revenues, plus "depreciation and amortization" balance (including goodwill amortization, net of negative goodwill) and operating lease transaction expenses.

(**) Current liabilities debt comprised of loans and financing, debentures, onerous debt with suppliers and loan, net of cash and cash equivalents, and short-term loan.

Guarantees and collateral signatures are presented in Note 21.

13 Debentures

On August 2, 2007, 2,500 debentures, not convertible into shares and issued in a single series by the Company, were subscribed and paid under the firm guarantee regime, with unit face value of R$ 100, totaling R$ 250,000. On the same date, funds were used to anticipate payment of loans and financing.

Debentures are valid for seven years, counted as of issuance date and maturing on July 2, 2014, and are remunerated at CDI rate + 0.85% p.a.

The amounts are shown below:

	Consolidated e Parent Company	
	2011	**2010**
Debentures(*) 1st issue: single series		
Local currency		
Principal	214,286	250,000
Interest	13,091	14,007
	227,377	264,007
(-) Current liabilities	84,520	49,721
Non-current liabilities	142,857	214,286

* Unsecured debentures

(In thousands of reais, unless otherwise indicated)

Non-current balance of debentures matures as follows:

	2011	
	Consolidated and Parent Company	
2013	71,429	71,429
2014	71,428	71,428
	142,857	142,857

Indices established by financial institutions, related to debentures and calculated based on consolidated financial statements, were met as of December 31, 2011 and December 31, 2010 and are presented in Note 12.

14 Authorization for telecommunication services payable and equipment suppliers

In May 2011, CTBC Celular signed with ANATEL the contract for the acquisition of H Band license for R$ 30.5 million, and is authorized to offer 3G services in over 230 municipalities of Minas Gerais State. Of this license total amount, 90% will be financed by ANATEL itself, and is adjusted at IST (Telecommunication Services Index) +1% p.m. Payment period is 8 years, with amortizations paid in annual and equal installments beginning as of the 3rd year.

As of December 31, 2010, the Company and its subsidiaries CTBC Celular and CTBC Multimídia acquired from Huawei do Brasil and Huawei Serviços, data transmission equipment and service to be used in its operating activities. Debt balance with final maturity in 2011 bears average interest corresponding to 100% of CDI + 0.99% p.a.

(In thousands of reais, unless otherwise indicated)

	Consolidated		Parent Company	
	2011	**2010**	**2011**	**2010**
Huawei do Brasil	-	2,284	-	194
Huawei Serviços	-	7,259	-	4,260
Aymoré Financiamentos	-	56	-	-
Cemig Distribuições	339	-	339	-
Agência Nacional de Telecomunicações (ANATEL)	24,530	-	-	-
Total	**24,869**	**9,599**	**339**	**4,454**
Current liabilities	339	9,599	339	4,454
Non-current liabilities	24,530	-	-	-

15 Taxes, duties and contributions

	Consolidated		Parent Company	
	2011	**2010**	**2011**	**2010**
ICMS	27,358	25,256	17,041	17,425
COFINS	7,141	6,789	2,574	2,625
PIS	1,535	1,468	550	569
IRRF	5,183	4,662	1,398	1,646
INSS	1,815	438	474	196
Fust/Funttel	1,298	1,201	744	741
ISS	2,517	2,149	373	277
Other	1,924	1,407	470	388
Total	48,771	43,370	23,624	23,867

(In thousands of reais, unless otherwise indicated)

16 Salaries, provisions and social charges

	Consolidated		Parent Company	
	2011	**2010**	**2011**	**2010**
Salaries and wages	16,348	12,125	297	693
Social security charges on salaries and wages	13,587	9,680	2,438	1,848
Vacation and social security charges	42,650	38,175	11,682	10,731
Bonuses	25,516	27,768	12,087	11,197
Others	9,790	4,611	1,090	191
	107,891	92,359	27,594	24,660

17 Tax installments

	Consolidated		Parent Company	
	2011	**2010**	**2011**	**2010**
Social security contributions	2,198	8,865	1,590	5,028
Federal taxes	30,915	40,813	3,106	13,563
	33,113	49,678	4,696	18,591
Current liabilities	7,517	16,784	3,365	3,007
Non-current liabilities	25,596	32,894	1,331	15,584

(In thousands of reais, unless otherwise indicated)

Taxes payable in long-term installments mature as follows:

	2011	
	Consolidated	**Parent Company**
2013	17,364	1,331
2014	2,995	-
2015	2,792	-
2016 onwards	2,445	-
	25,596	1,331

The Company and its subsidiaries are complying with obligations within terms and conditions provided for in installment plans and respective laws.

Installment Law 11941 of May 27, 2009 - REFIS IV

The Company and its subsidiaries joined the Installment Program established by Law 11941/2009, and it may divide debts managed by the Brazilian Federal Revenue Service and the National Treasury Attorney General (PGFN), including the remaining balance of debts consolidated in the tax recovery program ("REFIS"), PAES and PAEX that matured until November 30, 2008, into up to 180 monthly installments.

Adhesion was authorized and the Company and its subsidiaries indicated debts for consolidation on June 30, 2011, according to the established legal period.

The amount of R$ 10,753, related to tax credits, was used to pay installments in accordance with legal provisions, reducing payable installment balance.

Subsidiaries Algar Mídia and CTBC Multimídia were not able to consolidate II (import tax), IPI (excise tax), PIS and COFINS (taxes on revenue) debts with PGFN, due to an alleged error when informing the adhesion code. PGFN rejection is the object of a lawsuit and a reserve was recorded for debts (reserve amounts to R$ 12,814).

(In thousands of reais, unless otherwise indicated)

18 Provisions and judicial deposits

The Company and its subsidiaries periodically evaluate their contingency risks, based on legal, economic and accounting criteria. These risks are classified based on expected probable, possible or remote losses, according to the contingency level, considering legal advisors' analyses. Either due to a legal determination or to care, judicial deposits are made, and they may be linked to contingencies for which a provision has been may have been recorded or not.

a. Legal and administrative proceedings for which a provision was recorded

	Consolidated				
	Labor	**Tax**	**Adm, proceedings ANATEL**	**Civil and others**	**Total**
Provisions on 12/31/2010	19,067	91,221	22,635	6,013	138,936
Judicial deposits	(8,466)	(63,830)	(1,694)	(894)	(74,884)
Net provisions on 12/31/2010	10,601	27,391	20,941	5,119	64,052
Additions	2,508	26,727	5,233	4,157	38,625
Monetary restatement	15	13,924	-	804	14,743
Write-offs	(2,669)	(1,362)	(163)	(1,187)	(5,381)
Provisions on 12/31/2011	18,921	130,510	27,705	9,787	186,923
Judicial deposits	(11,241)	(70,270)	(1,754)	(482)	(83,747)
Net provisions on 12/31/2011	7,680	60,240	25,951	9,305	103,176

Notes to the financial statements

(In thousands of reais, unless otherwise indicated)

	Parent Company				
	Labor	**Tax**	**Adm. proceedings ANATEL**	**Civil and others**	**Total**
Provisions on 12/31/2010	4,309	37,406	22,786	3,657	68,158
Judicial deposits	(1,532)	(30,762)	(1,694)	(810)	(34,798)
Net provisions on 12/31/2010	2,777	6,644	21,092	2,847	33,360
Additions	(893)	15,722	5,233	330	20,392
Monetary restatement	-	8,235	-	-	8,235
Write-offs	(241)	(45)	(163)	(554)	(1,003)
Provisions on 12/31/2011	3,175	61,318	27,856	3,433	95,782
Judicial deposits	(1,313)	(33,627)	(1,754)	(311)	(37,005)
Net provisions on 12/31/2011	1,862	27,691	26,102	3,122	58,777

Legal and administrative proceedings and other risks refer to:

ANATEL civil and administrative proceedings

i. Administrative and legal proceedings that discuss penalties applied by ANATEL.
ii. Lawsuits filed by consumers (registration with consumer protection service "SPC", service enabling, discussion of accounts and service blockade), former suppliers and/or former commercial partners.
iii. Public Civil Action discussing changes in service plans.
iv. Administrative and legal proceedings discussing the divergence in calculation bases of amounts owed related to STFC concession extension and SMP authorization.
v. Legal proceedings with Electric Power Concessionaires discussing amounts charged for infrastructure sharing.

Labor

Labor claims discussing employment relationships, overtime, RSI/DORT indemnities and salary differences.

Tax

i. Social Contribution on Net Income("CSLL"): Algar Tecnologia obtained a final court decision that was issued in the Declaratory Action, according to which non existence of a tax legal relationship deriving from the enactment of Law 7,689/88, which established CSLL, was recognized. The Federal Revenue Service ("RFB") did not consider the effects of said decision and issued an assessment notice. (Value of provision: R$ 14,295 - Linked judicial deposit: R$ 9,082).

ii. Telecommunication Services Universalization Fund ("FUST"): the Company and its subsidiaries, CTBC Multimídia and CTBC Celular, filed a lawsuit on changes imposed by Abstract no. 07/2005 of ANATEL, which prohibited exclusion of interconnection revenues and EILD from the contribution calculation basis, and imposed its charge retroactive to 2000. (Value of provision: R$ 24,390 - Linked judicial deposit: R$ 22,471).

iii. Social Integration Program ("PIS") and Contribution for the Financing of Social Security ("COFINS"): The Company and its subsidiaries, CTBC Multimídia, CTBC Celular and Image, discuss the inclusion of ICMS in PIS and COFINS calculation bases, as they understand that this portion does not represent earned revenue (Provision value: R$ 34,940 and restricted judicial deposit: R$ 35,003).

iv. Social Investment Fund ("FINSOCIAL"): tax collection proceeding whose object is debt whose expiration date has been reached. The Company joined REFIS in 2000 to divide other debts in installments and Federal Revenue Service included such debts on an unilateral basis. In view of this, National Treasury understood that there was a tacit waiver on the right on which Clarifications on Collection are based. (Value of provision: R$ 5,228).

v. PIS, COFINS, Corporate Income Tax (IRPJ) and Social Contribution on Net Income (CSLL): subsidiary CTBC Telecom and its subsidiaries CTBC Celular and CTBC Multimídia conducted, in December 2011, a write-off of amounts owed to third parties as a result of the end of the applicable statute of limitations. (Value of provision: R$ 11,519).

vi. PIS and COFINS: the Company and its subsidiary CTBC Celular are discussing the classification of some products and services to determine contributions. (Value of provision: R$ 16,480).

(In thousands of reais, unless otherwise indicated)

vii. Service Tax ("ISS"): the Company and its subsidiary CTBC Celular have to pay ISS on revenues from services that are taxed by ICMS. (Value of provision: R$ 1,073).

viii. ICMS TAX: the Company and its subsidiary CTBC Celular claim for the recognition of the right to ICMS credit related to debt reversals made upon rendering of telecommunication services. (Value of provision: R$ 2,466).

ix. ICMS TAX: subsidiary CTBC Multimídia is discussing the use of ICMS credit in a establishment other than that indicated in the tax document. (Value of provision: R$ 3,148).

x. Import Tax ("II") and Excise Tax ("IPI"): subsidiary Algar Mídia has filed a lawsuit to guarantee the consolidation of II and IPI debts into payment in installments of Law no. 11,941/2009. (Value of provision: R$ 1,709).

b. Legal and administrative proceedings for which a provision is not recorded

	Consolidated		**Parent Company**	
	2011	**2010**	**2011**	**2010**
Federal taxes	1,619	680	1,480	586
TFI	16,176	15,053	-	-
EBC	3,212	1,919	661	393
FUNTTEL	4,470	969	2,486	543
FUST	3,234	3,414	1,436	1,060
INSS	17,714	16,575	-	-
ISS	3,843	-	18	-
ICMS	11,487	6,814	868	306
Occupation of right of way	18,885	-	18,885	-
Others	1,041	828	1,015	802
	81,681	46,252	26,849	3,690

The main tax lawsuits of the Company and its subsidiaries with risk level considered as possible by its legal advisors and for which there is no accounting provision, are as follows:

i. Federal Taxes: Non homologation of offsets made by the Company and its subsidiaries considering divergences between information included in offset statements and accessory obligations delivered to tax authorities. (Involved amount: R$ 1,619).

ii. Installation Inspection Fee ("TFI"): charge to subsidiary CTBC Celular upon extension of the operation license for its stations. Charge is based on ANATEL Resolution that extended the hypothesis of levy of said fee. CTBC Celular presented the competent objection to that charge. (Involved amount: R$ 16,176).

iii. Fund for the Technological Development of Telecommunications ("FUNTTEL") and FUST: the Company and its subsidiaries CTBC Celular, CTBC Multimídia and Image object to entries related to differences determined upon payment of contributions to FUNTTEL and FUST, as a result of the inclusion of interconnection revenues and services other than telecommunication services in the contribution calculation basis (Amount involved: R$ 7,704).

iv. INSS: Federal Revenue Service tax assessment notices to subsidiaries Algar Tecnologia and Algar Mídia requiring social security contribution on payroll transportation voucher and employer contribution to private pension plans. A portion of debts understood as owed was settled by subsidiaries and the remaining amount was divided into installments, and the difference in relation to total tax assessment notice was subject to an administrative objection, whose outcome was unfavorable to the Company. Attorney office collected the debt related to two of the three administrative proceedings, and we conducted the discussion through Clarifications, by pledging properties in guarantee In addition to STF favorable decision, an Abstract strengthening the thesis was issued by AGU, thus increasing the likelihood of success. (Involved amount: R$17,714).

v. Contribution to Empresa Brasil de Comunicação ("EBC"): In October 2007, Provisional Act no. 398 was issued and later enacted into Law no. 11,652/08, which established the Contribution to Public Radio Broadcast, and the Company and subsidiary CTBC Celular are discussing in court the unconstitutionality of said Contribution. Owed amounts are being deposited in court. (Involved amount: R$ 3,212 - deposited in court).

vi. ISS: Subsidiary CTBC Multimídia is discussing with Municipalities the levy of ISS on rental of dark fiber . (Involved amount: R$ 3,843).

vii. Import ICMS: Tax collection filed by Minas Gerais State against subsidiary CTBC Celular to collect ICMS on import of equipment made by one of its suppliers, which promoted the entry of equipment through São Paulo State, where it is headquartered. (Involved amount: R$ 6,319).

(In thousands of reais, unless otherwise indicated)

viii. Lawsuits with road Concessionaires discussing the legality of charging amounts for the underground passage of cables in the right of way, which is considered of common use, not included in the concession granted to Concessionaires. (Involved amount: R$ 18,885).

ix. ICMS TAX: Subsidiary CTBC Multimídia is discussing the recording of ICMS credits in an establishment other than that indicated in the tax document. (Involved amount: R$ 4,299).

19 Shareholders' equity

a. *Capital*

The Company's authorized capital is represented by 1,000,000 common and preferred shares, all nominative and with no par value.

Preferred shares do not give to their holders the right to vote in social resolutions and are entitled to: a) priority in receiving the mandatory minimum dividend of 25% on net income; b) participation, under conditions equal to those of common shares, in net income remaining balance, after paying mandatory dividends to holders of common shares; c) priority in capital reimbursement, without premium, in case of Company liquidation; and d) dividends 10% higher than those of common shares.

Common shares grant to their holders the voting right, with one vote for each of the Company's share.

As of December 31, 2011 and 2010, capital was comprised as follows:

Amount of capital stock	271,641
Quantity of shares	
Common shares (ON)	281,933
Preferred shares (PN)	58,464
Total	**340,397**

b. Amounts to be refunded to shareholders

In January 2006, pursuant to the terms of Article 12 of Law no. 6,404/76, the Company conducted a reverse stock split at the rate of 1,000 shares for each share. The purpose of the reverse stock split was: (a) to reduce administrative and operating costs to the Company and its shareholders; (b) improve efficiency of recording systems, controls and information disclosure; and (c) reduce the likelihood of information and communication errors, improving service to the Company's shareholders. After the reverse stock split, a communication was issued to shareholders that became holders of a share fraction to express their intention of remaining in the Company, capitalizing the remaining share fraction, or of receiving calculated credit. After the legal period, amounts were recorded in current liabilities, available to shareholders.

In December 2011, the Company and its subsidiaries CTBC Celular and CTBC Multimídia wrote off amounts previously accounted for as current liabilities as a contra entry to other operating revenues (note 27), based on the elapsing of the statute of limitations provided for in the civil law applied to unredeemed credits. Wrote-off amounts were R$ 15,312 in the Company, R$ 6,299 in CTBC Celular and R$ 6,852 in CTBC Multimídia, totaling R$ 28,463. As of December 31, 2010, amounts recorded were R$ 15,404 in the Company, R$ 6,892 in CTBC Celular and R$ 6,892 in CTBC Multimídia, totaling R$ 28,634 in the consolidated.

c. Legal reserve

Recognized in conformity with the Brazilian Corporate Law and the Bylaws, at 5% of net income for each year, considering the maximum limit of 20% of capital. Current legal reserve is R$ 19,632 as of December 31, 2011 (12,748 in 2010), representing, in December 2011, 7.2% of the Company's capital.

d. Profit reserve

The remaining balance of accumulated profit was reclassified to earnings reserve, in a caption denominated "Earnings retention reserve", in accordance with the provisions of Law 11,638/2007, to be applied in modernization and expansion, as proposed by Management, based on budget to be approved in a Shareholders' Meeting.

(In thousands of reais, unless otherwise indicated)

e. *Dividends and interest on own capital*

Dividends proposed by the Company in years ended December 31, 2011 and 2010 are as follows:

	Parent Company	
	2011	**2010**
Net income for the year	133,899	116,203
Adjustment of interest on capital	3,765	7,150
Net income for the year - adjusted	137,664	123,353
Legal Reserve - 5%	(6,883)	(6,168)
Income that is the basis for dividend distribution	130,781	117,185
Dividends	32,695	41,472
Additional 10% of dividends to preferred shares	562	712
Total dividends to distribute	33,257	42,184
Interest on capital, net of withheld income tax	(3,666)	(6,078)
Dividends payable	29,591	36,106

	Parent Company	
Dividends per class of shares	**2011**	**2010**
Dividends - Common shares (281,933 shares):		
Unit value (in R$)	96.05	121.83
Total ON	27,080	34,349
Dividends - Preferred shares (58,464 shares):		
Unit value (in R$)	105.66	134.02
Total PN	6,177	7,835
Total dividends (340,397 shares)	33,257	42,184

As proposed by Management, interest on capital calculated based on long-term interest rate ("TJLP") variation was credited, pursuant to the terms of Law 9249/95, and recorded in financial expenses, as required by tax laws. To prepare financial statements, this interest was reversed from financial expenses and presented in shareholders' equity as income. Interest on capital was recorded as mandatory minimum dividends at the value net of withheld income tax.

f. Equity evaluation adjustment

In the transition from previous accounting practices to IFRS/CPCs, costs were assigned to property, plant and equipment items recognized in land and buildings of subsidiaries Algar Tecnologia, Engeset and Algar Mídia, so as to reflect the fair value of these assets on the date CPC new pronouncements were adopted. The Company recorded in valuation adjustment to equity the effects of adjustments made in subsidiaries. Realization of valuation adjustment to equity to accumulated earnings occurs proportionately to the realization of the corresponding property, plant and equipment.

20 Benefits to employees - Algar-Prev Pension Plan

The Company and its subsidiaries and part of their associates contribute as sponsors to a defined contribution Pension Plan managed by BrasilPrev.

The benefits of the aforementioned plan can be basically summarized as follows:

a. Retirement benefit for survival: a defined contribution plan the reserves of which are updated financially and not actuarially;

b. Benefit of risks that are structured in defined benefit modality in the allocation regime. It is the Company's and its subsidiaries' responsibility to pay contributions, and it is BrasilPrev responsibility to recognize all reserves that are necessary for the commitment assumed, with benefit payment beginning as of the occurrence of the generating event, and not creating an actuarial liability to the Company.

In the year ended December 31, 2011, contribution related to the Company's portion was approximately R$ 1,283 (R$ 1,005 in 2010) R$ 2,241 (R$ R$1,690 in 2010) in the consolidated.

(In thousands of reais, unless otherwise indicated)

21 Related party transactions

Main assets and liabilities' balances as of December 31, 2011 and 2010, as well as transactions that influenced income, referring to related-party transactions, are the result of transactions made by the Company with its parent company, subsidiaries, associates, key Management professionals and other related parties.

The direct parent company of the Company is Algar S.A., which is also its final parent company.

Transactions between the group's companies encompass commercial transactions for the purchase and sale of products and raw material, and the contracting of services and some financial fund transactions, as detailed below in respective accounting lines:

		Consolidated		**Parent Company**	
	Ref.	**2011**	**2010**	**2011**	**2010**
Current assets					
CTBC Celular	(a)	-	-	8,701	3,882
CTBC Multimídia	(a)	-	-	8,567	617
Algar Tecnologia	(a)	-	-	1,600	3,801
Image	(a)	-	-	2,301	1,894
Engeset	(a)	-	-	1,419	1,848
Algar Mídia	(a)	-	-	951	-
Algar S.A	(a)	286	4,619	210	200
RQ Empar	(a)	-	27	-	-
Space	(a)	125	18	-	-
ABC Inco	(a)	1,452	1,763	1,149	1,149
Others	(a)	109	8	-	-

(In thousands of reais, unless otherwise indicated)

		Consolidated		Parent Company	
	Ref.	**2011**	**2010**	**2011**	**2010**
Non-current assets					
CTBC Celular	(b)	-	-	36,649	-
CTBC Multimídia	(c)	-	-	335	-
Image	(c)	-	-	96	-
Algar S.A	(d)	2,805	2,662	2,805	2,662
Current liabilities					
CTBC Celular	(e)	-	-	2,978	768
CTBC Multimídia	(e)	-	-	152	2
Algar Tecnologia	(e)	-	-	271	2,000
Engeset	(e)	-	-	1,667	2,805
Algar Mídia		-	-	42	-
Algar S.A	(f)	30,121	26,395	29,419	27,210
RQ Empar	(e)	-	192	-	-
Space	(e)	172	487	-	-
ABC Inco	(e)	-	-	-	254
Non-current liabilities					
Engeset				3,202	-

Notes to the financial statements

(In thousands of reais, unless otherwise indicated)

		Consolidated		Parent Company	
	Ref.	**2011**	**2010**	**2011**	**2010**
Revenue					
CTBC Celular	(g)	-	-	23,714	26,243
CTBC Multimídia	(g)	-	-	7,665	8,694
Algar Tecnologia	(g)	-	-	2,075	3,327
Algar S.A	(g)	3,096	1,564	-	833
RQ Empar	(g)	15	272	-	-
Space	(g)	221	310	-	-
ABC Inco	(g)	2,101	3,068	-	-
Others	(g)	278	292	-	-
Cost					
CTBC Celular	(h)	-	-	(43,081)	(46,285)
CTBC Multimídia	(h)	-	-	(14,425)	(13,667)
Algar Tecnologia	(i)	-	-	(29,811)	(25,729)
Engeset	(j)	-	-	(27,993)	(31,469)
Space	(k)	(22,364)	(19,396)	(13,551)	(12,456)
Others	(l)	-	-	(266)	(12)

(a) Refers to accounts receivable on the rendering of telecommunication services, credits from the on lending of expenditures and dividends receivable;

(b) Refers to a loan with subsidiary CTBC Celular for investments in its business;

(c) Refers to the assumption of federal tax installment debts of the Group's companies. It also includes costs for sharing the implementation of the R12 system of Oracle;

(d) Refers to amounts to be received by the Holding for the on lending of funds;

(e) Engineering, service, interconnection and other services contracted from companies of the group;

(f) Dividends and interest on capital payable;

(g) Refers to revenue from the provision of telephony services to group companies;

(h) Refers to the rendering of fixed-mobile interconnection services, EILD, convergent broadband communication and broadband access to Internet, co-location and hosting services;
(i) Active and receptive telemarketing service, call center, management, service point rentals, charge and back office services;

(j) Refers to inventory management and storage services, optical fiber work, network maintenance, maintenance and operation of internal plant, maintenance of rural telephony and installation of terminals, warehouse management and maintenance of public terminals;

(k) Refers to services of commercial electronic monitoring, reception, valet, monitoring equipment rental, organization and storage of documents, vigilance and armed security services; and

(l) Refers mainly to property rental expenses.

(In thousands of reais, unless otherwise indicated)

Guarantees and collaterals:

			2011
Company	**Guarantor**	**Financial institution**	**Debit balance**
CTBC Telecom	Algar S/A	BDMG	34,605
		BNDES	100,385
		HSBC	60,027
		Itaú BBA	40,829
		Safra	32,843
	Algar S/A	Unibanco	379
		Safra	20,211
CTBC Celular	Algar S/A and CTBC Telecom	BDMG	34,756
		BNDES	15,075
	CTBC Telecom	CEF	29,009
		IBM	1,268
		Itaú BBA	2,410
CTBC Multimídia	Algar S/A	Banco do Brasil	1,264
	Algar S/A and CTBC Telecom	BDMG	1,086
		BNDES	13,221
	CTBC Telecom	IBM	34,458
		Rabobank	3,774
Image	Algar S/A and CTBC Telecom	BDMG	557
		BNDES	5,116
	CTBC Telecom	IBM	272
Algar Tecnologia	CTBC Telecom	Banco do Brasil	18,525
		IBM	26,100
	Synos	HSBC	922
		Safra	190
Engeset	CTBC Telecom	Banco do Brasil	4,578
		IBM	8,106
Algar S/A	CTBC Telecom	Itaú BBA	19,640

(In thousands of reais, unless otherwise indicated)

Management remuneration

Remuneration of Management members, responsible for the planning, administration and control of the Company and its subsidiaries businesses, which include members of the Board of Directors and statutory officers, is calculated as general and administrative expenses for the period, including corresponding benefits and payroll charges, as follows:

	Consolidated		Parent Company	
	2011	**2010**	**2011**	**2010**
Salaries and other short-term benefits	13,393	12,520	7,996	7,687

22 Net operating income

	Consolidated		Parent Company	
	2011	**2010**	**2011**	**2010**
Fixed telephony	969,966	958,390	1,003,575	996,815
Mobile telephony	302,044	303,332	-	-
Authorization data	309,874	244,832	-	-
Pay TV	77,195	34,389	-	-
BPO/IT and consulting	392,748	316,370	-	-
Telephone directories	42,417	38,920	-	-
Network engineering	62,256	48,540	-	-
Gross operating income	2,156,500	1,944,773	1,003,575	996,815
Tax and deductions	(474,342)	(434,029)	(258,250)	(257,497)
Net operating income	1,682,158	1,510,744	745,325	739,318

(In thousands of reais, unless otherwise indicated)

23 Cost of products sold and services provided

	Consolidated		Parent Company	
	2011	**2010**	**2011**	**2010**
Personnel	(365,179)	(294,612)	(27,612)	(30,413)
Materials	(21,128)	(20,010)	(7,158)	(6,582)
Outsourced services	(139,442)	(112,124)	(71,951)	(70,541)
Interconnection costs	(210,077)	(220,013)	(185,585)	(191,114)
Connection means - EILD	(39,696)	(29,561)	(31,403)	(23,783)
Depreciation and amortization	(125,448)	(133,026)	(56,716)	(70,706)
Leasing	(764)	(655)	-	-
Cost of goods sold	(19,824)	(19,799)	(59)	(217)
Others	(84,166)	(53,315)	(21,509)	(27,794)
	(1,005,724)	(883,115)	(401,993)	(421,150)

24 Sales expenses

	Consolidated		Parent Company	
	2011	**2010**	**2011**	**2010**
Personnel	(113,436)	(97,524)	(44,489)	(39,775)
Materials	(1,724)	(1,939)	(622)	(799)
Outsourced services	(99,954)	(101,429)	(57,634)	(57,144)
Depreciation and amortization	(2,681)	(2,601)	(2,040)	(1,880)
Others	(26,099)	(20,876)	(12,839)	(12,121)
	(243,894)	(224,369)	(117,624)	(111,719)

(In thousands of reais, unless otherwise indicated)

25 Administrative and general expenses

	Consolidated		Parent Company	
	2011	**2010**	**2011**	**2010**
Personnel	(66,351)	(58,587)	(32,777)	(32,307)
Materials	(1,073)	(601)	(562)	(361)
Outsourced services	(78,205)	(73,863)	(42,416)	(41,394)
Depreciation and amortization	(16,686)	(14,599)	(11,449)	(11,198)
Leasing	(1)	-	-	-
Others	(7,211)	(5,579)	(3,978)	(3,886)
	(169,527)	(153,229)	(91,182)	(89,146)

26 Net financial income (loss)

	Consolidated		Parent Company	
	2011	**2010**	**2011**	**2010**
Revenue from interest earning bank deposit	15,891	13,971	7,443	8,081
Interest on overdue payments	5,567	5,173	2,395	2,812
Interest on taxes, duties and contributions	6,738	8,969	3,777	6,894
Other financial income	3,239	7,159	501	804
Total financial income	31,435	35,272	14,116	18,591
Interest on loans	(41,495)	(37,525)	(18,029)	(17,722)
Interest on debentures	(28,240)	(26,007)	(32,071)	(26,007)
Net exchange variation, net	(7,351)	(7,952)	(3,783)	(4,316)
Discounts granted	(6,297)	(5,721)	(3,204)	(2,752)
Charges on provisions, taxes and rates	(18,017)	(11,931)	(3,535)	(5,311)
Bank fees and charges	(14,888)	(9,861)	(4,456)	(5,363)
Other financial expenses	(2,599)	(3,561)	(6,157)	(1,260)

(In thousands of reais, unless otherwise indicated)

	Consolidated		Parent Company	
	2011	**2010**	**2011**	**2010**
Total financial expenses	(118,887)	(102,558)	(71,235)	(62,731)
Financial expenses, net	(87,452)	(67,286)	(57,119)	(44,140)

27 Other operating income (expenses), net

	Consolidated		Parent Company	
	2011	**2010**	**2011**	**2010**
Concession expenses	(4,782)	(7,279)	(3,355)	(4,660)
Provisions	(35,217)	(14,609)	(20,323)	(9,594)
Reversal of provisions	5,444	14,557	1,421	6,156
Contractual and telecommunication service fines	10,929	12,027	8,004	7,338
Gain in the sale of property, plant and equipment	3,043	956	1,151	362
Other income (expenses), net	23,075	2,783	10,923	771
	2,492	8,435	(2,179)	373

28 Financial instruments and risk management

The Company is exposed to the following risks as a result of the use of financial instruments:

- Credit risks
- Liquidity risk
- Market risk
- Operational risk

28.1 Considerations

a. Credit risk

Credit risk is the risk of financial loss to the Company and its subsidiaries, in case a client or counterparty in a financial instrument does not comply with its contractual obligations, resulting mainly from investment securities' receivables.

a.1 - Trade accounts receivable:

The Company and its subsidiaries continuously monitor credit granted to their clients and the default level. Accounts receivable credit risk arises from billed and unbilled amounts from telecommunication services, cell phone resale and distribution of prepaid cards and inductive cards.

Access of clients of fixed telephony services is partially blocked whenever their account is not paid for more than 30 days, and fully blocked when the account is not paid for more than 60 days. Exceptions are only for telephony services that should be maintained for national security or defense reasons. The Company maintains credit limits for its resellers and distributors of prepaid and inductive cards, which are defined based on sales potential, risk history, payment punctuality and default.

Access of clients of mobile telephony services of subsidiary CTBC Celular is partially blocked whenever their account is not paid for more than 15 days, and fully blocked when the account is not paid for more than 30 days.

Credit risk from accounts receivable resulting from CTBC Celular service rendering is diversified. CTBC Celular maintains credit limits for cell phone resellers and prepaid cards distributors which are defined based on sales potential, risk history, payment punctuality and default, with promissory notes and other real guarantees.

Credit risk related to services rendered by Algar Tecnologia, as well as the risk of revenue concentration in a few clients, is minimized by a credit analysis defined based on sales potential, risk history, payment punctuality and default of clients, as well as the distribution of client contracts in several operation types.

(In thousands of reais, unless otherwise indicated)

The same policy is used to analyze of other subsidiaries' credit, defined based on sales potential, risk history, payment punctuality and default.

The Company's exposure to credit risks is influenced mainly by individual characteristics of each client. However, the Company's management also considers these risks taking into consideration risks per region that are analyzed from the history of credits with doubtful payment. Management of accounts receivable credit risks presents the following aspects per company:

In the Company and in subsidiaries CTBC Celular, CTBC Multimídia, Algar Mídia e Image - revenues are scattered in their clients' portfolio, and there is no significant concentration on specific clients.

For subsidiaries Algar Tecnologia and Engeset, statement of Group dependence and revenue concentration are as follows:

Subsidiary	**Intra economic group revenue**		**Revenue concentration**		
	2011	**2010**	**Trade accounts receivable**	**2011**	**2010**
Algar Tecnologia	12%	15%	3	40%	44%
Engeset	46%	58%	4	81%	87%

Management established credit policies to analyze clients on an individual basis for the purpose of giving proper treatment to several identified situations, based on effective credit analysis.

(In thousands of reais, unless otherwise indicated)

a.2 - Guarantees

Algar Group internal policies provide for the rendering of financial guarantees between related companies, always based on a careful analysis of the transaction performed, as well as feasibility for involved companies. As of December 31, 2011 and 2010, the Company and its subsidiaries CTBC Celular, CTBC Multimídia and parent company Algar S.A. were the guarantors of loans and financing with financial institutions (Note 21).

b. *Liquidity risk*

The Company's management manages liquidity risks to ensure compliance with obligations associated to financial liabilities, either by settlement in cash or in other financial assets, always maintaining a plan to comply with these obligations at regular market conditions or at specific conditions, according to risk level.

Financial liabilities' contractual maturities, including estimated interest and excluding impact from currency negotiation agreements by net positions, are as follows:

	Consolidated				
	2011				
	Book value	**Contractual cash flow**	**1 to 2 years**	**2 to 5 years**	**Over 5 years**
Non-derivative financial liabilities					
Loans and financing	504,726	650,454	273,925	326,677	49,852
Debentures	227,377	257,290	180,037	77,253	-
Financial lease liability	4,736	4,887	4,570	317	-
ANATEL authorization and equipment suppliers	24,870	39,058	11,002	21,302	6,755
Derivative financial liabilities					
Interest rate swaps used for hedge	53,054	67,459	-	67,459	-
Total	**814,763**	**1,019,148**	**469,534**	**493,008**	**56,607**

Notes to the financial statements

(In thousands of reais, unless otherwise indicated)

	Parent Company				
	2011				
	Book value	Contractual cash flow	1 to 2 years	2 to 5 years	Over 5 years
Non-derivative financial liabilities					
Loans and financing	298,855	384,318	159,706	198,696	25,915
Debentures	227,377	257,290	180,037	77,253	-
Financial lease liability	4,158	4,187	4,187	-	-
Suppliers of equipment	339	339	339	-	-
Derivative financial liabilities					
Interest rate swaps used for hedge	32,843	41,760	-	41,760	-
Total	**563,572**	**687,894**	**344,269**	**317,709**	**25,915**

The Financial Applications Policy established by the Company Management elects the financial institutions with which contracts may be entered into, in addition to setting limits on the percentage of allocation of resources and absolute values to be applied to each one.

c. *Market risk*

Market risks are mainly related to the risk of changes in prices of products and services offered by the Company, as well as foreign exchange and interest rates, and other rates that may influence its revenue, as well as assets and liabilities' values. Management objective is to manage and control the Company's exposure to market risks, within compatible limits, secluding obstacles to business growth.

The Company contracts derivative financial instrument transactions to manage and minimize the risk of exposure to possible variations in foreign exchange rates, and these transactions are recorded in balance sheet accounts for the purpose of reducing exposure to currency risks, as well as maintaining investment capacity and growth strategy. Financial investments, loans and financing are contracted, in addition to derivative financial instruments ("*Swap*").

(In thousands of reais, unless otherwise indicated)

c.1 - Exchange rate risk

Results from the possibility of oscillations of the exchange rates of foreign currencies used by the Company and its subsidiaries for the acquisition of equipment, inputs, and the contracting of financial instruments.

Exposure to foreign currency variation (US dollar), recorded in consolidated financial statements, is as follows:

	Consolidated	
	2011	**2010**
Liabilities in foreign currency:		
Loans and financing	53,054	3,115
Suppliers	2,610	3,747
	55,664	6,862

- Sensitivity analysis - Foreign exchange

As the Company has only *Swap* instruments to protect its financial debt, variations in scenarios are accompanied by respective hedge objects, showing that effects are practically null. For these transactions, the Company disclosed object (debt) and *Swap* financial instrument balances in separate lines of the sensitivity analysis chart, in order to demonstrate the Company and its subsidiaries' exposure in each of the three mentioned scenarios, as follows:

- Sensitivity analysis - interest rate

Scenarios for the exposure of financial instruments indexed at interest rate were outlined based on curves determined as of December 31, 2011, by calculating the impact of financial expenses over one year, as follows:

Variable of risk	**Risk**	**Scenario I**	**Scenario II**	**Scenario III**
CDI	Increase in CDI	38,352	47,940	57,528

Assumptions for the sensitivity analysis:

Variable of risk	**Scenario I**	**Scenario II**	**Scenario III**
CDI (%)	10.87	13.59	16.31

d. Operational risks

Operating risks are direct and indirect loss risks deriving from several causes associated to the Company's processes, as well as to employees, technology and infrastructure, in addition to external market and liquidity factors, as those deriving from lawsuits and regulatory requirements.

The purpose of the Company is to manage operating risks, as well as to avoid financial losses and damages to the companies' reputation, through procedures and policies aligned with the Company's activities and business.

The Company's top management is responsible for developing, implementing and monitoring controls to address operating risks, and is aided by the Internal Audit area mainly regarding internal controls and policies' periodic reviews, to ensure proper implementation and operation.

28.2 Capital management

The Company's policy of maintaining a solid capital basis raises the trust of investors, creditors and the market, and sets the foundations for future business development. Constant monitoring of capital return and care on dividend distribution policy are longstanding practices of respect to the shareholder and the enterprise managed.

When administrating capital, the Company's purpose is to safeguard its continuity as a going concern to offer return to shareholders and benefits to other stakeholders, in addition to maintaining an ideal capital structure able to promote the optimization of incurred costs.

The Company and its subsidiaries do not carry out transactions with complex derivative financial instruments. The Company and its subsidiaries do not invest in derivatives or any other risk assets on a speculative basis. The Company's Steering Committee is implementing, in conjunction with the Internal Audit department, policies to prevent the contracting of derivative financial instruments other than for hedging purposes and that are considered as standard instruments with known risks ("*plain-vanilla*"). The results obtained from such operations are consistent with the policies and strategies defined by Company's management.

a. Estimated market values

The Company used the following methods and assumptions to estimate the disclosure of its financial instruments' fair values, as of December 31, 2011.

Cash and cash equivalents **-** are presented at market value, which is equivalent to book value.

Accounts receivable **-** derive directly from the Company and its subsidiaries' operations and are classified as loans and receivables, recorded at original values and subject to provision for losses. Original amounts are similar to fair values on financial statements date.

Accounts receivable from related parties **-** are presented at original values adjusted for inflation, as described in note 20.

Loans, financing and debentures (in domestic and foreign currency) **-** are measured at amortized cost and accounted for at contract values. The fair values of these loans are equivalent to their book values.

Derivative financial instruments **-** are measured at fair value, with contra entry in income.

(In thousands of reais, unless otherwise indicated)

b. Financial indebtedness

	Consolidated					
	2011			2010		
	Currencies			Currencies		
Assets	**Local**	**Foreign**	**Total**	**Local**	**Foreign**	**Local**
Cash and cash equivalents	178,253	-	178,253	189,991	-	189,991
Related party credits	1,445	-	1,445	4,393	-	4,393
Total current assets	179,698	-	179,698	194,384	-	194,384
Related party credits	1,749	-	1,749	1,533	-	1,533
Total non-current assets	1,749	-	1,749	1,533	-	1,533
Total assets	181,447	-	181,447	195,917	-	195,917
Liabilities						
Loans and financing	100,522	-	100,522	116,623	3,115	119,738
Debentures	84,520	-	84,520	49,721	-	49,721
Suppliers of equipment	339	-	339	9,599	-	9,599
Total current liabilities	185,381	-	185,381	175,943	3,115	179,058
Loans and financing	408,940	53,054	461,994	274,107	-	274,107
Debentures	142,857	-	142,857	214,286	-	214,286
Suppliers of equipment	-	-	-	-	-	-
Telecommunication service authorization payable	24,530	-	24,530	-	-	-
Debts with related parties		-	-	-	-	-
Total non-current	576,327	53,054	629,381	488,393	-	488,393
Total liabilities	761,708	53,054	814,762	664,336	3,115	667,451
Net financial debt	580,261	53,054	633,315	468,419	3,115	471,534

c. *Fair value of financial instruments*

The fair values of financial assets and liabilities are determined based on available market information and appropriate valuation methodologies. The use of different market assumptions and/or estimation methodologies could cause a different effect on estimated market values.

CPC 40 / IFRS 7 defines fair value as the value/price that would be received on sale of an asset or paid on transfer of a liability, in the context of a regular transaction between market members, on measurement date. The standard clarifies that fair value should be based on assumptions that market participants use when assigning value/price to an asset or liability, and establishes a hierarchy that prioritizes information used to develop those assumptions. Fair value hierarchy assigns a higher weight to available market information (i.e., observable data) and a lower weight to information related to non-transparent data (i.e., non-observable data). In addition, the rule requires the company to consider all *non-performance risk* aspects, including the Company's own credit, when measuring a liability fair value.

CPC 40 / IFRS 7 establishes a hierarchy of three levels to be used in measurement and disclosure of fair value. The instrument to categorize fair value in the hierarchy is based on the lowest significant "input" level for its measurement. Below, we present the description of the three hierarchy levels:

The different levels were defined as follows:

Level 1 **-** Prices quoted (not adjusted) in active markets for identical assets and liabilities.

Level 2 **-** Inputs, except for quoted prices, included in Level 1 which are observable for assets or liabilities, directly (prices) or indirectly (derived from prices).

Level 3- Assumptions, for assets or liabilities, which are not based on observable market data (non-observable inputs).

(In thousands of reais, unless otherwise indicated)

	Consolidated-2011			
Description	**Level1**	**Level 2**	**Level3**	**Total**
Liabilities				
Loans and financing (swap)	-	53,054	-	53,054

	Parent Company-2011			
Description	**Level 1**	**Level 2**	**Level3**	**Total**
Liabilities				
Loans and financing (swap)	-	32,843	-	32,843

c.1 - Operations with derivatives

To supplement disclosures required by Technical Guideline OCPC-03, issued by the Accounting Pronouncements Committee (CPC) (which replaces Technical Pronouncement no. 14 that was revoked), CVM - through Instruction no. 475, issued on December 17, 2008 - established that publicly-owned companies should disclose qualitative and quantitative information, in a specific note, on all its derivative financial instruments, recognized or not as asset or liability in its balance sheet.

The Company and its subsidiaries maintain internal controls on derivative instruments, which, in Management's opinion, are adequate to control risks associated to each market operation strategy.

The Company conducts currency *Swap* transactions for the purpose of reducing possible losses arising from the devaluation of Brazilian real in relation to the US dollar, without speculative purposes.

(In thousands of reais, unless otherwise indicated)

The Company's management considers that contracted derivative instruments are not sophisticated and, therefore, the Company is using OCPC-03 (above mentioned guideline) to measure, present and evidence these instruments. Accordingly, the Company does not apply technical pronouncements issued by the Accounting Pronouncements Committee, CPC-38, CPC-39 and CPC-40, which address measurement, presentation and evidencing of sophisticated derivative financial instruments.

Active and passive positions of s*wap* transactions are estimated in accordance with market conditions, brought to present value. The difference arising from variation between active and passive positions of swap contracts results in the derivative fair value for the corresponding period.

As of December 31, 2011, the Company had two *swap* transactions, with active edge in US dollars plus 6.41% p.a. and passive edge in CDI plus 1.84% p.a., over the notional amount of R$52,500 (R$2,524 in 2010), engaged with a prime bank and registered with CETIP (Clearinghouse for the Custody and Financial Settlement of Securities).

The *swap* contract has the following characteristics and net values, segregated by passive and active components:

	Notional value		**Fair value**	
	12/31/2011	**12/31/2010**	**12/31/2011**	**12/31/2010**
Swap:				
Assets	52,500	2,524	59,230	1,950
Liabilities	(52,500)	(2,524)	(56,636)	(2,541)
	-	-	2,594	(591)

Fair value is calculated per discounted cash flow, and receipts and payments refer to cash flow estimates for the year. *Swap* value at risk, calculated for the month with 95% of reliability, is R$4,295 (R$47 in 2010).

Transaction gains and losses arising from differences in contracted rates variation in relation to *swap* rates are registered in income for the year at the accrual basis as foreign exchange variation. As of December 31, 2011, based on effective rates, fair value of all *swap* types totaled the consolidated amount receivable of R$2,594 (R$591 in 2010), already recorded in caption loans and financing as a contra entry to financial expenses.

(In thousands of reais, unless otherwise indicated)

Below, we present *swap* transactions per maturity year of the principal portion. Fair values refer to principal and interest present values:

Maturity	***Swap* – Assets**		***Swap* – Liabilities**	
	USD + 6.41% p.a.		**100% CDI + 1.84% p.a.**	
	Notional	**Fair value**	**Notional**	**Fair value**
2014	17,500	19,561	17,500	(18,542)
2015	17,500	19,780	17,500	(18,877)
2016	17,500	19,890	17,500	(19,217)
	52,500	59,231	52,500	(56,636)

The Company's and its subsidiaries' policy is not to contract financial instruments with amounts and/or margins pledged in guarantee. In addition, financial instruments herein indicated do not impact the Company or its subsidiaries' shareholders' equity.

d. Capital structure risk (or financial risk)

Results from the choice between own capital (capital transfers and profit retention) and third party capital that the Company and its subsidiaries make to finance its operations. To mitigate liquidity risks and optimize capital weighted average cost, the Company and its subsidiaries permanently monitor indebtedness level in accordance with market standards and index compliance ("*covenants*") provided for in loan, financing and debenture contracts. Under certain circumstances *hedge* operations are carried out to avoid fluctuations in the financial cost of the operations.

29 Segment information

(a) Telecom

Representing the aggregation of income and invested capital of business units (i) fixed telephony; (ii)broadband internet; (iii) data communication; (iv)cell phone; (v)internet provider; and (vi) pay TV.

(In thousands of reais, unless otherwise indicated)

(b) Client relationship/BPO and IT

It is operated by Algar Tecnologia that provides *contact center*, BPO (*Business Process Outsourcing*) services and IT solutions.

(c) Supplementary Business

Include telecommunication network construction and maintenance and telephone directory services.

Main information per business segment, corresponding to year ended December 31, 2011, are as follows:

	Telecom	**BPO/IT and Consulting**	**Supplementary Businesses**	**Eliminations**	**Consolidate d**
Current assets	**366,453**	**81,905**	**62,087**	**(14,869)**	**495,576**
Cash and cash equivalents	161,488	10,236	6,528	-	178,252
Accounts receivable	146,827	55,724	43,038	(5,861)	239,728
Recoverable taxes	24,392	12,993	2,424	-	39,809
Others current assets	33,746	2,952	10,097	(9,008)	37,787
					-
Non-current assets	**1,435,808**	**216,785**	**70,887**	**(165,845)**	**1,557,635**
Judicial deposits	66,859	15,965	2,916	-	85,740
Recoverable taxes	29,531	371	-	-	29,902
Deferred income and social contribution taxes	89,660	12,451	5,668	-	107,779
Other non-current assets	4,638	227	89	(1,122)	3,832
Investment	164,747	-	72	(164,723)	96
Property, plant and equipment	879,865	141,830	45,898	-	1,067,593
Intangible assets	200,508	45,941	16,244	-	262,693
Total assets	**1,802,261**	**298,690**	**132,974**	**(180,714)**	**2,053,211**
Current liabilities	**415,901**	**94,457**	**45,802**	**(10,016)**	**546,144**
Loans and financing	80,083	16,042	4,397	-	100,522
Debentures	84,520	-	-	-	84,520

Notes to the financial statements

(In thousands of reais, unless otherwise indicated)

	Telecom	BPO/IT and Consulting	Supplementary Businesses	Eliminations	Consolidated
Suppliers	91,494	18,943	12,160	(6,008)	116,589
Salaries and social security charges	42,903	48,922	16,066	-	107,891
Taxes, rates, and contributions	40,518	5,212	3,849	-	49,579
Dividends and interest on own capital payable	37,740	1,650	2,360	(4,008)	37,742
Other current liabilities	38,643	3,688	6,970	-	49,301
Non-current liabilities	**807,102**	**90,623**	**29,248**	**(5,974)**	**920,999**
Loans and financing	419,026	34,152	8,816	-	461,994
Debentures	142,857	-	-	-	142,857
Telecommunication service authorization payable	24,530	-	-	-	24,530
Deferred income and social contribution taxes	47,013	12,558	2,922	-	62,493
Provisions	142,513	35,101	9,309	-	186,923
Other non-current liabilities	31,163	8,812	8,201	(5,974)	42,202
Shareholders' equity	**579,258**	**113,610**	**57,924**	**(164,724)**	**586,068**
Total liabilities and shareholders' equity	**1,802,261**	**298,690**	**132,974**	**(180,714)**	**2,053,211**

	Telecom	BPO/IT and Consulting	Supplementary Businesses	Eliminations	Consolidated
Gross revenue	1,667,019	444,663	149,506	(104,688)	2,156,500
(-) Taxes and deductions	(432,825)	(28,728)	(12,789)	-	(474,342)
Net operating revenue	1,234,194	415,935	136,717	(104,688)	1,682,158
Operating costs and expenses	(872,434)	(379,881)	(123,879)	105,114	(1,271,080)
EBITDA	361,760	36,054	12,838	426	411,078
Depreciation and amortization and leases	(124,624)	(16,288)	(4,667)		(145,579)
EBIT	237,136	19,766	8,171	426	265,499
Net financial income (expenses)	(78,386)	(9,306)	239	-	(87,453)
Equity in net income of subsidiaries	17,308	-	-	(17,308)	-

Notes to the financial statements

(In thousands of reais, unless otherwise indicated)

	Telecom	BPO/IT and Consulting	Supplementary Businesses	Eliminations	Consolidated
Income before income tax	176,058	10,460	8,410	(16,882)	178,046
Income and social contribution taxes	(31,682)	(3,515)	1,527	-	(33,670)
Net income	144,376	6,945	9,938	(16,882)	144,376

30 Insurance coverage

The Company and its subsidiaries adopt the policy of contracting insurance coverage for properties subject to risks in amounts considered sufficient to cover any casualties, considering the nature of their activity. The risk assumptions, due to their nature, are out of the scope of the review of interim financial statements, and therefore, were not examined by our independent auditors.

At December 31, 2011, the insurance coverage against operational risks was comprised of R$ 1,517,966 for material damages, R$ 1,416,855 for loss of income, R$ 5,000 for civil liability, R$ 1,206 *Performance Bond*, consolidated.

31 Subsequent events

On January 3, 2012, subsidiary Algar Tecnologia entered into a financing contract with BNDES, in the amount of R$ 68,000, with first fund release on January 27, 2012, in the amount of R$ 35,000. The period of this contract is 6 years and 6 months, bearing interest corresponding to TJLP + 3.28% p.a.

The contract establishes maximum indebtedness indices and minimum debt coverage indices, which must be observed by subsidiary Algar Tecnologia during the entire period of these contracts, beginning as of 2012.

Companhia de Telecomunicações do Brasil Central
Individual and Consolidated

Board of Directors

Chairman - Luiz Alberto Garcia
Vice-Chairman – Luiz Alexandre Garcia

Members:

Alexandrino Garcia Neto
Eliane Garcia Melgaço
Helio Marcos Machado Graciosa
Walter Fontana Filho
Darc Antonio da Luz Costa
Geraldo Sardinha Pinto Filho
Ozires Silva

Officers:

Chief Executive Officer - Divino Sebastião de Souza
Governance and Strategy Director - Jean Carlos Borges
Finance and Investors' Relations Officer -Tatiane de Souza Lemes Panato
Human Resources Director- Marineide da Silva Peres
Operations and Technology Director- Luis Antonio Andrade Lima
Marketing Director - Vacant
Retail and Sales Director - Osvaldo Cesar Carrijo
Commercial Director - Marcio Estefan

Accountant:

Carlos Henrique Vilarinho
CRC-MG 092.659/O-3