

BRASIL TELECOM SA
Form F-4
September 01, 2011
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As filed with the Securities and Exchange Commission on September 1, 2011

Registration No. 333-

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form F-4

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

BRASIL TELECOM S.A.

(Exact name of registrant as specified in its charter)

BRASIL TELECOM COMPANY

(Translation of Registrant's name into English)

Federative Republic of Brazil
(State or other jurisdiction of
incorporation or organization)

4813
(Primary Standard Industrial
Classification Code Number)
Rua General Polidoro, No. 99, 5th floor/part Botafogo

Not Applicable
(I.R.S. Employer
Identification Number)

22280-004 Rio de Janeiro, RJ, Brazil

(55 21) 3131-1211

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

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Puglisi & Associates

850 Library Avenue, Suite 204

P.O. Box 885

Newark, Delaware 19715

(302) 738-6680

(Name, address, including zip code, and telephone number, including area code, of agent for service)

With copies to:

Mark O. Bagnall, Esq. White & Case LLP Southeast Financial Center, Suite 4900 200 South Biscayne Boulevard Miami, FL 33131-2352 (305) 371-2700

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this Registration Statement.

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. "

If applicable, place an X in the box to designate the appropriate rule provision relied upon in conducting this transaction:

Exchange Act Rule 13e-4(i) (Cross-Border Issuer Tender Offer) "

Exchange Act Rule 14d-1(d) (Cross-Border Third-Party Tender Offer) "

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to Be Registered	Amount to be Registered(1)	Proposed Maximum Offering Price Per Share	Proposed Maximum Aggregate Offering Price(4)	Amount of Registration Fee
Common shares, no par value, of Brasil Telecom S.A.(2)	51,497,927	US\$5.69	US\$292,796,752	US\$33,993.70
Preferred shares, no par value, of Brasil Telecom S.A.(3)	268,220,438	US\$5.75	US\$1,540,947,021	US\$178,903.95

(1) Calculated, in each case, based on the maximum number of shares of Brasil Telecom S.A., or Brasil Telecom, to be issued to (1) holders of American Depositary Shares, or ADSs, of Tele Norte Leste Participações S.A., or TNL, each representing one preferred share of TNL, and (2) holders of common and preferred shares of TNL who are U.S. residents, in connection with the merger described in the accompanying prospectus, assuming that none of the holders

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exercise their right of withdrawal in connection with the merger.

- (2) 23,153,886 of these shares will initially be represented by ADSs of Brasil Telecom, each of which represents one common share, or Brasil Telecom Common ADSs, and which may be evidenced by American Depositary Receipts, or ADRs, that will be issued in exchange for TNL ADSs. The remaining 28,344,041 common shares will not be represented by Brasil Telecom Common ADSs.
- (3) 237,355,059 of these shares will initially be represented by ADSs of Brasil Telecom, each of which represents three preferred shares, or Brasil Telecom Preferred ADSs, and which may be evidenced by ADRs that will be issued in exchange for TNL ADSs. The remaining 30,865,379 shares will not be represented by Brasil Telecom Preferred ADSs.
- (4) The Proposed Maximum Aggregate Offering Price (estimated solely for purposes of computing the amount of the registration fee pursuant to Rule 457(c) and Rule 457(f) under the U.S. Securities Act of 1933, as amended) is calculated in accordance with the (1) the number of TNL common shares held directly by U.S. residents to be cancelled in the merger in exchange for common shares of Brasil Telecom and US\$13.00, the average of the high and low prices of the common shares of TNL as reported on the Brazilian Securities, Commodities and Futures Exchange (*BM&FBOVESPA S.A. Bolsa de Valores Mercadorias e Futuros*, or the *BM&FBOVESPA*) on August 26, 2011, converted into U.S. dollars based on an exchange rate of R\$1.6114=US\$1.00, the PTAX selling rate as reported by the Central Bank of Brazil (*Banco Central do Brasil*) on August 26, 2011, (2) the exchange ratio of 2.1141 shares of Brasil Telecom (consisting of 0.1879 common shares and 1.9262 preferred shares) to be exchanged in the merger for each preferred share held directly by a U.S. resident of TNL that will be cancelled in the merger, and US\$11.96, the average of the high and low prices of the preferred shares of TNL as reported on *BM&FBOVESPA* on August 26, 2011, converted into U.S. dollars at the exchange rate described above, and (3) 2.1141 shares of Brasil Telecom (consisting of 0.1879 common shares underlying Brasil Telecom Common ADSs and 1.9262 preferred shares underlying Brasil Telecom Preferred ADSs) to be exchanged in the merger for each of the TNL preferred shares that will be cancelled in the merger underlying a TNL ADS, and US\$12.17, the average of the high and low prices of the TNL ADSs as reported on the New York Stock Exchange on August 26, 2011.

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the registration statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and is not soliciting an offer to buy these securities, in any jurisdiction where such offer, solicitation or sale is not permitted or would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

PRELIMINARY PROSPECTUS (Subject to Completion)

Dated September 1, 2011

Brasil Telecom S.A.

51,497,927 Common Shares, including Common Shares in the form of American Depositary Shares

268,220,438 Preferred Shares, including Preferred Shares in the form of American Depositary Shares

Brasil Telecom S.A., or Brasil Telecom, and its indirect controlling shareholder Tele Norte Leste Participações S.A., or TNL, have proposed a merger (*incorporação*) under Brazilian law of TNL with and into Brasil Telecom. Brasil Telecom provides a range of integrated telecommunications services in Region II of Brazil (which consists of the Federal District of Brazil and nine states of Brazil located in the western, central and southern regions of Brazil). TNL is a holding company, which (1) controls Telemar Norte Leste S.A., or Telemar, which provides a range of integrated telecommunications services in Region I of Brazil (which consists of 16 states of Brazil located in the northeastern and part of the northern and southeastern regions of Brazil), and (2) indirectly controls 49.3% of the total outstanding share capital of Brasil Telecom, including 79.6% of its outstanding voting share capital.

If the merger is approved:

direct holders of common shares of TNL will automatically receive, without any further action by those holders, 2.3122 common shares, no par value, of Brasil Telecom for each common share they hold plus cash in lieu of any fractional Brasil Telecom common share;

direct holders of preferred shares of TNL will automatically receive, without any further action by those holders, 0.1879 common shares and 1.9262 preferred shares, no par value, of Brasil Telecom for each TNL preferred share they hold plus cash in lieu of any fractional Brasil Telecom common share or preferred share; and

holders of American Depositary Shares, or ADSs, of TNL (each representing one preferred share of TNL), or TNL ADSs, will receive, subject to the procedures described herein, 0.1879 ADSs of Brasil Telecom (each representing one common share of Brasil Telecom), or Brasil Telecom Common ADSs, and 0.6420 ADSs of Brasil Telecom (each representing three preferred shares of Brasil Telecom), or Brasil Telecom Preferred ADSs, for each TNL ADS they hold, plus cash in lieu of any fractional Brasil Telecom Common ADS or Brasil Telecom Preferred ADS.

Approval of the merger will require (1) the affirmative vote of holders representing a majority of the total number of outstanding common shares of TNL, and (2) the affirmative vote of holders representing a majority of the total number of outstanding common shares of Brasil Telecom, at duly convened extraordinary general shareholders' meetings.

The extraordinary general shareholders' meetings of TNL and Brasil Telecom to vote on the merger are scheduled to occur on _____, 2011. **Telemar Participações S.A., or TmarPart, the direct controlling shareholder of TNL and the indirect controlling shareholder of Brasil Telecom, has all of the voting power necessary to approve the merger without the support of any other holders of common shares of**

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TNL or Brasil Telecom. TmarPart has informed TNL and Brasil Telecom that it intends to cause all common shares held by its subsidiaries to be voted in favor of the merger.

Neither TNL nor Brasil Telecom is asking you for a proxy and you are requested not to send TNL or Brasil Telecom a proxy.

The common shares and preferred shares of Brasil Telecom are listed on the Brazilian Securities, Commodities and Futures Exchange (*BM&FBOVESPA S.A. Bolsa de Valores Mercadorias e Futuros*), which we refer to as the BM&FBOVESPA, under the trading symbols BRTO3 and BRTO4, respectively. The Brasil Telecom Common ADSs and the Brasil Telecom Preferred ADSs are listed on the New York Stock Exchange, or the NYSE, under the trading symbols BTM.C and BTM, respectively. Upon the completion of the merger we intend to change our name from Brasil Telecom S.A. to Oi S.A., to change the trading symbols for the common shares and preferred shares of Brasil Telecom to OION3 and OIPN4, respectively, and to change the trading symbols for the ADSs representing our common shares and preferred shares to _____ and _____, respectively. We will apply to list the Brasil Telecom Common ADSs and Brasil Telecom Preferred ADSs to be received by holders of TNL ADSs on the NYSE and following the completion of the merger, the Brasil Telecom Common ADSs and Brasil Telecom Preferred ADSs are expected to trade under the symbols _____ and _____, respectively.

This prospectus has been prepared for holders of common shares and preferred shares of TNL residing in the United States and for holders of TNL ADSs to provide information about the merger and the securities to be offered pursuant thereto.

You should read this prospectus carefully. In particular, please read the section entitled Risk Factors beginning on page 43 for a discussion of risks that you should consider in evaluating the transaction described in this prospectus.

Neither the United States Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued in connection with the merger or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense. This document does not constitute an offer to sell or a solicitation of an offer to buy any securities in any jurisdiction where such an offer or solicitation would be illegal.

This prospectus is dated _____, 2011 and is expected to be mailed to shareholders of TNL on or about that date.

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This prospectus includes important business and financial information about TNL and Brasil Telecom that is not included in or delivered with this prospectus. This information is available without charge to security holders upon written or oral request. To obtain timely delivery, security holders must request the information no later than , 2011, the fifth business days before the scheduled date of the extraordinary general shareholders meetings scheduled to approve the merger. See Incorporation by Reference.

You should rely only on the information incorporated by reference or contained in this prospectus. We have not authorized any person to provide you with any information or to make any representations in connection with the merger, other than the information contained or incorporated in this prospectus, and, if any person provides you with other information or makes a representation in connection with the merger, that information or representation must not be relied on as having been authorized by us.

This prospectus does not constitute an offer to any person in any jurisdiction in which an offer is unlawful. The offer is not being made to holders of shares in any jurisdiction in which the making or acceptance of the offer would not be in compliance with the laws of that jurisdiction. However, we may, in our sole discretion, take any action we may deem necessary to make the offer in any such jurisdiction and extend the offer to holders of shares in any jurisdiction. In any jurisdiction where the securities, blue sky or other laws require the offer to be made by a licensed broker or dealer, the offer will be deemed to be made on our behalf by one or more registered brokers or dealers licensed under the laws of the relevant jurisdiction.

The delivery of this prospectus will not, under any circumstance, create an implication that our affairs have not changed since the date as of which information is furnished or since the date of this prospectus.

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INCORPORATION BY REFERENCE

The U.S. Securities and Exchange Commission, or the SEC, allows us to incorporate by reference information that we file with it into this prospectus, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus, and certain later information that Brasil Telecom or TNL file with the SEC will automatically update and supersede earlier information filed with the SEC or included in this prospectus. We incorporate by reference the following documents:

Brasil Telecom's annual report on Form 20-F/A for the fiscal year ended December 31, 2010, filed with the SEC on May 2, 2011 (File No. 001-15256), which we refer to as the Brasil Telecom Annual Report;

TNL's annual report on Form 20-F for the fiscal year ended December 31, 2010, filed with the SEC on May 4, 2011 (File No. 001-15256), which we refer to as the TNL Annual Report;

any future annual reports on Form 20-F filed by Brasil Telecom or TNL with the SEC after the date of this prospectus and prior to the completion of the merger;

Brasil Telecom's report on Form 6-K furnished to the SEC on September 1, 2011 (File No. 001-15256) containing (1) disclosure regarding its financial condition and results of operations as of June 30, 2011 and for the six-month periods ended June 30, 2011 and 2010, and (2) its unaudited interim consolidated financial statements as of June 30, 2011 and for the six-month periods ended June 30, 2011 and 2010, which we refer to as the Brasil Telecom First Half Report;

TNL's report on Form 6-K furnished to the SEC on September 1, 2011 (File No. 001-15256) containing (1) disclosure regarding its financial condition and results of operations as of June 30, 2011 and for the six-month periods ended June 30, 2011 and 2010, and (2) its unaudited interim consolidated financial statements as of June 30, 2011 and for the six-month periods ended June 30, 2011 and 2010, which we refer to as the TNL First Half Report;

any future reports on Form 6-K that Brasil Telecom or TNL furnish to the SEC after the date of this prospectus and prior to the completion of the merger that are identified in such reports as being incorporated by reference into this prospectus.

We will provide without charge to each person, including any beneficial owner, to whom a copy of this prospectus is delivered, upon written or oral request of any such person, a copy of (1) any and all of the documents referred to above which have been or may be incorporated herein by reference, other than exhibits to such documents (unless such exhibits are specifically incorporated by reference in such documents), and (2) the Portuguese-language version of the Protocol of Merger and Instrument of Justification (*Protocolo e Justificação de Incorporação*) between Brasil Telecom S.A. and Tele Norte Leste Participações S.A., which we refer to as the Merger Agreement, which includes the Portuguese-language versions of the valuation reports described in Part Five The Merger Presentations and Valuation Reports, as well as English-language translations thereof prepared by Brasil Telecom. To request this information, you should contact us at the following street address, telephone number or e-mail address:

Brasil Telecom S.A.

Rua Humberto de Campos, 425/8º andar-Leblon

22430-190 Rio de Janeiro, RJ, Brazil

Attention: IR Department

Telephone: +55-21-3131-1211

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Facsimile: +55-21-3131-1383

email: invest@oi.net.br

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You may also contact the information agent for the merger:

105 Madison Avenue

New York, New York 10016

Calls within the United States: (800) 322-2885 (toll-free)

Calls outside the United States: (212) 929-5500 (collect)

Email: info@mackenziepartners.com

If you are a holder of TNL ADSs, you may also contact:

The Bank of New York Mellon

101 Barclay Street

New York, NY 10286

Calls within the United States: (866) 300-4353 (toll-free)

Calls outside the United States: +1 (201) 680-6921 (collect)

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CERTAIN DEFINED TERMS AND CONVENTIONS USED IN THIS PROSPECTUS

Currencies Used in this Prospectus

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

On August 26, 2011, the exchange rate for *reais* into U.S. dollars was R\$1.611 to US\$1.00, based on the selling rate as reported by the Central Bank of Brazil (*Banco Central do Brasil*), or the Central Bank. The selling rate was R\$1.561 to US\$1.00 on June 30, 2011, R\$1.802 to US\$1.00 on June 30, 2010, R\$1.666 to US\$1.00 at December 31, 2010, R\$1.741 to US\$1.00 at December 31, 2009, and R\$2.337 to US\$1.00 at December 31, 2008, in each case, as reported by the Central Bank. The *real*/U.S. dollar exchange rate fluctuates widely, and the selling rate at August 26, 2011 may not be indicative of future exchange rates. See Part Two Summary Exchange Rates for information regarding exchange rates for the *real* since January 1, 2006.

Solely for the convenience of the reader, we have translated some amounts included in Part Two Summary Selected Historical Financial Data and Pro Forma Financial Data from *reais* into U.S. dollars using the selling rate as reported by the Central Bank at June 30, 2011 of R\$1.561 to US\$1.00. These translations should not be considered representations that any such amounts have been, could have been or could be converted into U.S. dollars at that or at any other exchange rate.

Certain Defined Terms Used in this Prospectus

Unless otherwise indicated or the context otherwise requires:

all references to our company, we, our, ours, us or similar terms are to Brasil Telecom S.A. and its consolidated subsidiaries;

all references to Brasil Telecom are to Brasil Telecom S.A.;

all references to TNL are to Tele Norte Leste Participações S.A., including its consolidated subsidiaries as the context requires;

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

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

all references to the Brazilian Corporation Law are to Brazilian Law No. 6,404/76, as amended; and

all references to the CVM are to the Brazilian Securities Commission (*Comissão de Valores Mobiliários*).

Share Split

On April 10, 2007, Brasil Telecom authorized the reverse split of all of its issued common shares and preferred shares into one share for each 1,000 issued shares. This reverse share split became effective on May 14, 2007. In connection with this reverse share split, Brasil Telecom authorized a change in the ratio of the Brasil Telecom ADSs. Upon the effectiveness of the reverse share split and the ratio change, the ratio of Brasil Telecom preferred shares to Brasil Telecom ADSs changed from 3,000 preferred shares per ADS to three preferred shares per ADS. All references to numbers of Brasil Telecom shares and Brasil Telecom dividend amounts in this prospectus have been adjusted to give effect to the 1,000-for-one reverse share split.

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Market Share and Other Information

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

Rounding

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

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PART ONE QUESTIONS AND ANSWERS ABOUT THE MERGER

The following are some questions that you may have regarding the merger and brief answers to those questions. Brasil Telecom and TNL urge you to read carefully the remainder of this document because the information in this section does not provide all the information that might be important to you with respect to the merger. Additional important information is also contained in the documents incorporated by reference into this prospectus. See Incorporation by Reference.

Q: What is the merger?

A: The merger proposed by Brasil Telecom and TNL is a merger (*incorporação*) under Brazilian law of TNL with and into Brasil Telecom, with Brasil Telecom as the surviving company. Pursuant to the proposed merger, each issued and then outstanding common share of TNL (other than any common shares held by shareholders who exercise their withdrawal rights with respect to their common shares) will be converted automatically into 2.3122 common shares of Brasil Telecom without any further action by the holders thereof. Each issued and then outstanding preferred share of TNL (including preferred shares of TNL represented by the TNL ADSs) will be converted automatically into 0.1879 common shares of Brasil Telecom and 1.9262 preferred shares of Brasil Telecom without any further action by the holders thereof. All TNL shares held in treasury prior to the merger will be cancelled and all issued and then outstanding shares of Brasil Telecom held by TNL will be cancelled, other than 24,646,937 common shares of Brasil Telecom, which will be held in treasury by Brasil Telecom. As a result of the merger, TNL will cease to exist.

Q: What are the reasons for the merger?

A: The merger is a step in the corporate reorganization that TNL, Telemar and Brasil Telecom are undertaking to simplify the corporate structure of these companies. The corporate reorganization is expected to be accomplished through three transactions that will occur contemporaneously and will cumulatively result in the conversion of the publicly held shares of TNL and Telemar into shares of Brasil Telecom:

a split-off (*cisão*) and merger of shares (*incorporação de ações*) under Brazilian law, or the split-off and share exchange, in which (1) Telemar will transfer the shares of Coari Participações S.A., or Coari, a wholly owned subsidiary of Telemar, that Telemar owns to Coari, (2) Coari will assume a portion of the liabilities of Telemar, which will become joint and several liabilities of Telemar and Coari, (3) the Telemar common and preferred shares (other than the shares of holders who exercise their withdrawal rights with respect to such shares) will be exchanged automatically for newly issued common and preferred shares of Coari without any further action by the holders thereof, and (4) Coari will retain the Telemar shares exchanged for Coari shares and, as a result, Telemar will become a wholly-owned subsidiary of Coari;

a merger (*incorporação*) under Brazilian law of Coari with and into Brasil Telecom, with Brasil Telecom as the surviving company, or the Coari merger; and

the merger.

The split-off and share exchange, the Coari merger and the merger, which we refer to collectively as the corporate reorganization, are expected to be completed contemporaneously and each transaction is conditioned upon the approval and completion of the other transactions. **Neither Coari nor Brasil Telecom is offering the shares to be issued in the split-off and share exchange or the Coari merger, as applicable, by means of this prospectus.**

We believe that the corporate reorganization will:

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simplify the corporate structure of TNL, Telemar, Coari and Brasil Telecom, or the Oi Companies, which is currently extremely complex and includes three publicly-held companies with seven different

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classes of publicly-traded shares, and simplify the corporate governance of the Oi Companies by consolidating the shareholder bases of the Oi Companies in one public company with two classes of shares that will be traded in Brazil and abroad;

reduce operational, administrative and financial costs following the consolidation of the general management of the Oi Companies, the simplification of their capital structure, and the improvement of their ability to attract investments and access the capital markets;

align the interests of the shareholders of the Oi Companies;

enhance the liquidity of the shares of Brasil Telecom; and

eliminate the costs of separate listings of the shares of TNL, Telemar and Brasil Telecom, as well as those costs arising from separately complying with the public disclosure requirements applicable to TNL, Telemar and Brasil Telecom.

Q: What will happen to my shares of TNL in the merger?

A: If you are a direct holder of common shares of TNL and you do not seek to exercise your withdrawal rights (as described below), each of your common shares of TNL will be converted into 2.3122 common shares of Brasil Telecom in the merger plus cash in lieu of any fractional Brasil Telecom common share to which you would have been entitled as a result of the merger.

If you are a direct holder of preferred shares of TNL, each of your preferred shares of TNL will be converted into 0.1879 common shares of Brasil Telecom and 1.9262 preferred shares of Brasil Telecom in the merger plus cash in lieu of any fractional Brasil Telecom common share or preferred share to which you would have been entitled as a result of the merger.

If you are a direct holder of common shares or preferred shares of TNL, no further action by you is required. An entry or entries will be made in the share registry of Brasil Telecom to evidence the common shares and preferred shares of Brasil Telecom you will receive in the merger promptly after the merger is completed.

If you are a holder of TNL ADSs, you will receive 0.1879 Brasil Telecom Common ADSs, each representing one common share of Brasil Telecom, and 0.6420 Brasil Telecom Preferred ADSs, each representing three preferred shares of Brasil Telecom, for each TNL ADS that you hold plus cash in lieu of any fractional ADSs.

If you are a registered holder of TNL ADSs, to receive your Brasil Telecom ADSs you must complete the letter of transmittal sent to you by The Bank of New York Mellon, as depositary for the TNL ADS program, or the TNL Depositary, and comply with the procedures described in the letter of transmittal. If you hold TNL ADSs through a broker or other financial intermediary, no further action by you is required. The Brasil Telecom Common ADSs, Brasil Telecom Preferred ADSs and any cash in lieu of fractional Brasil Telecom ADSs to which you would have been entitled as a result of the merger will automatically be credited to your account as promptly as practicable after the end of the period during which the merger could be unwound as described below.

If you are a holder of Brasil Telecom common shares or preferred shares or Brasil Telecom ADSs, you will continue to hold these securities after the merger.

Q: Have the boards of directors or any committees of these boards taken any position relating to the merger?

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- A: The board of directors of each of TNL and Brasil Telecom has approved the Merger Agreement to which TNL and Brasil Telecom are parties and the calling of the extraordinary general shareholders meetings required to obtain the requisite shareholder approvals.

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On June 28, 2011, each of TNL and Brasil Telecom, complying with Guideline No. 35 (*Parecer de Orientação 35*) of the CVM, or Guideline 35, established, by one of the means recommended by the CVM, an independent special committee to analyze and negotiate the terms of the merger between TNL and Brasil Telecom and to submit their recommendations to the respective boards of directors of TNL and Brasil Telecom. The purpose of setting up the independent special committees was to protect the interests of the non-controlling shareholders of TNL and Brasil Telecom. These independent special committees, after having reviewed and negotiated the merger proposal, having received advice from their own independent financial advisors and legal counsel and after having reached an agreement with the managements of TNL and Brasil Telecom on the terms of the merger, including the exchange ratios, unanimously recommended to the boards of directors of TNL and Brasil Telecom, respectively, the exchange ratio for the merger.

On August 17, 2011, the boards of directors of TNL and Brasil Telecom considered the recommendation of the independent special committees and other factors and approved the exchange ratios for the merger. On August 26, 2011, the boards of directors of TNL and Brasil Telecom approved the merger.

For additional information regarding the factors and reasons considered by the boards of directors of TNL and Brasil Telecom in approving the merger, the manner in which these boards made their decision, see Part Five: The Merger Background of the Merger Approval of the Merger.

Q: How were the exchange ratios calculated for the merger?

A: The independent special committees of TNL and Brasil Telecom negotiated the exchange ratios and each submitted its recommendations to the relevant company's board of directors. The independent special committees based their recommendations to the boards of directors of TNL and Brasil Telecom on the various analyses provided by their respective financial advisors, with particular emphasis given to the weighted average of the closing prices of the shares of TNL and Brasil Telecom on the BM&FBOVESPA during the 30 days preceding May 24, 2011, the date of the publication of the Relevant Fact (*Fato Relevante*) that first announced the corporate reorganization. The exchange ratios take into consideration the proposed share dividend and redemption of Brasil Telecom. See Part Five The Merger Background of the Merger Corporate Reorganization Share Dividend and Redemption. The boards of directors of Brasil Telecom and TNL believe that the exchange ratios are fair, in light of the fact that the exchange ratios were based on the analysis of and negotiations conducted by the independent special committees of TNL and Brasil Telecom pursuant to Guideline 35, and that the shares of Brasil Telecom and TNL are liquid and that the valuation method used to determine the exchange ratios was the most appropriate.

Under Brazilian Law No. 6,404/76, as amended, which we refer to as the Brazilian Corporation Law, the number of our outstanding non-voting shares may not exceed two-thirds of the total number of our outstanding shares. In order to maintain our compliance with this requirement after the merger, the exchange ratios recommended by the independent special committees of TNL and Brasil Telecom were adjusted to reflect the proposed issuance of a portion of the consideration for the outstanding preferred shares of TNL in the form of Brasil Telecom common shares.

Q: Will the share capital of Brasil Telecom be increased as a result of the merger?

A: Yes. At the extraordinary general shareholders' meeting of Brasil Telecom called to consider the merger, which will also consider the Coari merger, the holders of common shares of Brasil Telecom will also vote to amend the bylaws of Brasil Telecom to increase its share capital to R\$6,816,467,847.01 represented by 1,797,069,689 shares, consisting of 598,999,380 common shares and 1,198,070,309 preferred shares.

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Q: Have any independent financial advisors provided a presentation or valuation report in connection with the merger?

A: Yes. Apsis Consultoria Empresarial Ltda., or Apsis, has provided a valuation report regarding the net asset value of TNL based on the book value of its assets and liabilities and a valuation report regarding the net worth of Brasil Telecom and TNL calculated at market prices. Banco Itaú BBA S.A., or Itaú BBA, has provided the independent special committee of Brasil Telecom with a presentation of certain economic-financial analyses. Banco BTG Pactual S.A., or BTG Pactual, has provided the independent special committee of TNL with a report regarding certain valuation analyses. For summaries of these presentation and valuation reports see Part Five The Merger Presentations and Valuation Reports. These presentation and valuation reports are included as exhibits 99.1 through 99.4 inclusive to the registration statement of which this prospectus forms a part.

As required by TNL's bylaws, TNL will engage a financial advisor to provide TNL with a financial and economic analysis regarding whether the corporate reorganization is equitable to all the companies involved in the corporate reorganization.

Q: What shareholder approvals are needed for the merger?

A: Approval of the merger will require (1) the affirmative vote of holders representing a majority of the total number of outstanding common shares of TNL, and (2) the affirmative vote of holders representing a majority of the total number of outstanding common shares of Brasil Telecom, at duly convened extraordinary general shareholders' meetings.

Approval of the increase in the share capital of Brasil Telecom will also require the affirmative vote of holders representing a majority of the total number of outstanding common shares of Brasil Telecom present at a duly convened extraordinary general shareholders' meeting.

We believe that the merger and the increase in the share capital of Brasil Telecom will be approved at the applicable extraordinary general shareholders' meetings because:

our indirect controlling shareholder, TmarPart, which at the time of the extraordinary general shareholders' meetings called to consider the corporate reorganization will directly and indirectly hold 68.3% of the outstanding voting share capital of TNL, has represented to us that it will cause the shares of TNL that it holds to be voted in favor of the merger; and

TNL holds 98.0% of the outstanding voting share capital of Telemar, Telemar holds all of the outstanding voting share capital of Coari, Coari holds 79.6% of our outstanding voting share capital, and TmarPart has represented to us that it will cause Coari to vote the shares of Brasil Telecom that it holds in favor of the merger and the increase in the share capital of Brasil Telecom.

Q: May I attend and vote at the extraordinary general shareholders' meeting of TNL regarding the merger?

A: If you hold common shares of TNL you may attend and vote at the TNL extraordinary general shareholders' meeting held to consider the merger.

If you hold preferred shares of TNL, you are entitled to attend, but are not entitled to vote at, the TNL extraordinary general shareholders' meeting held to consider the merger.

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If you hold TNL ADSs, you are not entitled to attend the TNL extraordinary general shareholders meeting. If you hold TNL ADSs and wish to attend this meeting, you must surrender your TNL ADSs and receive delivery of the TNL preferred shares represented thereby in accordance with the terms of the deposit agreement governing the TNL ADSs in sufficient time to allow your ownership of the TNL preferred shares to be reflected in the shareholder list that TNL will use to determine holders of preferred shares that are permitted to attend the meeting, which generally reflects record ownership as of the fourth Brazilian business day prior to the meeting.

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Q: When and where will the extraordinary general shareholders meetings regarding the merger take place?

A: The TNL extraordinary general shareholders meeting is scheduled to take place on _____, 2011 at _____ (Rio de Janeiro time) at TNL's headquarters, located at Rua Humberto de Campos, 425/8º andar, Leblon 22430-190 Rio de Janeiro, RJ, Brazil. The Brasil Telecom extraordinary general shareholders meeting is scheduled to take place on _____, 2011 at _____ (Brasília time) at Brasil Telecom's headquarters, located at Rua General Polidoro, 99/5º andar, Botafogo 22280-004 Rio de Janeiro, RJ, Brazil.

TNL and Brasil Telecom have the right to delay the date of these meetings.

Q: Do I have withdrawal rights with respect to the merger?

A: If you were the holder of record of common shares of TNL at the close of trading on May 24, 2011, the date of the Relevant Fact (*Fato Relevante*) that first announced the merger, you may exercise withdrawal rights pursuant to Brazilian law and request that TNL purchase your TNL common shares. **You cannot exercise these withdrawal rights if you vote in favor of the merger.** If you have withdrawal rights, your withdrawal rights will lapse 30 days after publication of the minutes of the extraordinary general shareholders meeting of TNL at which the merger is approved.

If you have withdrawal rights and exercise these rights, you will receive from TNL a cash amount equal to the net asset value of your TNL common shares determined based on the book value of TNL's assets and liabilities as of June 30, 2011. Based on this net asset value, the withdrawal value per TNL common share is R\$18.02. See Part Five The Merger Terms of the Merger Withdrawal Rights.

If you hold TNL preferred shares (including TNL preferred shares represented by the TNL ADSs), you are not entitled to withdrawal rights with respect to the merger.

Q: Are there risks associated with the merger that I should consider in deciding whether to exercise my withdrawal rights?

A: Yes. There are a number of risks related to the merger that are discussed in this prospectus. Please read in particular the detailed description of risks associated with the merger on pages 43 through 68.

Q: Why am I receiving this document?

A: This document is a prospectus of Brasil Telecom relating to the common shares and preferred shares of Brasil Telecom (including the common shares of Brasil Telecom that will be represented by Brasil Telecom Common ADSs and the preferred shares of Brasil Telecom that will be represented by Brasil Telecom Preferred ADSs) that the shareholders of TNL will receive as a result of the merger.

If you hold common shares or preferred shares of TNL (including preferred shares of TNL represented by TNL ADSs), you are receiving this prospectus because Brasil Telecom may be deemed to be offering you its securities for purposes of the U.S. Securities Act of 1933, as amended, or the Securities Act.

Q: What will be the accounting treatment of the corporate reorganization?

A: TNL and Coari will account for the split-off and the share exchange based on the carry-over basis of the assets and liabilities of Telemar and the debt that will be transferred from Telemar to Coari. As a result of this transaction, Telemar will become a wholly-owned subsidiary of Coari. This phase of the corporate restructuring will have no impact on the financial statements of Brasil Telecom.

In the current corporate structure, Coari is a holding company that controls Brasil Telecom. The Coari merger will be a business combination of companies under common control. IFRS 3(R) does not apply to

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combinations of entities under common control. Furthermore, this transaction is not addressed under other IFRS guidance. Since these entities are under common control, Brasil Telecom will account for the Coari merger using the carry-over basis of the assets received and liabilities assumed of Telemar and Coari, without any step-up in the basis of its own assets and liabilities. Consequently, effects of the purchase accounting recorded by Coari relating to Coari's acquisition of Brasil Telecom will not be pushed down to the assets and liabilities of Brasil Telecom in its consolidated financial statements as a result of this merger. Upon completion of this merger, Telemar will become a wholly-owned subsidiary of Brasil Telecom and Coari will cease to exist.

Consistent with the accounting for the Coari merger, since these entities are under common control, Brasil Telecom will account for the merger based on the carry-over basis of the individual assets received and liabilities assumed of TNL. The effects of the purchase accounting relating to TNL's acquisition of Brasil Telecom will not be pushed down to the assets and liabilities of Brasil Telecom in its consolidated financial statements as a result of the merger.

Q: What are the U.S. federal income tax consequences of the merger?

A: The exchange of common shares, preferred shares or ADSs of TNL solely for common shares, preferred shares or ADSs of Brasil Telecom generally will be nontaxable to TNL shareholders for U.S. federal income tax purposes within the meaning of Section 368(a) of the Internal Revenue Code of 1986, as amended, or the Code. The exchange will be taxable, however, to a U.S. Holder (or a non-U.S. Holder, if gain arising from the exchange is effectively connected to such non-U.S. Holder's trade or business within the United States) if TNL were a passive foreign investment company, or PFIC, for any taxable year during which such U.S. Holder (or non-U.S. Holder) held shares or ADSs of TNL.

Tax matters are very complicated. The tax consequences of the merger to you will depend on your specific situation. You should consult your tax advisor for a full understanding of the U.S. federal, state, local and foreign tax consequences of the merger to you. See Part Five The Merger Material Considerations U.S. Federal Income Tax Considerations Tax Consequences to U.S. Holders if the Merger Qualifies as a Tax-Free Reorganization, for a description of the tax consequences of the merger.

Q: When will the merger be completed?

A: The extraordinary general shareholders' meetings of TNL and Brasil Telecom will be held on _____, 2011, unless these meetings are postponed. The merger will be legally effective upon approval of the merger by the TNL extraordinary general shareholders' meeting and the Brasil Telecom extraordinary general shareholders' meeting. However, Brasil Telecom common shares, preferred shares and ADSs will not be delivered to you, as applicable, in connection with the merger until after the end of the period during which management of TNL is permitted pursuant to Brazilian law to unwind the merger, which period will end 40 days after publication of the minutes of the TNL extraordinary general shareholders' meeting at which the merger is approved. See Could the merger be unwound? below.

Q: Can I sell my TNL shares and ADSs during the period for the exercise of withdrawal rights?

A: During the period for the exercise of withdrawal rights, the common shares and preferred shares of TNL will continue to be listed on BM&FBOVESPA and be eligible for trading over the BM&FBOVESPA under their existing ticker symbols, and the TNL ADSs will continue to be listed on the NYSE and be eligible for trading over the NYSE under their existing ticker symbol.

Q: Could the merger be unwound?

- A: Under the Brazilian Corporation Law, if the management of TNL believes that the total value of the withdrawal rights exercised by its shareholders may put at risk its financial stability, management may,

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within 10 days after the end of the withdrawal rights period, call an extraordinary general shareholders meeting of TNL to either unwind or ratify the merger. Payment relating to the exercise of the withdrawal rights will not be due if the merger is unwound. Because it directly holds a majority of the voting shares of TNL, TmarPart would be able to cause the unwinding of the merger at such TNL extraordinary general shareholders meeting.

Q: Are any other approvals from any governmental authorities or any third parties required in order to complete the merger?

A: The merger will be subject to the consent of Brazil's National Telecommunications Agency, or ANATEL.

Q: After the merger, will I have the same ownership percentage that I now have?

A: No. You will have a lower percentage ownership in Brasil Telecom than you currently have in TNL. Assuming that none of the shareholders of TNL, Telemar or Coari exercises withdrawal rights with respect to any of the proposed transactions, (1) TmarPart and its wholly-owned subsidiary Valverde Participações S.A., or Valverde, will hold approximately 16.4% of the outstanding capital stock of Brasil Telecom, (2) the shareholders of TmarPart, who currently do not own any shares of Brasil Telecom, will hold approximately 26.6% of the outstanding capital stock of Brasil Telecom, (3) former shareholders of TNL, other than TmarPart, Valverde and the shareholders of TmarPart, will hold approximately 32.0% of the outstanding capital stock of Brasil Telecom, (4) former shareholders of Telemar, other than TNL, TmarPart, Valverde and the shareholders of TmarPart, will hold approximately 8.1% of the outstanding capital stock of Brasil Telecom, and (5) the percentage of the outstanding capital stock of Brasil Telecom held by non-controlling shareholders of Brasil Telecom prior to the merger, who currently own approximately 50.6% of the outstanding capital stock of Brasil Telecom, will decrease to approximately 16.9%.

Q: How will my rights as a shareholder of TNL change after the merger?

A: Because your TNL common shares will be exchanged for Brasil Telecom common shares, and your TNL preferred shares will be exchanged for Brasil Telecom common shares and preferred shares, you will become a Brasil Telecom shareholder and therefore will have the rights conferred by Brasil Telecom common shares and/or preferred shares.

Your rights as a holder of Brasil Telecom preferred shares will be substantially the same as your rights as a holder of TNL preferred shares, and your rights as a holder of Brasil Telecom common shares will be substantially the same as your rights as a holder of TNL common shares. See Part Six Shareholder Rights.

Under the Brazilian Corporation Law, the number of our outstanding non-voting shares may not exceed two-thirds of the total number of our outstanding shares. In order to maintain our compliance with this requirement after the merger, we are issuing a portion of the consideration for the outstanding preferred shares of TNL in the form of Brasil Telecom common shares.

Q: When will I receive my Brasil Telecom common shares, preferred shares or ADSs?

A: Assuming the merger is completed, we will deliver common shares or preferred shares, as applicable, in connection with the merger after the end of the period during which management of TNL is permitted pursuant to Brazilian law to unwind the merger, which period will end 40 days after publication of the minutes of the TNL extraordinary general shareholders meeting at which the merger is approved.

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Assuming the merger is completed, the Brasil Telecom Common ADSs and Brasil Telecom Preferred ADSs representing new common shares and preferred shares of Brasil Telecom, respectively, issued in connection with the merger will be made available as soon as practicable after the related common shares and preferred shares are deposited with the custodian of The Bank of New York Mellon, as depositary for the Brasil

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Telecom ADS program, or the Brasil Telecom Depositary, in Brazil. This deposit is expected to occur after the end of the period during which management of TNL is permitted pursuant to Brazilian law to unwind the merger, which period will end 40 days after publication of the minutes of the TNL extraordinary general shareholders' meeting at which the merger is approved. Upon receipt of these related Brasil Telecom common shares and preferred shares, the holders of TNL ADSs will be able to surrender such ADSs and receive delivery of Brasil Telecom ADSs, upon payment of the fees and expenses of the TNL Depositary and any applicable taxes.

Q: When will I receive any cash attributable to any fractional Brasil Telecom security?

A: If you hold common shares or preferred shares of TNL directly and the exchange ratio in the merger would entitle you to receive fractional common shares or preferred shares of Brasil Telecom, Brasil Telecom will sell, in auctions on the BM&FBOVESPA, the aggregate of all fractional Brasil Telecom common shares and preferred shares. You will receive cash in lieu of any fractional Brasil Telecom share to which you would have been entitled as a result of the merger based on the net proceeds (after deducting applicable fees and expenses, including sales commissions), from any sale on the BM&FBOVESPA of the aggregate number of fractional entitlements to Brasil Telecom shares five business days after the sale of all such fractional interests by Brasil Telecom on the BM&FBOVESPA. The sale of such fractional interests in auctions on the BM&FBOVESPA will occur as soon as practicable after due notice of the auctions are given in accordance with the rules of the BM&FBOVESPA, which will occur after the completion of the merger and the end of the withdrawal period and the period during which the merger could be unwound.

If you hold TNL ADSs and the exchange ratio would entitle you to receive a fraction of a Brasil Telecom Common ADS or Brasil Telecom Preferred ADS, the TNL Depositary will try to sell on the open market the aggregate of those fractional Brasil Telecom ADSs. You will receive cash in lieu of any fractional Brasil Telecom Common ADS or Brasil Telecom Preferred ADS you are entitled to receive based on the net proceeds (after deducting applicable fees, taxes and expenses, including sales commissions) from any sale on the NYSE of the aggregate number of fractional entitlements to Brasil Telecom ADSs. Payments for interests in fractional Brasil Telecom ADSs will be available to registered holders as soon as practicable after the TNL Depositary completes sales of the aggregated fractional Brasil Telecom ADSs on the NYSE.

Q: If I hold TNL ADSs, will I have to pay ADS cancellation and issuance fees?

A: Yes. You will have to pay a fee of up to \$0.05 per ADS to the TNL Depositary in connection with the cancellation of your TNL ADSs plus any expenses of the TNL Depositary (including any fee charged by the Brasil Telecom Depositary for the issuance of Brasil Telecom ADSs) and any applicable taxes. In addition, you will have to pay any applicable stock transfer taxes with respect to the cancellation of your TNL ADSs or the issuance of Brasil Telecom ADSs to you.

Q: Will I have to pay brokerage commissions?

A: You will not have to pay brokerage commissions if your common shares or preferred shares of TNL are registered in your name. If your common shares or preferred shares of TNL are held through a bank or broker or a custodian linked to a stock exchange, you should consult with them as to whether or not they charge any transaction fee or service charges in connection with the merger.

Q: After the merger will the Brasil Telecom shares and ADSs continue to trade under the current symbols?

A:

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No. Upon the completion of the merger we intend to change our name from Brasil Telecom S.A. to Oi S.A., to change the trading symbols for the common shares and preferred shares of Brasil Telecom to OION3 and OIPN4, respectively, and to change the trading symbols for Brasil Telecom Common ADSs and Brasil Telecom Preferred ADSs to _____ and _____, respectively.

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Q: What do I need to do now?

A: If you hold common shares or preferred shares of TNL, you do not need to do anything to receive Brasil Telecom common shares and/or Brasil Telecom preferred shares, as applicable, upon completion of the merger. The common shares and preferred shares of Brasil Telecom are book-entry shares, and an entry or entries will be made in the share registry of Brasil Telecom to evidence the common shares and/or preferred shares you will receive.

If you hold TNL ADSs, the preferred shares underlying those ADSs will become common shares and preferred shares of Brasil Telecom by operation of law. If you hold TNL ADSs indirectly through a broker or other intermediary, you will automatically receive new Brasil Telecom ADSs. However, if you hold TNL ADSs directly as a registered holder, you must surrender your American Depositary Receipts, or ADRs, if any, representing TNL ADSs to the TNL Depositary in accordance with instructions that will be provided to you and pay the fees and expenses of the TNL Depositary and any applicable taxes. Upon delivery to the TNL Depositary of the completed and signed letter of transmittal, together with those TNL ADRs and payment of the fees and expenses of the TNL Depositary and any applicable taxes, the TNL Depositary will deliver the Brasil Telecom Common ADSs and Brasil Telecom Preferred ADSs to you. See Part Five The Merger Terms of the Merger Delivery of Brasil Telecom Shares and ADSs for more details.

Q: Who can help answer my questions?

A: If you have any questions about the merger, you can contact:

Brasil Telecom S.A.

Rua Humberto de Campos, 425/8º andar-Leblon

2430-190 Rio de Janeiro, RJ, Brazil

Attention: IR Department

Telephone: +55-21-3131-1211

Facsimile: +55-21-3131-1383

email: invest@oi.net.br

You may also contact the information agent for the merger:

105 Madison Avenue

New York, New York 10016

Calls within the United States: (800) 322-2885 (toll-free)

Calls outside the United States: (212) 929-5500 (collect)

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Email: info@mackenziepartners.com

If you are a holder of TNL ADSs, you may also contact:

The Bank of New York Mellon

101 Barclay Street

New York, NY 10286

Calls within the United States: (866) 300-4353 (toll-free)

Calls outside the United States: +1 (201) 680-6921 (collect)

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PART TWO SUMMARY

The following summary highlights material information presented in greater detail elsewhere in this prospectus and may not contain all the information that may be important to you. You are urged to read carefully this entire prospectus in order to fully understand the merger. Most items in this summary include a page reference directing you to a more complete description of those items.

The Companies

Each of Brasil Telecom and TNL is a corporation (*sociedade anônima*) organized under the laws of Brazil. Brasil Telecom is a majority-owned subsidiary of Coari. Coari is a wholly-owned subsidiary of Telemar Norte Leste S.A., or Telemar. Telemar is a majority-owned subsidiary of TNL.

Overview of Brasil Telecom

We are the largest integrated telecommunication service provider in Region II in Brazil, based on information regarding the total number of our fixed lines in service and mobile subscribers as of December 31, 2010 available from ANATEL. We offer a range of integrated telecommunication services that includes fixed-line and mobile telecommunication services, data transmission services (including broadband access services), internet service provider, or ISP, services and other services, for residential customers, small, medium and large companies, and governmental agencies.

According to the Brazilian Institute for Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística*), or IBGE, Region II had a population of approximately 44.4 million as of August 1, 2010, representing 23.9% of the total Brazilian population, and represented approximately 27.0% of Brazil's total gross domestic product, or GDP, for 2008 (the most recent period for which such information is currently available).

Fixed-Line Telecommunications and Data Transmission Services

Our traditional fixed-line telecommunications business in Region II includes local and long-distance services, network usage services (interconnection) and public telephones, in accordance with the concessions and authorizations granted to us by ANATEL. We are one of the largest fixed-line telecommunications companies in South America in terms of total number of lines in service as of December 31, 2010. We are the principal fixed-line telecommunication service provider in Region II, based on our 7.0 million and 7.2 million fixed lines in service as of June 30, 2011 and December 31, 2010, respectively, with an estimated market share of 68.9% and 71.6% of the total fixed lines in service in this region as of June 30, 2011 and December 31, 2010, respectively, based on information available from ANATEL.

We offer a variety of high-speed data transmission services, including services offered by our subsidiaries BrT Serviços de Internet S.A. and Brasil Telecom Comunicação Multimídia Ltda. We also operate a fiber optic cable system that connects the United States, Bermuda, Brazil, Venezuela and Colombia through our subsidiaries Brasil Telecom Cabos Submarinos Ltda., Brasil Telecom Subsea Cable System (Bermuda) Ltd., Brasil Telecom of America Inc. and Brasil Telecom de Venezuela S.A. Our broadband services, primarily utilizing Asymmetric Digital Subscriber Line, or ADSL, technology, are marketed in Region II under the brand name *Oi Velox*. As of June 30, 2011 and December 31, 2010, we had 2.0 million and 1.9 million ADSL subscribers, respectively, representing 28.3% and 26.8% of our fixed lines in service, respectively.

Our fixed-line and data transmission services segment generated R\$4,144 million and R\$8,893 million in net operating revenue for the six-month period ended June 30, 2011 and the year ended December 31, 2010, respectively, and recorded operating income before financial income (expenses) and taxes of R\$977 million and R\$2,481 million, respectively.

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Mobile Telecommunication Services

We offer mobile telecommunication services in Region II through our subsidiary 14 Brasil Telecom Celular S.A., which we refer to as Brasil Telecom Mobile. Based on our 8.1 million and 7.8 million mobile subscribers as of June 30, 2011 and December 31, 2010, respectively, we believe that we are one of the principal mobile telecommunication service providers in Region II. Our estimated market share was 14.7% and 15.1% of the total number of mobile subscribers in Region II as of June 30, 2011 and December 31, 2010, respectively, based on information available from ANATEL.

Our mobile services segment generated R\$937 million and R\$1,937 million in net operating revenue for the six-month period ended June 30, 2011 and the year ended December 31, 2010, respectively, and recorded operating losses before financial income (expenses) and taxes of R\$24 million and R\$34 million, respectively.

Other Services

We operate an internet portal through our subsidiary Internet Group do Brasil S.A. under the brand name *iG* that was one of the largest internet portals in Brazil in terms of the number of unique visitors in 2010, based on information available from Ibope/NetRatings. We also operate a call center business for the sole purpose of providing services to our company and our subsidiaries.

Our principal executive office is located at Rua General Polidoro, No. 99, 5th floor/part Botafogo, 22280-004 Rio de Janeiro, RJ, Brazil, and our telephone number at this address is (55-21) 3131-1211.

Overview of TNL

TNL is one of the largest integrated telecommunication service providers in Brazil, based on information regarding the total number of its fixed-lines in service and mobile subscribers as of December 31, 2010 available from ANATEL, and the only telecommunication services provider offering quadruple play services in Brazil. TNL offers a range of integrated telecommunication services that includes fixed-line and mobile telecommunication services, data transmission services (including broadband access services), ISP services and other services for residential customers, small, medium and large companies, and governmental agencies. TNL is the largest telecommunications provider in both Region I and Region II in Brazil, based on revenues and customers as of and for the year ended December 31, 2010, based on information available from ANATEL and other publicly available information. TNL has also been offering mobile telecommunication services in Region III (which consists of the State of São Paulo) since October 2008.

According to IBGE:

Region I had a population of approximately 101.4 million as of August 1, 2010, representing 54.6% of the total Brazilian population, and represented approximately 39.7% of Brazil's total gross domestic product, or GDP, for 2008.

Region II had a population of approximately 44.4 million as of August 1, 2010, representing 23.9% of the total Brazilian population, and represented approximately 27.0% of Brazil's total GDP for 2008.

Region III had a population of approximately 39.9 million as of August 1, 2010, representing 21.5% of the total Brazilian population, and represented approximately 33.1% of Brazil's total GDP for 2008.

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PART TWO SUMMARY

Fixed-Line Telecommunications and Data Transmission Services

TNL's traditional fixed-line telecommunications business in Regions I and II includes local and long-distance services, network usage services (interconnection) and public telephones, in accordance with the concessions and authorizations granted to TNL and its subsidiaries, including Brasil Telecom, by ANATEL. TNL is one of the largest fixed-line telecommunications companies in South America in terms of total number of lines in service as of December 31, 2010. TNL is the principal fixed-line telecommunication service provider in Region I and Region II, based on its 12.4 million and 12.8 million fixed lines in service in Region I as of June 30, 2011 and December 31, 2010, respectively, and its 7.0 million and 7.2 million fixed lines in service in Region II as of June 30, 2011 and December 31, 2010, respectively. As of June 30, 2011 and December 31, 2010, TNL had estimated market shares of 75.1% and 78.1% of the total fixed lines in service in Region I, respectively, and 68.9% and 71.6% of the total fixed lines in service in Region II, respectively, based on information available from ANATEL.

TNL offers a variety of high-speed data transmission services in Regions I and II. TNL's broadband services, primarily utilizing ADSL technology, are marketed under the brand name *Oi Velox*. As of June 30, 2011 and December 31, 2010, TNL had 4.6 million and 4.3 million ADSL subscribers, respectively, representing 23.7% and 21.5% of its fixed lines in service, respectively. Additionally, TNL provides voice and data services to corporate clients throughout Brazil.

TNL's fixed-line services segment, which includes the results of Brasil Telecom's fixed-line and data transmission services segment, generated R\$10,610 million and R\$22,655 million in net operating revenue for the six-month period ended June 30, 2011 and the year ended December 31, 2010, respectively, and recorded operating income before financial income (expenses) and taxes of R\$704 million and R\$2,173 million, respectively.

Mobile Telecommunication Services

TNL offers mobile telecommunication services throughout Brazil through its subsidiaries, including Brasil Telecom Mobile. Based on its 25.6 million and 24.3 million mobile subscribers in Region I as of June 30, 2011 and December 31, 2010, respectively, its 8.1 million and 7.8 million mobile subscribers in Region II as of those dates, respectively, and its 7.9 million and 7.2 million mobile subscribers in Region III as of those dates, respectively, we believe that TNL is one of the principal mobile telecommunication service providers in each region. TNL's estimated market share was 23.5% in Region I, 14.7% in Region II and 14.8% in Region III of the total number of mobile subscribers in these regions as of June 30, 2011, and 23.8% in Region I, 15.1% in Region II and 14.2% in Region III of the total number of mobile subscribers in these regions as of December 31, 2010, based on information available from ANATEL.

TNL's mobile services segment, which includes the results of Brasil Telecom's mobile services segment, generated R\$5,079 million and R\$10,001 million in net operating revenue for the six-month period ended June 30, 2011 and the year ended December 31, 2010, respectively, and recorded operating income before financial income (expenses) and taxes of R\$880 million and R\$1,999 million, respectively.

Other Services

Through Brasil Telecom's subsidiaries, TNL operates a fiber optic cable system that connects the United States, Bermuda, Brazil, Venezuela and Colombia, and operates an internet portal under the brand name *iG* that was one of the largest internet portals in Brazil in terms of the number of unique visitors in 2010, based on information available from Ibope/NetRatings.

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In September 2008, ANATEL authorized TNL to provide subscription television services throughout Brazil, using direct-to-home, or DTH, satellite technology. In 2009, TNL commenced offering DTH subscription television services to the low-income residential market in the states of Rio de Janeiro, Minas Gerais, Rio Grande do Sul, Paraná and Santa Catarina. In 2010, TNL expanded this service to the Distrito Federal and the states of Bahia, Sergipe, Pernambuco, Ceará, Paraíba, Rio Grande do Norte, Alagoas, Espírito Santo and Goiás. In 2011, TNL expanded this service to the states of Amazonas, Mato Grosso do Sul, Maranhão and Pará, and expects to offer this service to all states of Regions I and II by the end of 2011.

Through its subsidiary WAY TV Belo Horizonte S.A., or WAY TV, TNL provides subscription television services and broadband internet access to the residential, commercial and corporate market segments in the cities of Belo Horizonte, Poços de Caldas, Uberlândia and Barbacena in the State of Minas Gerais. WAY TV uses a hybrid network of fiber optic and bidirectional coaxial cable (HFC) that allows it to offer a broad range of interactive services, such as distance learning, telephony and telemedicine, among others.

TNL's principal executive office is located at Rua Humberto de Campos, 425/8º andar, Leblon 22430-190 Rio de Janeiro, RJ, Brazil, and its telephone number at this address is (55-21) 3131-1211.

The Corporate Reorganization

The merger is a step in the corporate reorganization that TNL, Telemar, Coari and Brasil Telecom are undertaking to simplify the corporate structure of these companies. The corporate reorganization is expected to be accomplished through the following three transactions that will occur contemporaneously and will cumulatively result in the conversion of the publicly held shares of TNL and Telemar into shares of Brasil Telecom. The split-off and share exchange, the Coari merger and the merger are expected to be completed contemporaneously and each transaction is conditioned upon the approval and completion of the other transactions. **Neither Coari nor Brasil Telecom is offering the shares to be issued in the split-off and share exchange or the Coari merger, as applicable, by means of this prospectus.**

Corporate Structure Prior to the Corporate Reorganization

We understand that on the day prior to the general shareholders meetings of TNL, Telemar, Coari and Brasil Telecom called to consider the split-off and share exchange, the Coari merger and the merger, TmarPart intends to exchange all of the class A preferred shares of Telemar that it owns for common shares of TNL held by three of its shareholders in order to ensure that upon the completion of the corporate reorganization, TmarPart will retain the voting control of Brasil Telecom in order to comply with the legal and regulatory obligations of TmarPart to ANATEL.

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PART TWO SUMMARY

The following chart sets forth the structure of TmarPart's holdings in TNL, Telemar, Coari and Brasil Telecom as it will exist following the exchange of TNL and Telemar shares between TmarPart and its shareholders. The percentages in bold italics represent the percentage of the voting capital owned by the parent company of each entity, and the percentages not in bold italics represent the percentage of the total share capital owned by the parent company of each entity.

- (1) Ownership represents (1) 18.4% of the share capital of TNL, including 58.7% of its voting share capital, held directly by TmarPart, and
(2) 3.8% of the share capital of TNL, including 9.6% of its voting share capital, held by Valverde, a wholly-owned subsidiary of TmarPart.

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PART TWO SUMMARY

The Split-Off and Share Exchange

The split-off and share exchange will be the first step in the proposed corporate reorganization. The boards of directors of each of Coari and Telemar have approved a split-off under Brazilian law (*cisão*) and the share exchange in which:

Telemar will transfer the shares of Coari that it owns to Coari;

Coari will assume certain liabilities of Telemar under debt obligations of Telemar with an aggregate principal amount of R\$16,086 million as of June 30, 2011, including Telemar's obligations under its outstanding 5.125% Senior Notes due 2017, 9.500% Senior Notes due 2019 and 5.500% Senior Notes due 2020, all of which will become joint and several liabilities of Telemar and Coari;

in exchange for the issued and outstanding shares of Telemar, Coari will issue without any further action by the holders thereof:

to the holder of each Telemar common share (excluding any common shares held by shareholders who have exercised their withdrawal rights in connection with such common shares), one common share of Coari;

to the holder of each Telemar class A preferred share (excluding any class A preferred shares held by shareholders who have exercised their withdrawal rights in connection with such class A preferred shares), one preferred share of Coari; and

to the holder of each Telemar class B preferred share (excluding any class B preferred shares held by shareholders who have exercised their withdrawal rights in connection with such class B preferred shares), one preferred share of Coari; and

Telemar will become a wholly-owned subsidiary of Coari.

TNL and Coari will account for the split-off and the share exchange based on the carry-over basis of the assets and liabilities of Telemar and the debt that will be transferred from Telemar to Coari. As a result of this transaction, Telemar will become a wholly-owned subsidiary of Coari. This phase of the corporate restructuring will have no impact on the financial statements of Brasil Telecom.

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PART TWO SUMMARY

The following chart sets forth the structure of TmarPart's holdings in TNL, Coari, Telemar and Brasil Telecom immediately following the split-off and share exchange, assuming that no holders of Telemar shares exercise their withdrawal rights in connection with this transaction. The percentages in bold italics represent the percentage of the voting capital owned by the parent company of each entity, and the percentages not in bold italics represent the percentage of the total share capital owned by the parent company of each entity.

- (1) Ownership represents (1) 18.4% of the share capital of TNL, including 58.7% of its voting share capital, held directly by TmarPart, and
 (2) 3.8% of the share capital of TNL, including 9.6% of its voting share capital, held by Valverde, a wholly-owned subsidiary of TmarPart. For more information regarding the split-off and share exchange, see Part Five The Merger Background of the Merger Corporate Reorganization The Split-Off and Share Exchange.

The Coari Merger

The Coari merger will be the second step in the proposed corporate reorganization. The boards of directors of each of Brasil Telecom and Coari have approved the Coari merger, in which:

Coari will merge with and into Brasil Telecom, with Brasil Telecom as the surviving company;

all issued and then outstanding shares of Brasil Telecom held by Coari and all Coari shares held in treasury will be cancelled;

each issued and then outstanding common share of Coari (other than any common shares held by shareholders who exercise their withdrawal rights in connection with such common shares) will be converted automatically into 5.1149 common shares of Brasil Telecom, plus cash in lieu of any fractional shares, without any further action by the holders thereof;

each issued and then outstanding preferred share of Coari (other than any preferred shares held by shareholders who exercise their withdrawal rights in connection with such preferred shares) will be

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PART TWO SUMMARY

converted automatically into 0.3904 common shares of Brasil Telecom and 4.0034 preferred shares of Brasil Telecom, plus cash in lieu of any fractional shares, without any further action by the holders thereof;

Coari will cease to exist; and

Telemar will become a wholly-owned subsidiary of Brasil Telecom.

In the current corporate structure, Coari is a holding company that controls Brasil Telecom. The Coari merger will be a business combination of companies under common control. IFRS 3(R) does not apply to combinations of entities under common control. Furthermore, this transaction is not addressed under other IFRS guidance. Since these entities are under common control, Brasil Telecom will account for the Coari merger using the carry-over basis of the assets received and liabilities assumed of Telemar and Coari, without any step-up in the basis of its own assets and liabilities. Consequently, effects of the purchase accounting recorded by Coari relating to Coari's acquisition of Brasil Telecom will not be pushed down to the assets and liabilities of Brasil Telecom in its consolidated financial statements as a result of this merger. Upon completion of this merger, Telemar will become a wholly-owned subsidiary of Brasil Telecom and Coari will cease to exist.

The following chart sets forth the structure of TmarPart's holdings in TNL, Brasil Telecom and Telemar immediately following the Coari merger, assuming that none of the shareholders of Telemar or Coari exercises withdrawal rights with respect to any of the proposed transactions. The percentages in bold italics represent the percentage of the voting capital owned by the parent company of each entity, and the percentages not in bold italics represent the percentage of the total share capital owned by the parent company of each entity.

- (1) Ownership represents (1) 18.4% of the share capital of TNL, including 58.7% of its voting share capital, held directly by TmarPart, and (2) 3.8% of the share capital of TNL, including 9.6% of its voting share capital, held by Valverde, a wholly-owned subsidiary of TmarPart. For more information regarding the Coari merger, see Part Five The Merger Background of the Merger Corporate Reorganization The Coari Merger.

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The Merger

The merger will be the third step in the proposed corporate reorganization. The boards of directors of each of Brasil Telecom and TNL have approved the merger, in which:

TNL will merge with and into Brasil Telecom, with Brasil Telecom as the surviving company;

all TNL shares held in treasury prior to the merger will be cancelled, and all issued and then outstanding shares of Brasil Telecom held by TNL will be cancelled, other than 24,646,937 common shares of Brasil Telecom, which will be held in treasury by Brasil Telecom;

each issued and then outstanding common share of TNL (other than any common shares held by shareholders who exercise their withdrawal rights with respect to such common shares) will be converted automatically into 2.3122 common shares of Brasil Telecom, plus cash in lieu of any fractional shares, without any further action by the holders thereof;

each issued and then outstanding preferred share of TNL (including preferred shares of TNL represented by the TNL ADSs) will be converted automatically into 0.1879 common shares of Brasil Telecom and 1.9262 preferred shares of Brasil Telecom, plus cash in lieu of any fractional shares, without any further action by the holders thereof;

holders of TNL ADSs will receive, subject to the procedures described herein, 0.1879 Brasil Telecom Common ADSs and 0.6420 Brasil Telecom Preferred ADSs for each TNL ADS they hold, plus cash in lieu of any fractional Brasil Telecom Common ADS or Brasil Telecom Preferred ADS; and

TNL will cease to exist.

The exchange ratios for the TNL preferred shares and ADSs are different because the ADS exchange ratio takes into account the difference in the ratio of ADSs to preferred shares under TNL's ADS program and our ADS program. Each TNL ADS represents one preferred share, while each Brasil Telecom Common ADS represents one common share and each Brasil Telecom Preferred ADS represents three preferred shares.

Consistent with the accounting for the Coari merger, since these entities are under common control Brasil Telecom will account for the merger based on the carry-over basis of the individual assets received and liabilities assumed of TNL. The effects of the purchase accounting relating to TNL's acquisition of Brasil Telecom will not be pushed down to the assets and liabilities of Brasil Telecom in its consolidated financial statements as a result of the merger.

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The following chart sets forth the structure of TmarPart's holdings in Brasil Telecom and Telemar immediately following the merger, assuming that none of the shareholders of TNL, Telemar or Coari exercises withdrawal rights with respect to any of the proposed transactions. The percentages in bold italics represent the percentage of the voting capital owned by the parent company of each entity, and the percentages not in bold italics represent the percentage of the total share capital owned by the parent company of each entity.

- (1) Ownership represents (1) 14.1% of the share capital of Brasil Telecom, including 43.5% of its voting share capital, held directly by TmarPart, and (2) 2.3% of the share capital of Brasil Telecom, including 7.1% of its voting share capital, held by Valverde, a wholly-owned subsidiary of TmarPart.

For more information regarding the merger, see Part Five The Merger.

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Timetable for the Merger

Event	Date
Meeting of the Boards of Directors of each of TNL and Brasil Telecom to approve the merger	August 26, 2011
Announcement of the terms of the merger	August 29, 2011
Notice of meeting of shareholders of each of TNL and Brasil Telecom to consider the merger published in <i>Valor Econômico</i> and <i>Diário Oficial do Estado do Rio de Janeiro</i>	, 2011
Mailing of prospectus to holders of TNL ADSs and U.S. holders of common and preferred shares of TNL	on or about , 2011
Meeting of shareholders of each of TNL and Brasil Telecom to approve the merger	, 2011
Beginning of period for exercise of withdrawal rights	on or about , 2011
End of period for withdrawal rights	on or about , 2011
Expected last day of trading of common and preferred shares of TNL on the BM&FBOVESPA and of TNL ADSs on the NYSE	on or about , 2011
Expected first day of trading of newly issued Brasil Telecom common shares and preferred shares on the BM&FBOVESPA and newly issued Brasil Telecom Common and Preferred ADSs on the NYSE	on or about , 2011
TNL Depositary expected to close books for all transfers involving TNL ADSs	on or about , 2011
Brasil Telecom Depositary begins to deliver Brasil Telecom ADSs upon surrender of TNL ADSs	on or about , 2011

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Selected Historical Financial Data and Pro Forma Financial Data

Presentation of Financial Information

We and TNL maintain our books and records in *reais* and prepare our consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, or IFRS.

Our consolidated financial statements as of December 31, 2010 and 2009 and for the two years ended December 31, 2010, are incorporated into this prospectus by reference to the Brasil Telecom Annual Report, and have been audited, as stated in the report appearing therein. Our unaudited consolidated interim financial information as of June 30, 2011 and for the six- month periods ended June 30, 2011 and 2010 is incorporated into this prospectus by reference to the Brasil Telecom First Half Report.

TNL's consolidated financial statements as of December 31, 2010 and 2009 and for the two years ended December 31, 2010, are incorporated into this prospectus by reference to the TNL Annual Report, and have been audited, as stated in the reports appearing therein. TNL's unaudited consolidated interim financial information as of June 30, 2011 and for the six- month periods ended June 30, 2011 and 2010 is incorporated into this prospectus by reference to the TNL First Half Report.

The consolidated annual financial statements included in the Brasil Telecom Annual Report and the TNL Annual Report are the first annual consolidated financial statements of our company and TNL to be prepared in accordance with IFRS. IFRS 1, First-time Adoption of International Reporting Standards, has been applied in preparing these consolidated annual financial statements, considering that the previous primary GAAP of our company and TNL was Prior Brazilian GAAP, as described below, and that we and TNL have considered January 1, 2009 as the date of transition to IFRS. Reconciliations and descriptions of the effects of our transition

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from Prior Brazilian GAAP to IFRS are included in note 3 to our consolidated annual financial statements, and reconciliations and descriptions of the effects of TNL's transition from Prior Brazilian GAAP to IFRS are included in note 3 to TNL's consolidated annual financial statements.

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

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

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

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

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

We and TNL also prepare individual financial statements in accordance with accounting practices adopted in Brazil, or Brazilian GAAP, which include the pronouncements issued by the CPC applicable to dates and periods ended after December 31, 2009, for certain purposes, including for the calculation of dividends.

Selected Historical Financial Data

The following information is provided to aid you in your analysis of the financial aspects of the merger. The following selected historical financial data has been derived from consolidated financial statements of our company and TNL.

Selected Historical Brasil Telecom Financial Data

You should read the following selected financial data in conjunction with (1) our audited consolidated financial statements and the related notes thereto, and Item 5. Operating and Financial Review and Prospects of the Brasil Telecom Annual Report, which are incorporated into this prospectus by reference to the Brasil Telecom Annual Report, and (2) the unaudited interim consolidated financial statements of Brasil Telecom and the related notes thereto, and Brasil Telecom's Management's Discussion and Analysis of Financial Condition and Results of Operations for the First Half of 2011, which are incorporated into this prospectus by reference to the Brasil Telecom First Half Report.

The following selected financial data have been derived from Brasil Telecom's consolidated financial statements. The selected financial data as of and for the years ended December 31, 2010 and 2009 have been derived from our audited consolidated financial statements, prepared in accordance with IFRS, which are incorporated into this prospectus by reference to the Brasil Telecom Annual Report. The selected financial data as of June 30, 2011 and for the six-month periods ended June 30, 2011 and 2010 have been derived from our unaudited interim consolidated financial statements, prepared in accordance with IFRS, which are incorporated into this prospectus by reference to the Brasil Telecom First Half Report. The results for the six-month period ended June 30, 2011 are not necessarily indicative of the results to be expected for the entire year ending December 31, 2011.

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We have included information with respect to the dividends and/or interest attributable to shareholders' equity paid to holders of common shares and preferred shares of Brasil Telecom since January 1, 2006 in *reais* and in U.S. dollars translated from *reais* at the commercial market selling rate in effect as of the payment date under the caption "Part Six Shareholder Rights Comparative Share and Dividend Information Information About Historical Dividend Payments." We prepare individual financial statements in accordance with Brazilian GAAP for certain purposes, including for the calculation of dividends.

	As of and For the Six-Month Period Ended June 30,			As of and For the Year Ended December 31,		
	2011(1) (in millions of US\$, except per share amounts)	2011 (in millions of reais, except per share amounts and as otherwise indicated)	2010	2010(1) (in millions of US\$, except per share amounts)	2010 (in millions of reais, except per share amounts and as otherwise indicated)	2009
Income Statement Data:						
Net operating revenue	US\$ 3,027	R\$ 4,726	R\$ 5,209	US\$ 6,574	R\$ 10,263	R\$ 10,919
Cost of sales and services	(1,444)	(2,254)	(2,425)	(3,031)	(4,732)	(5,764)
Gross profit	1,583	2,472	2,784	3,543	5,531	5,155
Operating expenses	(975)	(1,523)	(1,663)	(1,967)	(3,072)	(6,232)
Operating income (loss) before financial income (expenses) and taxes	608	950	1,121	1,576	2,459	(1,077)
Financial income	331	517	405	627	979	630
Financial expenses	(486)	(759)	(512)	(679)	(1,060)	(912)
Financial expenses, net	(155)	(242)	(107)	(51)	(80)	(281)
Income (loss) before taxes	453	708	1,014	1,524	2,379	(1,358)
Income tax and social contribution	(154)	(241)	(289)	(261)	(408)	339
Net income (loss)	US\$ 299	R\$ 467	R\$ 725	US\$ 1,263	R\$ 1,971	R\$ (1,019)
Net income (loss) attributable to controlling shareholders	US\$ 299	R\$ 467	R\$ 725	US\$ 1,263	R\$ 1,971	R\$ (1,021)
Net income (loss) attributable to non-controlling shareholders						2
Net income (loss) applicable to each class of shares:						
Common shares	103	161	250	436	680	(1,021)
Preferred shares	196	306	475	827	1,291	
Net income (loss) per share(2):						
Common shares basic	0.51	0.79	1.23	2.14	3.34	(1.85)
Common shares diluted	0.51	0.79	1.23	2.14	3.34	(1.85)
Preferred shares and ADSs basic	0.51	0.79	1.23	2.14	3.34	
Preferred shares and ADSs diluted	0.51	0.79	1.23	2.14	3.34	
Weighted average shares outstanding (in thousands):						
Common shares basic		203,423	203,423		203,423	245,749

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Common shares	diluted	203,423	203,423	203,423	245,749
Preferred shares	basic	386,366	386,366	386,366	305,439
Preferred shares	diluted	386,387	386,395	386,387	305,439

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	As of and For the Six-Month Period Ended June 30,		As of and For the Year Ended December 31,		
	2011(1)	2011	2010(1)	2010	2009
	(in millions of US\$, except per share amounts)	(in millions of <i>reais</i> , except per share amounts and as otherwise indicated)	(in millions of US\$, except per share amounts)	(in millions of <i>reais</i> , except per share amounts and as otherwise indicated)	
Balance Sheet Data:					
Cash and cash equivalents	US\$ 1,155	R\$ 1,803	US\$ 2,061	R\$ 3,217	R\$ 1,717
Cash investments	507	791	533	832	382
Trade accounts receivable, net	1,266	1,977	1,326	2,070	1,992
Total current assets	4,588	7,162	5,437	8,487	6,127
Property, plant and equipment, net	3,482	5,435	3,406	5,317	5,267
Intangible assets, net	761	1,188	844	1,318	1,572
Total assets	16,655	26,000	17,222	26,886	24,564
Short-term loans and financing (including current portion of long-term debt)	666	1,039	669	1,044	870
Total current liabilities	4,758	7,428	4,286	6,691	5,424
Long-term loans and financing	1,720	2,685	2,127	3,321	3,573
Total equity	6,600	10,302	7,262	11,337	9,906
Shareholders' equity attributable to controlling shareholders	6,600	10,302	7,262	11,337	9,905
Shareholders' equity attributable to non-controlling shareholders					1

- (1) Translated for convenience only using the selling rate as reported by the Central Bank at June 30, 2011 for *reais* into U.S. dollars of R\$1.561=US\$1.00.
- (2) Under the Brazilian Corporation Law, preferred shareholders are not obligated to absorb losses, and such losses are exclusively attributed to common shareholders.

Selected Historical TNL Financial Data

You should read the following selected financial data in conjunction with (1) TNL's audited consolidated financial statements and the related notes thereto, and Item 5. Operating and Financial Review and Prospects of the TNL Annual Report, which are incorporated into this prospectus by reference to the TNL Annual Report, and (2) the unaudited interim consolidated financial statements of TNL and the related notes thereto, and TNL's Management's Discussion and Analysis of Financial Condition and Results of Operations for the First Half of 2011, which are incorporated into this prospectus by reference to the TNL First Half Report.

The following selected financial data have been derived from TNL's consolidated financial statements. The selected financial data as of and for the years ended December 31, 2010 and 2009 have been derived from TNL's audited consolidated financial statements, prepared in accordance with IFRS, which are incorporated into this prospectus by reference to the TNL Annual Report. The selected financial data as of June 30, 2011 and for the six-month periods ended June 30, 2011 and 2010 have been derived from TNL's unaudited interim consolidated financial statements, prepared in accordance with IFRS, which are incorporated into this prospectus by reference to the TNL First Half Report. The results for the six-month period ended June 30, 2011 are not necessarily indicative of the results to be expected for the entire year ending December 31, 2011.

We have included information with respect to the dividends and/or interest attributable to shareholders' equity paid to holders of TNL's common shares and preferred shares since January 1, 2006 in *reais* and in U.S.

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dollars translated from *reais* at the commercial market selling rate in effect as of the payment date under the caption Part Six Shareholder Rights Comparative Share and Dividend Information Information About Historical Dividend Payments. TNL prepares individual financial statements in accordance with Brazilian GAAP for certain purposes, including for the calculation of dividends.

	As of and For the Six-Month Period Ended June 30,			As of and For the Year Ended December 31,		
	2011(1) (in millions of US\$, except per share amounts)	2011 (in millions of reais, except per share amounts and as otherwise indicated)	2010	2010(1) (in millions of US\$, except per share amounts)	2010 (in millions of reais, except per share amounts and as otherwise indicated)	2009
Income Statement Data:						
Net operating revenue	US\$ 8,974	R\$ 14,010	R\$ 14,836	US\$ 18,885	R\$ 29,479	R\$ 29,997
Cost of sales and services	(5,105)	(7,969)	(8,415)	(10,659)	(16,639)	(18,458)
Gross profit	3,869	6,040	6,420	8,225	12,840	11,539
Operating expenses	(2,864)	(4,471)	(4,284)	(5,601)	(8,743)	(3,731)
Operating income before financial income (expenses) and taxes	1,005	1,569	2,136	2,625	4,097	7,808
Financial income	608	949	884	1,236	1,929	1,601
Financial expenses	(1,561)	(2,437)	(2,017)	(2,794)	(4,361)	(3,988)
Financial income (expenses)	(954)	(1,488)	(1,133)	(1,558)	(2,432)	(2,387)
Income before taxes	52	81	1,003	1,067	1,665	5,421
Income tax and social contribution	(79)	(123)	(75)	54	84	(329)
Net income	US\$ (27)	R\$ (42)	R\$ 928	US\$ 1,120	R\$ 1,749	R\$ 5,092
Net income attributable to controlling shareholders	US\$ 18	R\$ 28	R\$ 877	US\$ 915	R\$ 1,428	R\$ 4,274
Net income attributable to non-controlling shareholders	(45)	(70)	51	206	321	819
Gains (losses) on fair value of available-for-sale financial assets, net of taxes						3
Realization of losses on available-for-sale investments, net of taxes						745
Hedge Accounting	(3)	(5)				
Change in available-for-sale investment	(149)	(233)				
Comprehensive income	US\$ (65)	R\$ (101)	R\$ 928	US\$ 1,120	R\$ 1,749	R\$ 5,840

Net income attributable to
controlling shareholders applicable

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to each class of shares:

Common shares	7	11	292	305	476	1,426
Preferred shares	11	17	585	610	952	2,848

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	As of and For the Six-Month Period Ended June 30,			As of and For the Year Ended December 31,		
	2011(1) (in millions of US\$, except per share amounts)	2011 (in millions of reais, except per share amounts and as otherwise indicated)	2010	2010(1) (in millions of US\$, except per share amounts)	2010 (in millions of reais, except per share amounts and as otherwise indicated)	2009
Net income per share:						
Common shares basic	0.04	0.06	2.29	2.39	3.73	11.18
Common shares diluted	0.04	0.06	2.23	2.35	3.67	11.01
Preferred shares and ADSs basic	0.04	0.06	2.29	2.39	3.73	11.18
Preferred shares and ADSs diluted	0.04	0.06	2.28	2.35	3.67	11.01
Weighted average shares outstanding (in thousands):						
Common shares basic		174,611	127,578		127,584	127,564
Common shares diluted		178,537	130,855		131,466	131,381
Preferred shares basic		278,731	254,975		255,009	254,841
Preferred shares diluted		280,807	256,730		257,083	256,837
Balance Sheet Data:						
Cash and cash equivalents	US\$ 4,566	R\$ 7,128		US\$ 5,798	R\$ 9,052	R\$ 6,206
Trade accounts receivable, net	3,747	5,850		3,776	5,894	5,942
Total current assets	12,726	19,867		14,203	22,172	18,318
Property, plant and equipment, net	14,709	22,962		14,957	23,349	25,296
Intangible assets, net	10,173	15,881		10,634	16,600	17,785
Total assets	47,324	73,873		48,131	75,137	74,002
Short-term loans and financing (including current portion of long-term loans and financing)	1,560	2,436		2,205	3,442	7,891
Short-term debentures (including current portion of debentures)	1,262	1,970		2,371	3,702	73
Total current liabilities	9,987	15,589		12,373	19,316	18,272
Long-term loans and financing	10,637	16,605		11,979	18,700	14,814
Long-term debentures	1,878	2,931		2,108	3,291	6,048
Total shareholders equity	15,926	24,860		12,795	19,974	20,111
Shareholders equity attributable to controlling shareholders	8,664	13,524		7,161	11,179	11,283
Shareholders equity attributable to non-controlling shareholders	7,262	11,336		5,634	8,795	8,828

- (1) Translated for convenience only using the selling rate as reported by the Central Bank at June 30, 2011 for reais into U.S. dollars of R\$1.561=US\$1.00.

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PART TWO SUMMARY

Unaudited Pro Forma Financial Information

The unaudited pro forma financial information of Brasil Telecom presented herein has been derived from historical audited consolidated financial statements of Brasil Telecom and TNL as of December 31, 2010 and for the year then ended, prepared in accordance with IFRS, which are incorporated by reference into this prospectus, and the historical unaudited interim consolidated financial statements of Brasil Telecom and TNL as of June 30, 2011 and for the six-month period then ended, prepared in accordance with IFRS, which are incorporated by reference into this prospectus. As described in Part Five: The Merger Background of the Merger, the merger is a step in the corporate reorganization that TNL, Telemar, Coari and Brasil Telecom are undertaking to simplify the corporate structure of these companies.

The unaudited pro forma financial information was prepared as if: (1)(A) the split-off and share exchange, (B) the Coari merger, and (C) the merger, as described in Part Five: The Merger Background of the Merger had been completed on January 1, 2010 for purposes of the unaudited pro forma statements of operations for the year ended December 31, 2010 and for the six-month period ended June 30, 2011, and (2)(A) these transactions, and (B) the share dividend and redemption described in Part Five: The Merger Background of the Merger Corporate Reorganization Share Dividend and Redemption had been completed on June 30, 2011 for purposes of the pro forma statement of financial position as of June 30, 2011. The pro forma assumptions and adjustments are described in the accompanying notes presented below.

The unaudited pro forma financial information should be read in conjunction with the accompanying notes presented below, the historical consolidated financial statements of Brasil Telecom and TNL as of and for the year ended December 31, 2010 and the notes thereto, which are incorporated into this prospectus by reference to the Brasil Telecom Annual Report and the TNL Annual Report, respectively, and the historical unaudited interim consolidated financial statements of Brasil Telecom and TNL as of and for the six-month period ended June 30, 2011 and notes thereto, which are incorporated into this prospectus by reference to the Brasil Telecom First Half Report and the TNL First Half Report, respectively.

The unaudited pro forma financial information is provided for illustrative purposes only and does not purport to represent, and you should not rely on the unaudited pro forma financial information as an indication of, (1) what the actual consolidated results of operations or the consolidated financial position of Brasil Telecom would have been had the split-off and share exchange, the Coari merger and the merger occurred on the dates assumed, or (2) Brasil Telecom's future consolidated results of operations or financial position.

The unaudited pro forma financial information does not reflect, for example, (1) any integration costs that may be incurred as a result of the split-off and share exchange, the Coari merger and the merger, (2) any synergies, operating efficiencies and cost savings that may result from these transactions, (3) any benefits that may be derived from the combined company's growth prospects, or (4) changes in rates for services or exchange rates subsequent to the dates of the unaudited pro forma financial information. We have not completed the split-off and share exchange, the Coari merger or the merger. Accordingly, additional liabilities may be incurred in connection with the split-off and share exchange, the Coari merger and the merger. Any additional liabilities and costs have not been reflected in the unaudited pro forma financial information because information necessary to reasonably estimate such costs is not yet available.

Table of Contents**PART TWO SUMMARY****Brasil Telecom S.A.****Unaudited Pro Forma Statement of Financial Position****As of June 30, 2011****(in millions of reais)**

	Brasil Telecom	Share Dividend and Redemption (4)	The Corporate Reorganization (3)	Brasil Telecom Pro-forma
Current assets				
Cash and cash equivalents	R\$ 1,803	R\$ (762)	R\$ 5,325	R\$ 6,366
Cash investments	791		786	1,577
Derivative instruments			56	56
Trade receivables, net	1,977		3,873	5,850
Inventories, net	19		141	160
Current recoverable taxes	186		369	555
Other taxes	595		776	1,371
Judicial deposits	1,470		439	1,909
Other assets	321		940	1,261
Total current assets	7,162	(762)	12,705	19,105
Non-current assets				
Cash investments	13		53	66
Derivative instruments			29	29
Available-for-sale financial assets			1,025	1,025
Related parties	2,056		(2,056)	
Deferred taxes	5,216		3,022	8,238
Other taxes	172		346	518
Judicial deposits	4,606		2,523	7,129
Pension plan assets	99			99
Other assets	45		274	319
Investments	8		57	65
Property, plant and equipment, net	5,435		14,314	19,749
Intangible assets, net	1,188		2,281	3,469
Total non-current assets	18,838		21,868	40,706
TOTAL ASSETS	R\$ 26,000	R\$ (762)	R\$ 34,573	R\$ 59,811

See accompanying notes to the Unaudited Pro Forma Financial Information.

Table of Contents**PART TWO SUMMARY****Brasil Telecom S.A.****Unaudited Pro Forma Statement of Financial Position****As of June 30, 2011****(in millions of reais)**

	Brasil Telecom	Share Dividend and Redemption (4)	The Corporate Reorganization (3)	Brasil Telecom Pro-forma
Current liabilities				
Payroll, related taxes and benefits	R\$ 119	R\$	R\$ 231	R\$ 350
Trade payables	1,474		2,151	3,625
Loans and financing	1,039		3,367	4,406
Derivative instruments			737	737
Current income taxes payable	97		242	339
Taxes other than income tax	1,160		656	1,816
Dividends and interest on capital	57		266	323
Licenses and concessions payable	115		274	389
Tax financing program	38		64	102
Provision for pension plan	47			47
Provisions	1,267		480	1,747
Other payables	2,015	(762)	(306)	947
Total current liabilities	7,428	(762)	8,162	14,828
Non-current liabilities				
Loans and financing	2,685		16,850	19,535
Derivative instruments			386	386
Taxes other than income tax	556		999	1,555
Licenses and concessions payable	518		858	1,376
Tax financing program	413		692	1,105
Provision for pension plan	546		0	546
Provisions	3,210		1,991	5,201
Other payables	342		390	732
Total non-current liabilities	8,270		22,166	30,436
Equity attributable to controlling shareholders	10,302		4,208	14,510
Equity attributable to non-controlling shareholders			37	37
Total equity	10,302		4,245	14,547
TOTAL EQUITY AND LIABILITIES	R\$ 26,000	R\$ (762)	R\$ 34,573	R\$ 59,811

See accompanying notes to the Unaudited Pro Forma Financial Information.

Table of Contents**PART TWO SUMMARY****Brasil Telecom S.A.****Unaudited Pro Forma Statement of Operations****For the year ended December 31, 2010****(in millions of reais)**

	Brasil Telecom	The Corporate Reorganization (3)	Brasil Telecom Pro-forma
Net operating revenue	R\$ 10,263	R\$ 19,216	R\$ 29,479
Cost of sales and services	(4,732)	(8,884)	(13,616)
Gross profit	5,531	10,332	15,863
Operating income (expenses):			
Selling expenses	(1,025)	(3,861)	(4,886)
General and administrative expenses	(1,539)	(1,251)	(2,790)
Other operating income	524	808	1,332
Other operating expenses			
	(1,032)	(1,320)	(2,352)
Operating income before financial income (expenses) and taxes			
	2,459	4,708	7,167
Financial income	980	950	1,930
Financial expenses	(1,060)	(3,302)	(4,362)
Financial expenses, net			
	(80)	(2,352)	(2,432)
Income before taxes			
	2,379	2,356	4,735
Income tax and social contribution:			
Current			
	(149)	(539)	(688)
Deferred			
	(259)	(12)	(271)

Net income for the year

	R\$	1,971	R\$	1,805	R\$	3,776
Net income attributed to controlling shareholders						
		1,971		1,811		3,782

		(6)	(6)
Net income allocated to common shares	basic and diluted	680	1,235
Net income allocated to preferred shares	basic and diluted	1,291	2,547
Weighted average number of outstanding shares(5)			
Common shares	basic	203,423,176	574,352,443
Common shares	diluted	203,423,176	587,182,103
Preferred shares	basic	386,365,814	1,184,838,753
Preferred shares	diluted	386,387,781	1,189,304,887
Earnings per share R\$(5)			
Common shares	basic	3.34	2.15
Common shares	diluted	3.34	2.10
Preferred shares	basic	3.34	2.15
Preferred shares	diluted	3.34	2.14

See accompanying notes to the Unaudited Pro Forma Financial Information.

Table of Contents**PART TWO SUMMARY****Brasil Telecom S.A.****Unaudited Pro Forma Statement of Operations****For the interim period ended June 30, 2011****(in millions of reais)**

	Brasil Telecom	The Corporate Reorganization (3)	Brasil Telecom Pro-forma
Net operating revenue	R\$ 4,726	R\$9,284	R\$ 14,010
Cost of sales and services	(2,254)	(4,473)	(6,727)
Gross profit	2,472	4,811	7,283
Operating income (expenses):			
Selling expenses	(587)	(1,962)	(2,549)
General and administrative expenses	(709)	(746)	(1,455)
Other operating income	287	383	670
Other operating expenses	(514)	(619)	(1,133)
Operating income before financial income (expenses) and taxes	949	1,867	2,816
Financial income	517	432	950
Financial expenses	(759)	(1,679)	(2,438)
Financial expenses, net	(241)	(1,247)	(1,488)
Income before taxes	708	620	1,327
Income tax and social contribution:			
Current	(112)	(234)	(346)
Deferred	(129)	(72)	(201)
	(241)	(306)	(547)
Net income for the period	R\$ 467	R\$ 314	R\$ 780
Net income attributed to controlling shareholders	467	317	783
Net income attributed to non-controlling shareholders		(3)	(3)
Net income allocated to common shares basic and diluted	161		256
Net income allocated to preferred shares basic and diluted	306		527
Weighted average number of outstanding shares(5)			
Common shares basic	203,423,176		574,352,443
Common shares diluted	203,423,176		587,285,723
Preferred shares basic	386,365,814		1,184,838,753
Preferred shares diluted	386,387,781		1,189,307,990
Earnings per share R\$(5)			
Common shares basic	0.79		0.44
Common shares diluted	0.79		0.43
Preferred shares basic	0.79		0.44
Preferred shares diluted	0.79		0.44

See accompanying notes to the Unaudited Pro Forma Financial Information.

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PART TWO SUMMARY

Notes to the Unaudited Pro Forma Financial Information

1. Basis of Presentation

The unaudited pro forma financial information of Brasil Telecom presented herein has been derived from the historical audited consolidated financial statements of Brasil Telecom and TNL as of December 31, 2010 and for the year then ended and the historical unaudited interim consolidated financial statements of Brasil Telecom and TNL as of June 30, 2011 and the six month period then ended prepared in accordance IFRS, which are incorporated by reference into this prospectus.

As described in Part Five: The Merger Reasons for the Merger, the split-off and share exchange, the Coari merger and the merger, which we refer to collectively as the corporate reorganization, are expected to be completed contemporaneously. Each transaction is conditioned upon the approval and completion of the other transactions and will cumulatively result in the conversion of the publicly held shares of TNL and Telemar into shares of Brasil Telecom. In the current structure, TmarPart is the direct controlling shareholder of TNL and the indirect controlling shareholder of Brasil Telecom and, after the corporate reorganization, will be the direct controlling shareholder of Brasil Telecom.

2. Accounting Treatment for the Corporate Reorganization

The Split-Off and the Share Exchange

For a description of the split-off and the share exchange, see Part Five: The Merger Background of the Merger Corporate Reorganization The Split-Off and Share Exchange.

TNL and Coari will account for the split-off and the share exchange based on the carry-over basis of the assets and liabilities of Telemar and the debt that will be transferred from Telemar to Coari. As a result of this transaction, Telemar will become a wholly-owned subsidiary of Coari. This phase of the corporate restructuring will have no impact on the financial statements of Brasil Telecom.

The Coari Merger and the Merger

For a description of the Coari merger, see Part Five: The Merger Background of the Merger Corporate Reorganization The Coari Merger and Part Five: The Merger Terms of the Merger.

In the current corporate structure, Coari is a holding company that controls Brasil Telecom, and TNL is a holding company that controls Telemar, Coari and Brasil Telecom. The Coari merger and the merger will be business combinations of companies under common control. IFRS 3(R) does not apply to combinations of entities under common control. Furthermore, this transaction is not addressed under other IFRS guidance. Since these entities are under common control, Brasil Telecom will account for the Coari Merger and the merger using the carry-over basis of the assets and liabilities of TNL, Telemar and Coari, without any step-up in the basis of its own assets and liabilities. Consequently, the effects of the purchase accounting recorded by Coari relating to the acquisition of Brasil Telecom will not be pushed down to the assets and liabilities of Brasil Telecom in its consolidated financial statements as a result of these mergers. Upon completion of these mergers, Telemar will become a wholly-owned subsidiary of Brasil Telecom and TNL and Coari will cease to exist.

Table of Contents**PART TWO SUMMARY****3. The Corporate Reorganization Pro Forma Adjustments**

As described above, these pro forma adjustments represent the carry-over basis of the assets, liabilities and results of operations of TNL, Telemar and Coari.

The effects of the Coari merger and the merger have been presented as a single pro forma adjustment since these transactions are expected to be completed contemporaneously and each transaction is conditioned upon the approval and completion of the other transaction. The following is a reconciliation of the impacts of the corporate reorganization as presented in the unaudited pro forma financial information above to the historical consolidated balances of TNL for the periods presented.

	TNL As of June 30, 2011	Less: Brasil Telecom as of June 30, 2011	Less: Purchase price allocation of Brasil Telecom	The Corporate Reorganization (3)
Current assets				
Cash and cash equivalents	R\$7,128	R\$ (1,803)	R\$	R\$ 5,325
Cash investments	1,577	(791)		786
Derivative instruments	56			56
Trade receivables, net	5,850	(1,977)		3,873
Inventories, net	160	(19)		141
Current recoverable taxes	555	(186)		369
Other taxes	1,371	(595)		776
Judicial deposits	1,909	(1,470)		439
Other assets	1,261	(321)		940
Total current assets	19,867	(7,162)		12,705
Non-current assets				
Cash investments	66	(13)		53
Derivative instruments	29			29
Available-for-sale financial assets	1,025			1,025
Related parties		(2,056)		(2,056)
Deferred taxes	5,913	(5,216)	2,325	3,022
Other taxes	518	(172)		346
Judicial deposits	7,129	(4,606)		2,523
Pension plan assets	99	(99)		
Other assets	319	(45)		274
Investments	65	(8)		57
Property, plant and equipment, net	22,962	(5,435)	(3,213)	14,314
Intangible assets, net	15,881	(1,188)	(12,412)	2,281
Total non-current assets	54,006	(18,838)	(13,300)	21,868
TOTAL ASSETS	R\$73,873	R\$ (26,000)	R\$ (13,300)	R\$ 34,573

Table of Contents**PART TWO SUMMARY**

	TNL		Less: Purchase price allocation of Brasil Telecom	The Corporate Reorganization (3)
	As of June 30, 2011	Less: Brasil Telecom as of June 30, 2011		
Current liabilities				
Payroll, related taxes and benefits	R\$350	R\$ (119)	R\$	R\$ 231
Trade payables	3,625	(1,474)		2,151
Loans and financing	4,406	(1,039)		3,367
Derivative instruments	737			737
Current income taxes payable	339	(97)		242
Taxes other than income tax	1,816	(1,160)		656
Dividends and interest on capital	323	(57)		266
Licenses and concessions payable	389	(115)		274
Tax financing program	102	(38)		64
Provision for pension plan	47	(47)		
Provisions	1,747	(1,267)		480
Other payables	1,709	(2,015)		(306)
Total current liabilities	15,590	(7,428)		8,162
Non-current liabilities				
Loans and financing	19,535	(2,685)		16,850
Derivative instruments	386			386
Deferred tax	2,987		(2,987)	
Taxes other than income tax	1,555	(556)		999
Licenses and concessions payable	1,376	(518)		858
Tax financing program	1,105	(413)		692
Provision for pension plan	546	(546)		
Provisions	5,201	(3,210)		1,991
Other payables	732	(342)		390
Total non-current liabilities	33,423	(8,270)	(2,987)	22,166
Total equity	24,860	(10,302)	(10,313)	4,245
TOTAL EQUITY AND LIABILITIES	R\$73,873	(R\$ 26,000)	(R\$ 13,300)	R\$ 34,573

Table of Contents**PART TWO SUMMARY**

	TNL for the year ended December 31, 2010	Less: Brasil Telecom for the year ended December 31, 2010	Less: Amortization of purchase price allocation of Brasil Telecom	The Corporate Reorganization (3)
Net operating revenue	R\$ 29,479	R\$ (10,263)	R\$	R\$ 19,216
Cost of sales and services	(16,638)	4,732	3,022	(8,884)
Gross profit	12,841	(5,531)	3,022	10,332
Operating income (expenses):				
Selling expenses	(4,886)	1,025		(3,861)
General and administrative expenses	(2,790)	1,539		(1,251)
Other operating income	1,332	(524)		808
Other operating expenses	(2,400)	1,032	48	(1,320)
Operating income before financial income (expenses) and taxes	4,097	(2,459)	3,070	4,708
Financial income	1,930	(980)		950
Financial expenses	(4,362)	1,060		(3,302)
Financial expenses, net	(2,432)	80		(2,352)
Income before taxes	1,665	(2,379)	3,070	2,356
Income tax and social contribution:				
Current	(688)	149		(539)
Deferred	773	259	(1,044)	(12)
	85	408	(1,044)	(551)
Net income for the year	R\$ 1,750	R\$ (1,971)	R\$ 2,026	R\$ 1,805

	TNL for the six-month period ended June 30, 2011	Less: Brasil Telecom for the six-month period ended June 30, 2011	Less: Amortization of purchase price allocation of Brasil Telecom	The Corporate Reorganization (3)
Net operating revenue	R\$ 14,010	R\$ (4,726)	R\$	R\$ 9,284
Cost of sales and services	(7,970)	2,254	1,243	(4,473)
Gross profit	6,040	(2,472)	1,243	4,811

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Operating income (expenses):

Selling expenses	(2,549)	587		(1,962)
General and administrative expenses	(1,455)	709		(746)
Other operating income	670	(287)		383
Other operating expenses	(1,137)	514	4	(619)

Operating income before financial income (expenses)

and taxes	1,569	(949)	1,247	1,867
Financial income	949	(517)		432
Financial expenses	(2,438)	759		(1,679)

Financial expenses, net	(1,488)	241		(1,247)
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Income before taxes	81	(708)	1,247	620
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Income tax and social contribution:

Current	(346)	112		(234)
Deferred	223	129	(424)	(72)

	(123)	241	(424)	(306)
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Net income for the period	R\$ (42)	R\$ (467)	R\$ 823	R\$ 314
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PART TWO SUMMARY

4. Share Dividend and Redemption Adjustment

As described in Part Five: The Merger Background of the Merger Corporate Reorganization Share Dividend and Redemption, prior to completing the corporate reorganization, Brasil Telecom will issue newly created redeemable preferred shares to all of its shareholders and simultaneously redeem these shares for cash. In connection with this redemption, Brasil Telecom expects to pay approximately R\$1,502, distributed pro-ratably among all of its shareholders. As of June 30, 2011, Brasil Telecom recorded a payable for this amount in its historical financial statements. The pro forma adjustment as of June 30, 2011 represents the cash payment of R\$762 to the non-controlling shareholders of Brasil Telecom since this cash will not remain within Brasil Telecom as a result of the Coari merger.

5. Earnings per share

The pro forma basic weighted average number of outstanding shares was estimated considering the shares to be issued by Brasil Telecom in connection with the corporate reorganization using the exchange ratios for each class of Brasil Telecom's common and preferred shares as described in Part Five: The Merger Background of the Merger Corporate Reorganization The Coari Merger, and Part Five: The Merger Terms of the Merger, assuming that these shares were outstanding as from January 1, 2010 and January 1, 2011, as applicable.

The pro forma diluted weighted average number of outstanding shares was estimated considering (1) the shares to be issued by Brasil Telecom in connection with the corporate reorganization using the exchange ratios for each class of Brasil Telecom's common and preferred shares as described in Part Five: The Merger Background of the Merger Corporate Reorganization The Coari Merger, and Part Five: The Merger Terms of the Merger, assuming that these shares were outstanding as from January 1, 2010 and January 1, 2011, as applicable, and (2) the potentially dilutive effect of the TNL stock options which we expect to migrate to a Brasil Telecom stock option plan using the same exchange ratios as described in (1) above.

6. Withdrawal Rights

As described in Part Five: The Merger Background of the Merger Corporate Reorganization The Split-Off and Share Exchange, the split-off and share exchange will give withdrawal rights to certain non-controlling holders of TNL and Telemar in connection with the corporate reorganization. Based on uncertainties in regards to the exercise of the withdrawal rights by these non-controlling shareholders, we believe a pro-forma adjustment to give effect to the potential exercise of these withdrawal rights is not factually supportable, and, therefore, was not included in this pro forma financial information.

Table of Contents**PART TWO SUMMARY****Ratio of Combined Fixed Charges and Preference Dividends to Earnings**

The table below provides the historical ratio of combined fixed charges and preference dividends to earnings for each of TNL and Brasil Telecom for the periods indicated under IFRS, and the pro forma ratio of combined fixed charges and preference dividends to earnings of Brasil Telecom for the periods indicated.

Period	TNL	Brasil Telecom	Brasil Telecom (Pro Forma)
Year ended December 31, 2009 (1)	3.12x	(2.90)x	
Year ended December 31, 2010	1.47x	5.85x	2.45x
Six-month period ended June 30, 2011 (2)	0.99x	3.66x	1.86x

- (1) Brasil Telecom's loss was R\$1,042 million and its combined fixed charges and preference dividends were R\$359 million for the year ended December 31, 2009.
- (2) TNL's earnings were R\$19 million less than its combined fixed charges and preference dividends for the six-month period ended June 30, 2011.

For purposes of calculation of the ratio of combined fixed charges and preference dividends to earnings, earnings consist of:

pre-tax income from continuing operations before adjustment for non-controlling interest in consolidated subsidiaries income or loss from equity investees;

plus:

fixed charges (as defined below) and amortization of capitalized interest;

distributed income of equity investees; and

share of pre-tax losses of equity investees for which charges arising from guarantees are included in fixed charges;

Minus:

capitalized interest;

preferred share dividend requirements of consolidated subsidiaries (not preferred dividends of parent); and

non-controlling interest from pre-tax income of subsidiaries that have not incurred fixed charges.

Fixed charges consist of the sum of interest, whether expensed or capitalized (and from both continuing and discontinued operations), amortization of premiums, discounts and capitalized expenses related to indebtedness, amounts accrued with respect to guarantees of other parties' obligations, and the estimated interest component of rental expense, and preferred share dividend requirements represent the amount of pre-tax earnings that would be required to pay the dividends on outstanding preferred shares of TNL or Brasil Telecom, as applicable, and other fully or proportionally consolidated entities.

Table of Contents**PART TWO SUMMARY****Summary Comparative Per Share Data**

Brasil Telecom has derived the unaudited pro forma combined information appearing below from the unaudited pro forma financial information of Brasil Telecom appearing elsewhere in this prospectus. Brasil Telecom has derived the historical information appearing below from the audited consolidated financial statements of Brasil Telecom and TNL as of December 31, 2010 and for the year then ended, prepared in accordance with IFRS, which are incorporated into this prospectus by reference to the Brasil Telecom Annual Report and the TNL Annual Report, respectively, and from the unaudited consolidated interim financial information of Brasil Telecom and TNL as of June 30, 2011 and for the six-month period then ended, prepared in accordance with IFRS, which are incorporated into this prospectus by reference to the Brasil Telecom First Half Report and the TNL First Half Report, respectively.

You should read the information below together with the pro forma financial data of Brasil Telecom appearing elsewhere in this prospectus, and the historical financial statements of Brasil Telecom and TNL incorporated by reference into this prospectus. The unaudited pro forma combined financial data appearing below is for illustrative purposes only. Brasil Telecom and TNL may have performed differently had they always been a combined entity. You should not rely on this information as being indicative of the actual results of that the combined businesses of these companies will experience after the merger.

For more information about historical dividend payments by Brasil Telecom and TNL, see Part Six Shareholder Rights Comparative Share and Dividend Information Information About Historical Dividend Payments.

	As of and for the Six-Month Period Ended June 30, 2011			
	Historical		Pro Forma	
	Brasil Telecom	TNL	Brasil Telecom	Per Share Equivalent TNL(1)
	(in reais)			
Book value per common share	R\$ 17.67	R\$ 29.31	R\$ 8.24	R\$ 19.06
Book value per preferred share	17.67	29.31	8.24	17.43
Cash dividends per common share (2)				
Cash dividends declared per preferred share (2)				
Income (loss) per common share from continuing operations	0.79	0.06	0.42	0.97
Income (loss) per preferred share from continuing operations	0.79	0.06	0.42	0.89

- (1) The TNL per common share equivalent data are calculated by multiplying the Brasil Telecom pro forma per common share amounts by 2.3122, representing the number of Brasil Telecom common shares that will be received for each TNL common share in the merger, assuming that none of the shareholders of TNL exercises appraisal rights. The TNL per preferred share equivalent data are calculated by adding (1) the Brasil Telecom pro forma per common share amounts multiplied by 0.1879, representing the number of Brasil Telecom common shares that will be received for each TNL preferred share in the merger, assuming that none of the shareholders of TNL exercises appraisal rights, and (2) the Brasil Telecom pro forma per preferred share amounts multiplied by 1.9262, representing the number of Brasil Telecom preferred shares that will be received for each TNL preferred share in the merger, assuming that none of the shareholders of TNL exercises appraisal rights.
- (2) Interest on shareholders' equity is included and is presented net of taxes.

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	As of and for the Year Ended December 31, 2010			
	Historical		Pro Forma	
	Brasil Telecom	TNL	Brasil Telecom	Per Share Equivalent TNL(1)
	(in reais)			
Book value per common share	R\$ 19.22	R\$ 29.22	R\$	R\$
Book value per preferred share	19.22	29.22		
Cash dividends per common share (2)	0.30	0.86	0.29	0.68
Cash dividends declared per preferred share (2)	0.30	0.90	0.27	0.58
Income (loss) per common share from continuing operations	3.34	3.73	2.04	4.72
Income (loss) per preferred share from continuing operations	3.34	3.73	2.04	4.31

- (1) The TNL per common share equivalent data are calculated by multiplying the Brasil Telecom pro forma per common share amounts by 2.3122, representing the number of Brasil Telecom common shares that will be received for each TNL common share in the merger, assuming that none of the shareholders of TNL exercises appraisal rights. The TNL per preferred share equivalent data are calculated by adding (1) the Brasil Telecom pro forma per common share amounts multiplied by 0.1879, representing the number of Brasil Telecom common shares that will be received for each TNL preferred share in the merger, assuming that none of the shareholders of TNL exercises appraisal rights, and (2) the Brasil Telecom pro forma per preferred share amounts multiplied by 1.9262, representing the number of Brasil Telecom preferred shares that will be received for each TNL preferred share in the merger, assuming that none of the shareholders of TNL exercises appraisal rights.
- (2) Interest on shareholders' equity is included and is presented net of taxes.

Table of Contents**PART TWO SUMMARY****Historical and Pro Forma Share Information**

The following tables show the closing prices of the common shares, preferred shares and ADSs of Brasil Telecom and TNL, as well as the equivalent value of the common shares and preferred shares of TNL based on the exchange ratios for the merger, as of August 26, 2011, the last trading day preceding the date on of which the detailed terms of the merger were first announced, and as of May 23, 2011, the last trading day preceding public announcement of the corporate reorganization.

	August 26, 2011		(Per share equivalent)
	(Actual)		
	Brasil Telecom	TNL	TNL
Common shares(1) (<i>reaís</i>)	R\$ 12.50	R\$ 21.27	R\$ 28.93
Preferred shares(2) (<i>reaís</i>)	11.07	19.27	23.67
Preferred ADS(3) (U.S. dollars)	US\$ 20.99	US\$ 12.21	US\$ 14.90
Common ADS (U.S. dollars)	7.59		

Source: BM&FBOVESPA; Bloomberg.

- (1) The TNL common share per share equivalent data is calculated by multiplying the Brasil Telecom actual amount by 2.3122, the number of Brasil Telecom common shares that will be received for each TNL common share in the merger.
- (2) The TNL preferred share per share equivalent data is calculated by adding (1) the Brasil Telecom common share actual amount multiplied by 0.1879, the number of Brasil Telecom common shares that will be received for each TNL preferred share in the merger, and (2) the Brasil Telecom preferred share actual amount multiplied by 1.9262, the number of Brasil Telecom preferred shares that will be received for each TNL preferred share in the merger.
- (3) The TNL ADS per share equivalent data is calculated by adding (1) the Brasil Telecom Common ADS actual amount multiplied by 0.1879, the number of Brasil Telecom Common ADS that will be received for each TNL ADS in the merger, and (2) the Brasil Telecom Preferred ADS actual amount multiplied by 0.6420, the number of Brasil Telecom Preferred ADS that will be received for each TNL ADS in the merger.

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	May 23, 2011		(Per share equivalent)
	(Actual)		
	Brasil Telecom	TNL	TNL
Common shares(1) (<i>reais</i>)	R\$ 16.92	R\$ 32.00	R\$ 39.12
Preferred shares(2) (<i>reais</i>)	15.32	26.40	32.69
Preferred ADS(3) (U.S. dollars)	US\$ 28.42	US\$ 16.55	US\$ 20.17
Common ADS (U.S. dollars)	10.22		

Source: BM&FBOVESPA; Bloomberg.

- (1) The TNL common share per share equivalent data is calculated by multiplying the Brasil Telecom actual amount by 2.3122, the number of Brasil Telecom common shares that will be received for each TNL common share in the merger.
- (2) The TNL preferred share per share equivalent data is calculated by adding (1) the Brasil Telecom common share actual amount multiplied by 0.1879, the number of Brasil Telecom common shares that will be received for each TNL preferred share in the merger, and (2) the Brasil Telecom preferred share actual amount multiplied by 1.9262, the number of Brasil Telecom preferred shares that will be received for each TNL preferred share in the merger.
- (3) The TNL ADS per share equivalent data is calculated by adding (1) the Brasil Telecom Common ADS actual amount multiplied by 0.1879, the number of Brasil Telecom Common ADS that will be received for each TNL ADS in the merger, and (2) the Brasil Telecom Preferred ADS actual amount multiplied by 0.6420, the number of Brasil Telecom Preferred ADS that will be received for each TNL ADS in the merger.

We urge you to obtain current market quotations.

Table of Contents**PART TWO SUMMARY****Exchange Rates**

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

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

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

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

Year	High	Reais per U.S. Dollar		Period End
		Low	Average	
2006	R\$ 2.371	R\$ 2.059	R\$ 2.168	R\$ 2.138
2007	2.156	1.733	1.930	1.771
2008	2.500	1.559	1.834	2.337
2009	2.422	1.702	1.994	1.741
2010	1.881	1.655	1.759	1.666

Three Months Ended

March 31, 2011	1.691	1.629	1.667	1.629
June 30, 2011	1.634	1.561	1.596	1.561

Month	Reais per U.S. Dollar	
	High	Low
February 2011	R\$ 1.678	R\$ 1.661
March 2011	1.676	1.629
April 2011	1.619	1.565
May 2011	1.634	1.575
June 2011	1.611	1.561
July 2011	1.583	1.535
August 2011 (through August 26)	1.633	1.555

Source: Central Bank

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PART THREE RISK FACTORS

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

Risks Relating to the Merger

Holders of TNL common shares, preferred shares and ADSs are being offered a fixed number of Brasil Telecom common shares, preferred shares and ADSs, which involves the risk of market fluctuations.

Holders of TNL common shares, preferred shares and ADSs, collectively referred to as TNL securities, will receive a fixed number of Brasil Telecom common shares, preferred shares and ADSs, collectively referred to as Brasil Telecom securities, in the merger, rather than a number of Brasil Telecom securities with a fixed market value. In addition, there is no mechanism to adjust the exchange ratios in the event that the market price of either the Brasil Telecom securities or the TNL securities increases or decreases significantly relative to the other. Consequently, the market values of Brasil Telecom securities, and of the TNL securities at the time of the completion of the merger, may fluctuate significantly from the date of this prospectus and the exchange ratio that has been approved for the merger might not be reflective of current market price ratios of Brasil Telecom securities relative to TNL securities.

On August 26, 2011, the last trading day preceding the date on of which the detailed terms of the merger were first announced, the closing price on the BM&FBOVESPA for Brasil Telecom common shares and preferred shares was R\$12.50 and R\$11.07, respectively, the market value of 2.3122 Brasil Telecom common shares, the number of Brasil Telecom common shares to be received for each TNL common share in the merger, was R\$28.93, and the closing price on the BM&FBOVESPA for TNL common shares was R\$21.27. On August 26, 2011, the aggregate market value of 0.1879 Brasil Telecom common shares and 1.9262 Brasil Telecom preferred shares, the number of Brasil Telecom common shares and preferred shares to be received for each TNL preferred share in the merger, was R\$23.67, and the closing price on the BM&FBOVESPA for TNL preferred shares was R\$19.27.

On August 26, 2011, the closing price on the NYSE for Brasil Telecom Common ADSs and Brasil Telecom Preferred ADSs was US\$7.59 and US\$20.99, respectively, the aggregate market value of 0.1879 Brasil Telecom Common ADSs and 0.6420 Brasil Telecom Preferred ADSs, the number of Brasil Telecom Common ADSs and Preferred ADSs to be received for each TNL ADS in the merger, was US\$14.90 and the closing price on the NYSE for TNL ADSs was US\$12.21.

The market price of Brasil Telecom securities and TNL securities may be adversely affected by arbitrage activities occurring prior to the completion of the merger.

The market price of Brasil Telecom securities and TNL securities may be adversely affected by arbitrage activities occurring prior to the completion of the merger. These sales, or the prospects of such sales in the future, could adversely affect the market price for, and the ability to sell in the market, Brasil Telecom securities and TNL securities before the merger is completed and Brasil Telecom securities after the merger is completed. Any adverse effect on the market prices of the Brasil Telecom securities or TNL securities, could cause the exchange ratio that has been approved for the merger not to be reflective of current market price ratios of Brasil Telecom securities relative to TNL securities, as discussed above, and could adversely affect the cash value that you will receive for any fractional security to which you otherwise would have been entitled in the merger.

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PART THREE RISK FACTORS

Your ownership percentage in Brasil Telecom, as the surviving entity in the merger, will be less than the ownership percentage you currently hold in TNL.

Because there are many existing shareholders of Brasil Telecom, and the other steps of the corporate reorganization will result in additional shareholders of Brasil Telecom, your ownership percentage in Brasil Telecom will, as a result of the merger, be less than your existing ownership percentage in TNL. Assuming that none of the holders of shares of TNL, Telemar or Coari exercise withdrawal rights, as a result of the various steps of the corporate reorganization, former shareholders of TNL, other than TmarPart, Valverde and the shareholders of TmarPart, will hold approximately 32.0% of the outstanding capital stock of Brasil Telecom, following the corporate reorganization as compared to 56.4% the total share capital of TNL prior to the corporate reorganization. Similarly, the ownership percentage in Brasil Telecom of existing minority shareholders of Brasil Telecom will be diluted as a result of the issuance of the new Brasil Telecom shares in the corporate reorganization, and the percentage of the outstanding capital stock of Brasil Telecom held by non-controlling shareholders of Brasil Telecom prior to the merger, who will own approximately 50.7% of the outstanding capital stock of Brasil Telecom prior to the corporate reorganization, will decrease to approximately 16.9% following the corporate reorganization.

Brasil Telecom may have actual or potential conflicts of interest relating to the merger.

Brasil Telecom may have actual or potential conflicts of interest because TmarPart, the controlling shareholder of Brasil Telecom and of TNL exercises voting control over the boards of directors of Brasil Telecom and TNL. While the exchange ratios were determined in accordance with all applicable laws and regulations in Brazil, these ratios may be higher or lower than, from the perspective of value to unaffiliated shareholders, those that could be achieved through arm's length negotiations between unrelated parties.

Brazilian law generally imposes on a board of directors a fiduciary duty to assure that contracts with related parties be on arm's length terms. Guideline 35 recommends that where a controlling company and its subsidiaries or affiliated companies are involved in a merger, a special committee be established to protect the interests of the non-controlling shareholders and negotiate the terms and conditions for such corporate transaction. Brasil Telecom and TNL have voluntarily elected to follow the recommendations set forth in Guideline 35. Nevertheless, in connection with the merger, Brazilian law does not (1) establish any specific, minimum or maximum exchange ratio, (2) require that the board of directors of Brasil Telecom or TNL formally determine that the terms of the merger as a whole are fair, either procedurally or financially, to its non-controlling shareholders, (3) establish any special committee or otherwise alter its corporate governance rules in connection with the merger, or (4) impose any prohibition or limitation on the voting rights of the controlling shareholder.

Under the Brazilian Corporation Law, because the merger involves a controlling and controlled company, we and TNL are required to disclose the ratio of the value of TNL shares and Brasil Telecom shares calculated based on the net worth calculated at market prices (as if the assets of Brasil Telecom and TNL had been sold), based on valuation reports prepared by an independent financial advisor. This exchange ratio is required to be disclosed in order to provide the non-controlling shareholders with a parameter against which to evaluate the proposed merger and to determine whether to dissent from the shareholder vote and exercise withdrawal rights. The applicable exchange ratio calculated based on the criteria of net worth calculated at market prices is 2.302004 Brasil Telecom common shares or preferred shares for each TNL share of the same class.

Brasil Telecom and TNL have engaged Apsis to conduct valuation analyses for the purpose of appraising the TNL shares. The fees for the valuation reports prepared by Apsis will be paid entirely by Brasil Telecom and TNL. The full text of the Apsis valuation reports are included as exhibits to the registration statement of which this prospectus forms a part. See Part Five The Merger Presentations and Valuation Reports for a summary description of the Apsis valuation reports.

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PART THREE RISK FACTORS

The exercise of withdrawal rights by holders of TNL common shares could decrease cash balances of Brasil Telecom, as the surviving company in the merger, and otherwise adversely affect its financial condition.

As described in Part Five The Merger Terms of the Merger Withdrawal Rights, the holders of TNL common shares that dissent from the merger have the right to withdraw their share capital from TNL and be reimbursed for the value of the common shares for which they were record holders at the close of trading on May 24, 2011, the date of the Relevant Fact that first announced the merger. If holders of a significant number of these shares exercise their withdrawal rights, the requirement to make large cash payments could decrease the cash balances of Brasil Telecom, as the surviving company in the merger, limit its ability to borrow funds or fund capital expenditures or prevent Brasil Telecom from complying with existing contractual obligations. In addition, under the Brazilian Corporation Law, if the management of TNL believes that the total value of the withdrawal rights exercised by its shareholders may put at risk its financial stability, management may, within 10 days after the end of the withdrawal rights period, call an extraordinary general shareholders meeting of TNL to either unwind or ratify the merger. Because it and its affiliates hold, directly and indirectly, a majority of the voting shares of TNL, TmarPart would be able to cause the unwinding of the merger at the applicable extraordinary general shareholders meeting.

The exercise of withdrawal rights by Telemar shareholders in connection with the split-off and share exchange may negatively affect the financial condition of Brasil Telecom.

As described in Part Five The Merger Background of the Merger Corporate Reorganization, Coari and Telemar will enter into the split-off and share exchange as part of the corporate reorganization. Telemar shareholders that dissent from the split-off and share exchange have the right to withdraw their share capital from Telemar and be reimbursed for the value of the Telemar shares for which they were record holders at the close of trading on May 24, 2011, the date of the Relevant Fact that first announced the split-off and share exchange. Telemar shareholders who exercise such withdrawal rights will be entitled to receive R\$ per share. The closing sales prices on August 26, 2011 for Telemar common shares, class A preferred shares and class B preferred shares on the BM&FBOVESPA were R\$58.00, R\$43.38 and R\$45.01 respectively. As a result, we expect a significant number of non-affiliated shareholders of Telemar to exercise their withdrawal rights. If all non-affiliated shareholders of Telemar exercised these withdrawal rights, the aggregate amount that Telemar would be required to pay to repurchase the shares of these shareholders would be R\$ million. Although the management of Telemar has advised us that it does not expect to propose the unwinding of the split-off and share exchange, under the Brazilian Corporation Law, if the management of Telemar believes that the total value of the withdrawal rights exercised by its shareholders may put at risk its financial stability, management may, within 10 days after the end of the withdrawal rights period, call an extraordinary general shareholders meeting of Telemar to either unwind or ratify the merger. If holders of a significant number of these shares exercise their withdrawal rights and the split-off and share exchange is not unwound, the requirement to make large cash payments would decrease the cash balances of Telemar and could limit its ability to borrow funds or fund capital expenditures or prevent it from complying with existing contractual obligations, all of which could negatively affect the financial condition of Brasil Telecom following the corporate reorganization which will result in Telemar becoming a wholly-owned subsidiary of Brasil Telecom.

ANATEL may impose significant obligations on our company as conditions to their approval of the merger, and compliance with these obligations could materially and adversely affect our business, financial condition and results of operations.

Under Brazilian antitrust regulations, the merger must be submitted to ANATEL to assess its effects on competition. In accordance with Brazilian law, we have submitted the merger to ANATEL. As of the date of this prospectus, ANATEL had not yet released its findings. If ANATEL takes any action to impose conditions or performance commitments on us as part of the approval process for the merger, including conditions that could

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PART THREE RISK FACTORS

require us to undertake significant capital expenditures, it could materially and adversely affect our business, financial condition and results of operations and prevent our company from achieving the anticipated benefits of the merger. See Part Eight Legal and Regulatory Matters Regulatory Approvals Brazilian Antitrust Review.

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

Under Brazilian antitrust regulations, following ANATEL review, the merger must be submitted to the Brazilian antitrust regulator (*Conselho Administrativo de Defesa Econômica*), or CADE, for final approval. As of the date of this prospectus, the merger had not yet been submitted to CADE. However, Brazilian law permits us to consummate this transaction prior to receiving this final approval, unless CADE issues a writ of prevention blocking the transaction or requires the parties to enter into an agreement permitting the effects of the transaction to be reversed which, by its terms, delays the consummation of the transaction. The antitrust authorities will determine whether this transaction negatively impacts competitive conditions in the markets in which we compete or adversely affects consumers in these markets.

If CADE does not grant a final approval for the merger, we could be required to unwind the merger. In addition, if CADE takes any action to impose conditions or performance commitments on us as part of the approval process for the merger, it could materially and adversely affect our business and results of operations and prevent us from achieving the anticipated benefits of the merger. See Part Eight Legal and Regulatory Matters Regulatory Approvals Brazilian Antitrust Review.

The merger may not result in the benefits that Brasil Telecom seeks to achieve, including increased share liquidity.

Brasil Telecom is undertaking the merger because it believes that the merger will provide Brasil Telecom, TNL and their respective shareholders with a number of advantages, including providing shareholders of TNL with securities that Brasil Telecom expects will enjoy greater market liquidity than the securities these shareholders currently hold. However, the merger may not accomplish these objectives. Brasil Telecom cannot predict whether a liquid market for the newly issued Brasil Telecom securities will be maintained. If the merger does not result in increased liquidity for the securities held by shareholders of TNL, you may experience a decrease in your ability to sell your Brasil Telecom securities compared to your ability to sell the TNL securities you currently hold.

The CVM, the Brazilian securities regulator, may suspend, for up to 15 days, the shareholders' meetings scheduled to approve the merger.

Following the publication by Brasil Telecom and TNL of the notices for the shareholders' meetings to consider the merger, the CVM will, if requested to do so by a shareholder of Brasil Telecom or TNL, review the terms and conditions of the merger to ensure that the merger complies with applicable provisions of Brazilian law. The CVM may suspend, for up to 15 days, the extraordinary general shareholders' meetings scheduled to approve the merger in order to analyze the merger and verify that it does not breach applicable laws or regulations. Although Brasil Telecom believes that the proposed merger described in this prospectus is legal and provides equitable treatment to holders of Brasil Telecom and TNL securities, Brasil Telecom cannot predict the outcome of any such analysis of the merger by the CVM.

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PART THREE RISK FACTORS

There is no clear guidance under Brazilian law regarding the income tax consequences to investors resulting from the merger.

We are not aware of any specific legal provision or administrative or judicial court precedent regarding the Brazilian income tax consequences to investors which are not domiciled or resident in Brazil, or non-Brazilian investors, resulting from a merger of one Brazilian company into another Brazilian company. We understand that there are reasonable legal grounds to sustain that the receipt (resulting from the merger), by a non-Brazilian investor, of Brasil Telecom securities should not be subject to income tax pursuant to Brazilian tax law. However, this position may not prevail, in which case Brasil Telecom would be liable to the Brazilian tax authorities for withholding and collecting the income tax levied on the capital gains of the non-Brazilian investors. See Part Five The Merger Material Tax Considerations Brazilian Tax Considerations.

There is no official guidance from the Brazilian tax authorities regarding the applicability of the IOF/Securities Tax with respect to situations such as the merger.

Under Brazilian law, the Tax on Transactions Involving Bonds and Securities, or the IOF/Securities Tax, applies to transactions involving the transfer (*cessão*) of shares by a Brazilian company with the specific purpose of enabling the issuance of ADSs. Upon such a transfer, the IOF/Securities Tax is levied on holders of shares and ADSs at the rate of 1.5%, calculated based on the product of (a) the number of shares transferred, multiplied by (b) the closing price for such shares on the date prior to the date of the transfer. We do not expect that holders receiving Brasil Telecom ADSs will be charged any IOF/Securities Tax at the time of the settlement of the share exchange, because for purposes of the IOF/Securities Tax, there will be no transfer of Brasil Telecom shares with the specific purpose of issuing Brasil Telecom ADSs. However, there is no official guidance confirming our belief that this tax is not due, because the Brazilian legislation governing the levy of the IOF/Securities Tax in situations such as the merger is very recent. As a result, there is a risk that the Brazilian tax authorities will adopt an interpretation that the IOF/Securities Tax applies to the merger. If such an interpretation is adopted, the Brazilian tax authorities could impose the IOF/Securities Tax on the holders of the TNL ADSs with respect to the deposit in the Brasil Telecom ADS programs of the Brasil Telecom shares received in exchange for the TNL shares represented by the TNL ADSs. If this interpretation is adopted following the deposit of the Brasil Telecom shares in the Brasil Telecom ADS programs and is given retroactive effect, governmental charges, including interest and penalties, could be imposed. If any IOF/Securities Tax is imposed on the deposit of Brasil Telecom shares in connection with the share exchange and the custodian of the Brasil Telecom shares becomes obligated to pay that tax or any penalties or interest, such custodian may assess that tax or other governmental charges against holders of Brasil Telecom ADSs. Under the terms of the deposit agreements under which the Brasil Telecom ADSs are issued, the Brasil Telecom Depositary may refuse to register any transfer of your Brasil Telecom ADSs or allow you to withdraw the deposited Brasil Telecom shares represented by your Brasil Telecom ADSs until such tax or other governmental charges are paid. In addition, the Brasil Telecom Depositary may apply payments owed to you (such as dividends) to payment of that tax or other governmental charges or sell a portion of the deposited Brasil Telecom shares that is sufficient to pay that tax or other governmental charges. In either event, the owner or beneficial owner of the Brasil Telecom ADSs would remain liable for any deficiency. See Part Five The Merger Material Tax Considerations Brazilian Tax Considerations.

As a result of the corporate reorganization, Brasil Telecom will be more leveraged than prior to the corporate reorganization and a significant portion of its cash flow will have to be used to service its obligations.

Upon the completion of the corporate reorganization, Brasil Telecom will assume all of the outstanding consolidated debt of TNL. As of June 30, 2011, TNL had R\$23,942 million aggregate principal of outstanding debt on a consolidated basis, of which R\$3,724 was debt of Brasil Telecom. Brasil Telecom will be subject to the risks normally associated with significant amounts of debt, which could have important consequences to you.

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Brasil Telecom's indebtedness could, among other things:

require it to use a substantial portion of its cash flow from operations to pay its obligations, thereby reducing the availability of their cash flow to fund working capital, operations, capital expenditures, dividend payments, strategic acquisitions, expansion of their operations and other business activities;

increase its vulnerability to general adverse economic and industry conditions;

limit, along with financial and other restrictive covenants in its debt instruments, its ability to borrow additional funds or dispose of assets; and

place it at a competitive disadvantage compared to its competitors that have less debt.

Brasil Telecom may also need to refinance all or a portion of this debt on or before maturity, and it may not be able to do this on commercially reasonable terms or at all.

Risks Relating to the Brazilian Telecommunications Industry, Our Company and TNL

The fixed-line telecommunication services of our company and TNL face increased competition from mobile services providers, other fixed-line service providers and cable television service providers, which may adversely affect our respective revenues and margins.

Our fixed-line telecommunication services in Region II, and TNL's fixed-line telecommunication services in Region I and Region II face increasing competition from mobile services as the prices for mobile services decline and approach those of fixed-line services. Based on information available from ANATEL, from December 2007 to December 2010, the number of fixed lines in service in Brazil increased from 39.4 million to 42.0 million as a result of the increase in the number of fixed lines in service in Region III, while the number of fixed lines in service in Regions I and II declined. We expect (1) the number of fixed lines in service in Regions I and II to continue to stagnate or decline, as certain customers eliminate their fixed-line services in favor of mobile services, and (2) the use of existing fixed lines to decrease as customers substitute calls on mobile phones in place of fixed-line calls as a result of promotional mobile rates (such as free calls within a mobile provider's network). The rate at which the number of fixed lines in service in Brazil may decline depends on many factors beyond our control, such as economic, social, technological and other developments in Brazil. In addition, new fixed lines that we and TNL install are expected to be less profitable than existing ones because new fixed-line customers generally have lower average incomes than our existing customers, subscribe to lower cost service plans and generate fewer chargeable minutes of usage. Our traditional local fixed-line telecommunication services represented 30.8% and 30.2% of our gross operating revenue for the six-month period ended June 30, 2011 and the year ended December 31, 2010, respectively, and TNL's traditional local fixed-line telecommunication services represented 35.7% and 36.3% of its gross operating revenue for the six-month period ended June 30, 2011 and the year ended December 31, 2010, respectively. Because we derive a significant portion of our net operating revenue from our traditional local fixed-line telecommunication services, a reduction in the number of our fixed-lines in service would negatively affect our net operating revenue and margins.

We and TNL also compete in the market for local fixed-line services with other fixed-line service providers, primarily with Empresa Brasileira de Telecomunicações - Embratel, or Embratel, and GVT S.A., or GVT. In addition to direct competition with TNL for corporate customers in Region I, Embratel competes with TNL and our company for residential customers in Regions I and II with services that it provides using the cable infrastructure of its affiliate, Net Serviços de Comunicação S.A., or Net. Net is a cable television company that is the main competitor of TNL and our company in the broadband services market. Embratel and Net are affiliates of Teléfonos de México S.A.B. de C.V., or Telmex, one of the leading telecommunication service providers in Latin America. Under an agreement entered into between Embratel and Net in November 2005, Net offers

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integrated voice, broadband and pay television services to the Brazilian residential market through a single network infrastructure. In addition, we and TNL compete in with smaller companies that have been authorized by ANATEL to provide local fixed-line services. Embratel, GVT and Net are each controlled by multinational companies that may have more significant financial and marketing resources, and greater abilities to access capital on a timely basis and on more favorable terms, than our company.

The loss of a significant number of fixed-line customers by TNL or our company would adversely affect our respective net operating revenue and may adversely affect our respective results of operations. In addition, because callers in Brazil placing long-distance calls from their fixed-line telephones generally tend to select the long-distance carrier affiliated with the provider of their fixed-line service, the loss of a significant number of fixed-line customers by TNL or our company may adversely affect our respective revenues from long-distance services and our respective results of operations. For a detailed description of competition in the local fixed-line services markets that we and TNL serve, see Item 4. Information on the Company Competition Local Fixed-Line Services in the Brasil Telecom Annual Report and the TNL Annual Report.

The mobile services of our company and TNL face strong competition from other mobile services providers, which may adversely affect our respective revenues.

The mobile services market in Brazil is extremely competitive. We face competition in Region II and TNL faces competition in Regions I, II and III from large competitors such as Vivo Participações S.A., or Vivo, Telecom Americas Group, which markets its services under the brand name Claro, and TIM Participações S.A., or TIM.

We had an estimated 14.7% and 15.1% share of the mobile services market in Region II as of June 30, 2011 and December 31, 2010, respectively, based on information regarding the total number of subscribers as of those dates available from ANATEL, while as of those dates, Vivo had estimated market shares of 30.6% and 30.9%, respectively, Claro had estimated market shares of 29.0% and 28.7%, respectively, and TIM had estimated market shares of 25.6% and 25.0%, respectively. In addition, TNL had an estimated 23.5% and 23.8% share of the mobile services market in Region I as of June 30, 2011 and December 31, 2010, respectively, based on information regarding the total number of subscribers as of those dates available from ANATEL, while as of those dates, Vivo had estimated market shares of 27.1% and 26.9%, respectively, Claro had estimated market shares of 22.7% and 22.2%, respectively, and TIM had estimated market shares of 26.3% and 26.2%, respectively. TNL also had an estimated 14.8% and 14.2% share of the mobile services market in Region III, which it entered in October 2008, as of June 30, 2011 and December 31, 2010, respectively, based on information regarding the total number of subscribers as of those dates available from ANATEL, while as of those dates, Vivo had estimated market shares of 33.2% and 34.1%, respectively, Claro had estimated market shares of 27.8% and 28.5%, respectively, and TIM had estimated market shares of 24.1% and 23.1%, respectively. Vivo, TIM and Telecom Americas Group are each controlled by multinational companies that may have more significant financial and marketing resources, and greater abilities to access capital on a timely basis and on more favorable terms, than our company or TNL.

The ability of our company and TNL to generate revenues from our mobile services businesses depends on our respective abilities to increase and retain our customer bases. Each additional customer subscribing to our service entails costs, including sales commissions and marketing costs. Recovering these costs depends on our ability to retain such customers. Therefore, high rates of customer churn could have a material adverse effect on the profitability of our mobile services businesses. Our average customer churn rate in the mobile services segment in Region II, representing the number of subscribers whose service was disconnected during each month, whether voluntarily or involuntarily, divided by the number of subscribers at the beginning of such month, was 4.5% and 4.6% per month during the six-month period ended June 30, 2011 and the year ended December 31, 2010, respectively. In addition, TNL's average customer churn rate in the mobile services segment

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in Region I was 3.3% and 2.9% per month during the six-month period ended June 30, 2011 and the year ended December 31, 2010, respectively, and 4.2% and 3.6% per month, respectively, in Region III.

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

The long-distance services of our company and TNL face significant competition, which may adversely affect our respective revenues.

In Brazil, unlike in the United States and elsewhere, a caller chooses its preferred long-distance carrier for each long-distance call, whether originated from a fixed-line telephone or a mobile handset, by dialing such carrier's long-distance carrier selection code (*Código de Seleção de Prestadora*). The long-distance services market in Brazil is highly competitive. The principal competitor for long-distance services of our company and TNL is TIM, which in 2010 began aggressively promoting its long-distance services with significant discounts. Historically, the principal competitor for long-distance services of our company and TNL have been Embratel, Telecomunicações de São Paulo S.A., or Telesp (the parent company of Vivo), and TIM. Generally, callers placing long-distance calls in Brazil from their fixed-line telephones tend to select the long-distance carrier affiliated with the provider of their fixed-line service. Similarly, callers placing long-distance calls in Brazil from their mobile handsets tend to select the long-distance carrier affiliated with the provider of their mobile or fixed-line service. However, increased competition from long-distance service providers has resulted in pressure on our long-distance rates and adversely affected the revenue from these services of our company and TNL. In addition, aggressive discounting by TIM during 2010 has substantially reduced the market share of our company, TNL and other service providers in the long-distance market. Competition in the long-distance market may require our company and TNL to increase our marketing expenses or provide services at lower rates than those we currently expect to charge for such services. Competition in the domestic long-distance market has had and could continue to have a material adverse effect on our respective revenues and margins. See Item 4. Information on the Company Competition Long-Distance Services in the Brasil Telecom Annual Report and the TNL Annual Report.

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

Competition in data transmission services is not subject to significant regulatory restrictions and, therefore, the market is open to a large number of competitors. Some competitors, such as cable operators, offer telephone and broadband services, which do not require them to use the fixed-line networks of our company and TNL, thereby allowing them to reach our customers without paying interconnection fees to our company or TNL. Additionally, although these auctions have not yet been scheduled, we anticipate that ANATEL will auction radio frequency licenses that will be used to establish Worldwide Interoperability for Microwave Access, or WiMax, networks in 2012. The implementation of WiMax networks may allow other ISPs to deploy wireless Internet Protocol, or IP, networks over a much greater area, for a much lower cost, than previously possible. This reduced deployment cost may give competitors of our company and TNL, or new entrants into the data transmission market, the ability to provide Voice over Internet Protocol, or VoIP, and other data services over WiMax networks at lower rates than we are able to offer.

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Increasing competition in data transmission services may lead to rate reductions in this segment, adversely affecting the net operating revenue that we and TNL generate from this business. Additionally, increased competition for data transmission customers may require our company and TNL to increase our marketing expenses and our capital expenditures and may lead to the loss of broadband customers, in each case leading to a decrease in our respective profitability. For a detailed description of competition in the data transmission services markets that we and TNL serve, see Item 4. Information on the Company Competition Data Transmission Services in the Brasil Telecom Annual Report and the TNL Annual Report.

The telecommunications industry is subject to frequent changes in technology. The ability of our company and TNL to remain competitive depends on our ability to implement new technology, and it is difficult to predict how new technology will affect our respective businesses.

Companies in the telecommunications industry must adapt to rapid and significant technological changes that are usually difficult to anticipate. The mobile telecommunications industry in particular has experienced rapid and significant technological development and frequent improvements in capacity, quality and data-transmission speed. Technological changes may render the equipment, services and technology of our company and TNL obsolete or inefficient, which may adversely affect our respective competitiveness or require our company or TNL to increase our capital expenditures in order to maintain our competitive position. For example, we and TNL made significant investments in the last three years in connection with the implementation of our respective Universal Mobile Telecommunications System services, which we refer to as 3G services. While we and TNL have been upgrading our fixed-line networks with technologically advanced fiber optic cable with a microwave overlay for use in our long-distance services, it is possible that alternative technologies may be developed that are more advanced than those we currently provide. If ANATEL auctions radio frequency spectrum for use in the development of WiMax networks, we expect that we and TNL may be required to participate in these auctions and deploy WiMax networks to remain competitive in the broadband services market. Even if we and TNL adopt new technologies in a timely manner as they are developed, the cost of such technology may exceed the benefit to our company and TNL, and we cannot assure you that we will be able to maintain our levels of competitiveness.

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

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

In October 2008, ANATEL published items that were on its regulatory agenda, some of which were expected to be adopted during the following two years. In furtherance of ANATEL's regulatory agenda:

ANATEL has proposed a General Plan on Competition Targets (*Plano Geral de Metas de Competição*), which contemplates the creation of three entities to manage information about telecommunications networks, act as an intermediary in contracts between telecommunications providers and supervise the offering of wholesale and retail data traffic services. The proposed General Plan on Competition Targets also addresses a variety of other matters, including criteria for the evaluation of telecommunications providers to determine which providers have significant market power, regulations applicable to the wholesale markets for trunk lines, backhaul, access to internet backbone and interconnection services, and regulations related to partial unbundling and/or full unbundling of the local fixed-line networks of the public regime service providers. The General Plan on Competition Targets was submitted for public consultation in July 2011 and the public consultation

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period is scheduled to end on September 8, 2011. We expect these new regulations, as they may be modified as a result of ANATEL's further analysis, to be adopted during the first half of 2012.

ANATEL has proposed new regulations under which the VC-1, VC-2 and VC-3 rates would be reduced from current levels, after giving effect to an inflation adjustment based on the IST, by 10% in 2012 and 10% in 2013. These proposed regulations also provide procedures for determining the reference value for VU-M rates in the event that providers cannot agree upon the VU-M applicable in their interconnection agreements. These regulations were submitted for public consultation in October 2010 and the public consultation period ended on November 12, 2010. ANATEL continues to analyze these proposed regulations. We expect these new regulations, as they may be modified as a result of ANATEL's further analysis, to be adopted by the end of 2011.

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

We cannot predict when regulations regarding these matters will be adopted or whether these regulations will be adopted as proposed. Some of these regulations, if adopted, may have adverse effects on the revenues, costs and expenses, results of operations or financial position of our company and TNL.

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

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

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

Monthly subscription fees represented 26.8% and 23.3% of our gross operating revenue during the six-month period ended June 30, 2011 and the year ended December 31, 2010, respectively. Monthly subscription fees represented 24.8% and 24.0% of TNL's gross operating revenue during the six-month period ended June 30, 2011 and the year ended December 31, 2010, respectively. The enactment of legislation terminating the monthly subscription fees would have a material adverse effect on the results of operations of our company and TNL.

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

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

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

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

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

The local fixed-line and domestic long-distance concession agreements that our company and TNL have entered into contain terms reflecting the General Plan on Universal Service, the General Plan on Quality Goals (*Plano Geral de Metas de Qualidade*) and other regulations adopted by ANATEL and implemented in 2006, the terms of which could affect our respective financial condition and results of operations. Our local fixed-line concession agreements also require us to meet certain network expansion, quality of service and modernization obligations in each of the states in Regions II and, in addition, require TNL to meet these obligations in each of the states of Region I. In the event of noncompliance with ANATEL targets in any one of these states, ANATEL can establish a deadline for achieving the targeted level of such service, impose penalties and, in extreme situations, terminate the applicable concession agreement for noncompliance with its quality and universal service obligations. See Item 4. Information on the Company Regulation of the Brazilian Telecommunications Industry Regulation of Fixed-Line Services in the Brasil Telecom Annual Report and the TNL Annual Report.

On an almost weekly basis, we and TNL receive inquiries from ANATEL requiring information from us on our compliance with the various service obligations imposed on us by our concession agreements. If we or TNL are unable to respond satisfactorily to those inquiries or comply with our service obligations under our concession agreements, ANATEL may commence administrative proceedings in connection with such noncompliance. We and TNL have received numerous notices of the commencement of administrative proceedings from ANATEL, mostly due to our inability to achieve certain targets established in the General Plan on Quality Goals and the General Plan on Universal Service, among others. We have recorded provisions in the amount of R\$259 million as of June 30, 2011, and TNL has recorded provisions in the amount of R\$883 million as of that date, in connection with fines sought to be imposed by ANATEL. Additional fines from ANATEL or fines in excess of the provisioned amount could adversely impact our respective financial condition and results of operations. See Item 4. Information on the Company Regulation of the Brazilian Telecommunications Industry in the Brasil Telecom Annual Report and the TNL Annual Report, and Item 8. Financial Information Legal Proceedings Civil Claims Administrative Proceedings in the Brasil Telecom Annual Report and the TNL Annual Report.

In addition, the authorizations of our company and TNL to provide personal mobile services contain certain obligations requiring us to meet network scope and quality of service targets. If we or TNL fail to meet these

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obligations, we may be fined by ANATEL until we are in full compliance with our obligations and, in extreme circumstances, our authorizations could be revoked by ANATEL. See Item 4. Information on the Company Regulation of the Brazilian Telecommunications Industry Regulation of Mobile Services Obligations of Personal Mobile Services Providers in the Brasil Telecom Annual Report and the TNL Annual Report.

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

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

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

delays in the delivery of telecommunications equipment by our vendors;

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

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

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

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

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

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Our controlling shareholder, TmarPart, has control over TNL and its controlled companies, including our company, and its interests may not be aligned with your interests.

TNL is controlled by TmarPart, which, as of August 26, 2011, held, directly and indirectly, 56.4% of its outstanding voting shares and, at the time of the extraordinary general shareholders' meetings called to consider the corporate reorganization will directly and indirectly hold 68.3% of its outstanding voting shares. We are controlled by Coari, which, as of that date, held 79.6% of our outstanding voting shares. Coari is controlled by Telemar which, as of that date, held all of Coari's outstanding voting shares, and Telemar is controlled by TNL, which, as of that date, held 98.0% of Telemar's outstanding voting shares.

TmarPart's shareholders are parties to two shareholders' agreements governing their equity interests in TmarPart. See Item 7. Major Shareholders and Related Party Transactions Major Shareholders' TmarPart Shareholders' Agreements in the Brasil Telecom Annual Report and the TNL Annual Report. TmarPart is entitled to appoint a majority of the members of the board of directors of our company and TNL, and it has the power to determine the decisions to be taken at our respective shareholders' meetings on matters of our management that require the prior authorization of our shareholders, including in respect of related party transactions, corporate restructurings and the date of payment of dividends and other capital distributions. The decisions of TmarPart and its controlling shareholders on these matters may be contrary to the expectations or preferences of holders of securities of our company and TNL, including holders of common shares and preferred shares of our company, preferred shares of TNL, the TNL ADSs, the Brasil Telecom Common ADSs and the Brasil Telecom Preferred ADSs.

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

TNL may acquire, and following the completion of the merger, we may acquire other companies in the telecommunications industry as part of our respective growth and convergence strategies. A growth strategy that involves acquisitions may present certain risks to our business, results of operations and financial condition, such as (1) difficulties in capturing synergies in the integration process, causing the anticipated benefits of the acquisition to be more limited than originally expected; (2) costs associated with any unforeseen antitrust restrictions; (3) failure to identify contingencies during the due diligence process; (4) uncertainty in relation to regulatory approval; and (5) distractions from our core businesses to pursue these acquisitions and implement the integration of acquired businesses. If acquisition transactions cause our company or TNL to incur unforeseen costs due to the factors described above, we may have to dedicate more resources than we had originally planned and eventually face substantial losses that would adversely affect the business, results of operations and financial condition of our company or TNL.

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

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

As of June 30, 2011, we had total consolidated debt of R\$3,724 million and a ratio of total debt to equity of 0.3:1, and TNL had total consolidated debt of R\$23,942 million and a ratio of total debt to equity of 0.9:1.

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We and TNL are subject to certain financial covenants that limit our ability to incur additional debt. The existing level of indebtedness of our company and TNL and the requirements and limitations imposed by our debt instruments could adversely affect our respective financial condition or results of operations. In particular, the terms of some of these debt instruments restrict the ability of our company and TNL, and the ability of our subsidiaries, to:

incur additional debt;

grant liens;

pledge assets;

sell or dispose of assets; and

make certain acquisitions, mergers and consolidations.

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

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

If the growth in net operating revenue of our company or TNL slows or declines in a significant manner, for any reason, we may not be able to continue servicing our respective debt. If we are unable to meet our debt service obligations or comply with our debt covenants, we could be forced to renegotiate or refinance our indebtedness, seek additional equity capital or sell assets. We may be unable to obtain financing or sell assets on satisfactory terms, or at all. For more information regarding the debt instruments of our company and TNL and our indebtedness as of December 31, 2010, see Item 5. Operating and Financial Review and Prospects Liquidity and Capital Resources in the Brasil Telecom Annual Report and the TNL Annual Report, for more information regarding our company's debt instruments and our indebtedness as of June 30, 2011, see Management's Discussion and Analysis of Financial Condition and Results of Operations for the First Half of 2011 in the Brasil Telecom First Half Report, and for more information regarding TNL's debt instruments and our indebtedness as of June 30, 2011, see Management's Discussion and Analysis of Financial Condition and Results of Operations for the First Half of 2011 in the TNL First Half Report.

Our company and TNL are subject to numerous legal and administrative proceedings, which could adversely affect our respective businesses, results of operations and financial conditions.

Our company and TNL are subject to numerous legal and administrative proceedings. It is difficult to quantify the potential impact of these legal and administrative proceedings. We classify our risk of loss from legal and administrative proceedings as probable or possible or remote. We make provisions for probable losses but do not make provisions for possible and remote losses. As of June 30, 2011, we had provisioned R\$4,477 million for probable losses relating to various tax, labor and civil legal and administrative proceedings against us, and TNL had provisioned R\$6,947 million for probable losses relating to various tax, labor and civil legal and administrative proceedings against TNL in its consolidated financial statements.

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As of June 30, 2011, we had claims against us of R\$2,990 million in tax proceedings, R\$2,732 million in labor proceedings and R\$801 million in civil proceedings with a risk of loss classified as possible and for which we had made no provisions, and TNL had claims against it of R\$17,155 million in tax proceedings, R\$3,086 million in labor proceedings and R\$1,420 million in civil proceedings with a risk of loss classified as possible and for which TNL had made no provisions.

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

Our company and TNL are subject to potential liabilities relating to our third-party service providers, which could have a material adverse effect on our respective businesses, financial conditions and results of operations.

Our company and TNL are subject to potential liabilities relating to our third-party service providers. Such potential liabilities may involve claims by employees of third-party service providers directly against us as if we were the direct employer of such employees, as well as claims against us for secondary liability for, among other things, occupational hazards, wage parity or overtime pay, in the event that such third-party service providers fail to meet their obligations to their employees. Neither our company nor TNL has recorded any provision for such claims, and significant judgments against us could have a material adverse effect on our respective businesses, financial conditions and results of operations.

Our company and TNL are subject to delinquencies of our respective accounts receivables. If we are unable to limit payment delinquencies by our customers, or if delinquent payments by our customers increase, our respective financial conditions and results of operations could be adversely affected.

The businesses of our company and TNL significantly depend on our customers' ability to pay their bills and comply with their obligations to us. Our company recorded provisions for doubtful accounts in the amount of R\$205 million during the six-month period ended June 30, 2011 and R\$352 million during the year ended December 31, 2010, and TNL company recorded provisions for doubtful accounts in the amount of R\$499 million during the six-month period ended June 30, 2011 and R\$979 million during the year ended December 31, 2010, in each case, primarily due to subscribers' delinquencies. As a percentage of our gross operating revenue, our provision for doubtful accounts was 2.4% as of June 30, 2011 and 2.0% as of December 31, 2010, and TNL's provision for doubtful accounts was 2.2% as of June 30, 2011 and 2.1% as of December 31, 2010.

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

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

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

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

Improper use of the network of our company or TNL could adversely affect our respective costs and results of operations.

Our company and TNL incur costs associated with the unauthorized and fraudulent use of our respective networks, including administrative and capital costs associated with detecting, monitoring and reducing the incidence of fraud. Fraud also affects interconnection costs and payments to other carriers for non-billable fraudulent roaming. Improper use of the networks of our company and TNL could also increase our respective selling expenses if we need to increase our provisions for doubtful accounts to reflect amounts we do not believe we can collect for improperly made calls. Any increase in the improper use of our networks in the future could materially adversely affect our respective costs and results of operations.

The operations of our company and TNL are dependent upon our respective networks. A system failure could cause delays or interruptions of service, which could cause us to suffer losses.

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

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

Media and other entities frequently suggest that the electromagnetic emissions from mobile handsets and base stations may cause health problems. If consumers harbor health-related concerns, they may be discouraged from using mobile handsets. These concerns could have an adverse effect on the mobile telecommunications industry and, possibly, expose mobile services providers to litigation. We cannot assure you that further medical research and studies will refute a link between the electromagnetic emissions of mobile handsets and base stations, including on frequency ranges used by our company and TNL to provide mobile services, and these health concerns. Government authorities could increase regulation on electromagnetic emissions of mobile

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handsets and base stations, which could have an adverse effect on our respective businesses, financial conditions and results of operations. The expansion of our respective networks may be affected by these perceived risks if we experience problems in finding new sites, which in turn may delay the expansion and may affect the quality of our services. In July 2002, ANATEL enacted regulations that limit emission and exposure for fields with frequencies between 9 kHz and 300 GHz. Although these regulations did not have a material impact on our respective businesses, new laws or regulations regarding electromagnetic emissions and exposure may be adopted that could have an adverse effect on our respective businesses.

Risks Relating to Brazil

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

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

political instability;

devaluations and other currency fluctuations;

inflation;

price instability;

interest rates;

liquidity of domestic capital and lending markets;

energy shortages;

exchange controls;

changes to the regulatory framework governing our industry;

monetary policy;

tax policy; and

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

Uncertainty over whether possible changes in policies or rules affecting these or other factors may contribute to economic uncertainties in Brazil and to heightened volatility in the Brazilian securities markets and securities issued abroad by Brazilian issuers. The President of Brazil has considerable power to determine governmental policies and actions that relate to the Brazilian economy and, consequently, affect the operations and financial performance of businesses such as our company. In November 2010, Dilma Rousseff was elected President of Brazil to succeed Luiz Inácio Lula da Silva. Ms. Rousseff's term began in January 2011. Although we do not believe that Ms. Rousseff will significantly alter the policies followed by her predecessor, we can offer no assurances that the policies that may be implemented by the Brazilian federal or state governments will not adversely affect our business, results of operations and financial condition.

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

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

As a result of the global economic downturn, our ability to access the capital markets or the commercial bank lending markets may be severely restricted at a time when we would like, or need, to access such markets, which could have an impact on our flexibility to react to changing economic and business conditions. The global economic downturn could have an impact on the lenders under our existing credit facilities, on our customers or on the ability of our suppliers to meet scheduled deliveries, causing them to fail to meet their obligations to us. If the global economic downturn deepens further, it could have an adverse effect on the demand for our services and our ability to fund our planned growth.

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

During the four decades prior to 1999, the Central Bank periodically devalued the Brazilian currency. Throughout this period, the Brazilian government implemented various economic plans and used various exchange rate policies, including sudden devaluations (such as daily and monthly adjustments), exchange controls, dual exchange rate markets and a floating exchange rate system. Since 1999, exchange rates have been set by the market. The exchange rate between the *real* and the U.S. dollar has varied significantly in recent years. For example, the *real*/U.S. dollar exchange rate increased from R\$1.955 per U.S. dollar on December 31, 2000 to R\$3.533 on December 31, 2002. The *real* appreciated against the U.S. dollar by 11.8% in 2005, 8.7% in 2006 and 17.1% in 2007. In 2008, primarily as a result of the international financial crisis, the *real* depreciated by 31.9% against the U.S. dollar and prompted foreign investors to remove billions of *reais* from the BM&FBOVESPA. The *real* appreciated against the U.S. dollar by 25.5% during 2009, by 4.3% during 2010, and 6.3% during the six-month period ended June 30, 2011.

As of June 30, 2011, only R\$2 million of our financial indebtedness was denominated in a foreign currency. However, a significant amount of TNL's financial liabilities are denominated in or indexed to foreign currencies, primarily U.S. dollars, Japanese yen and euros. As of June 30, 2011, R\$7,821 million, or 32.7% of TNL's financial indebtedness was denominated in a foreign currency. When the *real* depreciates against foreign currencies, TNL incurs losses on its liabilities denominated in or indexed to foreign currencies, such as its U.S. dollar-denominated long-term debt and foreign currency loans, and TNL incurs gains on its monetary assets denominated in or indexed to foreign currencies, as the liabilities and assets are translated into *reais*. If significant depreciation of the *real* were to occur when the value of such liabilities significantly exceeds the value of such assets, including any financial instruments entered into for hedging purposes, TNL could incur significant losses, even if the value of those assets and liabilities has not changed in their original currency. In addition, a significant depreciation in the *real* could adversely affect TNL's ability to meet certain of its payment obligations. A failure to meet TNL's payment obligations could trigger a default under certain financial covenants in its debt instruments, which could have a material adverse effect on its business and results of operations. Additionally, TNL currently has currency swaps and non-deliverable forwards in place for a portion of its foreign currency debt. If the cost of currency swap instruments increases substantially, TNL may be unable to maintain its hedge positions, resulting in an increased foreign currency exposure which could in turn lead to substantial foreign exchange losses.

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

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

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

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

Since the introduction of the *real* in 1994, Brazil's inflation rate has been substantially lower than in previous periods. However, actions taken in an effort to control inflation, coupled with speculation about possible future governmental actions, have contributed to economic uncertainty in Brazil and heightened volatility in the Brazilian securities market. More recently, Brazil's rates of inflation, as measured by the General Market Price Index – Internal Availability (*Índice Geral de Preços – Disponibilidade Interna*), or IGP-DI, published by Fundação Getúlio Vargas, or FGV, were 3.8% in 2006, 7.9% in 2007, 9.1% in 2008, (1.4)% in 2009, 11.3% in 2010 and 8.7% during the 12-month period ended June 30, 2011. According to the Broad Consumer Price Index (*Índice Nacional de Preços ao Consumidor Ampliado*), or IPCA, published by the Brazilian Institute for Geography and Statistics (*Instituto Brasileiro de Geografia e Estatística*), or IBGE, the Brazilian consumer price inflation rates were 3.1% in 2006, 4.5% in 2007, 5.9% in 2008, 4.3% in 2009, 5.9% in 2010 and 6.7% during the 12-month period ended June 30, 2011.

If Brazil experiences substantial inflation in the future, our costs may increase and our operating and net margins may decrease. Although ANATEL regulations provide for annual price increases for most of our services, such increases are linked to inflation indices, discounted by increases in our productivity. During periods of rapid increases in inflation, the price increases for our services may not be sufficient to cover our additional costs and we may be adversely affected by the lag in time between the incurrence of increased costs and the receipt of revenues resulting from the annual price increases. Inflationary pressures may also curtail our ability to access foreign financial markets and may lead to further government intervention in the economy, including the introduction of government policies that may adversely affect the overall performance of the Brazilian economy.

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

Our financial expenses are affected by changes in the interest rates that apply to our floating rate debt. As of June 30, 2011, we had, among other debt obligations, R\$2,204 million of loans and financing and debentures that were subject to the *Taxa de Juros de Longo Prazo*, or TJLP, a long-term interest rate, R\$729 million of loans and financing and debentures that were subject to the Interbank Certificate of Deposit (*Certificado de Depósito Interbancário*), or CDI, rate, an interbank rate, and R\$583 million of loans and financing that were subject to the IPCA. As of June 30, 2011, TNL had, among other debt obligations, R\$7,713 million of loans and financing and

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debentures that were subject to the CDI rate, R\$5,402 million of loans and financing and debentures that were subject to the TJLP, R\$2,115 million of loans and financing that were subject to the IPCA, R\$2,392 million of loans and financing that were subject to LIBOR, and R\$621 million of loans and financing that were subject to Japanese Yen LIBOR.

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

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

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

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

Brazilian law provides that whenever there exists, or there is a serious risk of, a material imbalance in Brazil's balance of payments, the Brazilian government may impose restrictions for a limited period of time on the remittance to foreign investors of the proceeds of their investments in Brazil as well as on the conversion of the *real* into foreign currencies. The Brazilian government imposed such a restriction on remittances for approximately six months in 1989 and early 1990. The Brazilian government may in the future restrict companies from paying amounts denominated in foreign currency or require that any such payment be made in *reais*. Many factors could affect the likelihood of the Brazilian government imposing such exchange control restrictions, including the extent of Brazil's foreign currency reserves, the availability of sufficient foreign exchange on the date a payment is due, the size of Brazil's debt service burden relative to the economy as a whole, and political constraints to which Brazil may be subject. There can be no certainty that the Brazilian government will not take such measures in the future.

Although our foreign-currency denominated debt represented less than 0.1% of our indebtedness on a consolidated basis as of June 30, 2011, TNL's foreign-currency denominated debt represented 32.7% of its indebtedness on a consolidated basis as of that date. A more restrictive policy could increase the cost of servicing, and thereby reduce TNL's ability to pay, its foreign currency-denominated debt obligations and other

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liabilities. If we or TNL fail to make payments under any of these obligations, we will be in default under those obligations, which could reduce our liquidity as well as the market price of our respective shares and ADSs.

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

Risks Relating to Our Common Shares and Preferred Shares and Brasil Telecom ADSs

Holders of common shares or preferred shares of Brasil Telecom or Brasil Telecom ADSs may not receive any dividends or interest on shareholders' equity.

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

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

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

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

Under Brazilian law, only shareholders registered as such in our corporate books may attend our shareholders' meetings. All common shares and preferred shares underlying Brasil Telecom ADSs are registered in the name of the depositary. Holders of Brasil Telecom ADSs may exercise the voting rights with respect to

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common shares of Brasil Telecom and the limited voting rights with respect to preferred shares of Brasil Telecom represented by Brasil Telecom ADSs only in accordance with the deposit agreements relating to Brasil Telecom ADSs. There are practical limitations upon the ability of the ADS holders to exercise their voting rights due to the additional steps involved in communicating with ADS holders. For example, we are required to publish a notice of our shareholders' meetings in certain newspapers in Brazil. To the extent that holders of common shares or preferred shares of our company are entitled to vote at a shareholders' meeting, they will be able to exercise their voting rights by attending the meeting in person or voting by proxy. By contrast, holders of the ADSs will receive notice of a shareholders' meeting by mail from the depositary following our notice to the depositary requesting the depositary to inform ADS holders of the shareholders' meeting. To exercise their voting rights, ADS holders must instruct the depositary on a timely basis. This noticed voting process will take longer for holders of Brasil Telecom ADSs than for holders of common shares or preferred shares of Brasil Telecom. If the depositary fails to receive timely voting instructions for all or part of Brasil Telecom ADSs, the depositary will assume that the holders of those ADSs are instructing it to give a discretionary proxy to a person designated by us to vote their ADSs, except in limited circumstances.

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

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

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

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

The Brazilian custodian for the common shares and preferred shares underlying Brasil Telecom ADSs must obtain an electronic registration number with the Central Bank to allow the depositary to remit U.S. dollars abroad. ADS holders benefit from the electronic certificate of foreign capital registration from the Central Bank obtained by the custodian for the depositary, which permits it to convert dividends and other distributions with respect to the common shares or preferred shares into U.S. dollars and remit the proceeds of such conversion

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abroad. If holders of Brasil Telecom ADSs decide to exchange them for the underlying common shares or preferred shares, they will only be entitled to rely on the custodian's certificate of registration with the Central Bank for five business days after the date of the exchange. Thereafter, they will be unable to remit U.S. dollars abroad unless they obtain a new electronic certificate of foreign capital registration in connection with the common shares or preferred shares, which may result in expenses and may cause delays in receiving distributions. See Part Six Shareholder Rights Exchange Controls.

Also, if holders of Brasil Telecom ADSs that exchange Brasil Telecom ADSs for common shares or preferred shares of Brasil Telecom do not qualify under the foreign investment regulations, they will generally be subject to less favorable tax treatment of dividends and distribution on, and the proceeds from any sale of, common shares or preferred shares of Brasil Telecom. See Part Six Shareholder Rights Exchange Controls and Part Five The Merger Material Tax Considerations Brazilian Tax Considerations.

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

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

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

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

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

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

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

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

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

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

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

have a majority of the board be independent;

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

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

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

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

Holders of Brasil Telecom ADSs may face difficulties in serving process on or enforcing judgments against us and other persons.

We are organized under the laws of Brazil, and all of the members of our board of directors, our executive officers and some of the experts named in this prospectus reside in Brazil or elsewhere outside the United States. The vast majority of our assets are located outside the United States and all or a substantial portion of the assets of these other persons may be located outside the United States.

As a result, it may not be possible for holders of Brasil Telecom ADSs to effect service of process upon us or these other persons within the United States or other jurisdictions outside Brazil or to enforce against us or these other persons judgments obtained in the United States or other jurisdictions outside Brazil. In addition, because substantially all of our assets and all of our directors and officers reside outside the United States, any judgment obtained in the United States against us or any of our directors or officers may not be collectible within the United States. Because judgments of U.S. courts for civil liabilities based upon the U.S. federal securities laws may only be enforced in Brazil if certain conditions are met, holders may face greater difficulties in protecting their interests in the case of actions by us or our board of directors or executive officers than would shareholders of a U.S. corporation.

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

According to Law No. 10,833, enacted on December 29, 2003, if a nonresident of Brazil disposes of assets located in Brazil, the transaction will be subject to taxation in Brazil, even if such disposition occurs outside Brazil or if such disposition is made to another nonresident. Dispositions of Brasil Telecom ADSs between nonresidents, however, are currently not subject to taxation in Brazil. Nevertheless, in the event that the concept of "disposition of assets" is interpreted to include the disposition between nonresidents of assets located outside Brazil, this tax law could result in the imposition of withholding taxes in the event of a disposition of Brasil Telecom ADSs made between nonresidents of Brazil. Due to

the fact that as of the date of this prospectus Law

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No. 10,833/2003 has no judicial guidance as to its application, we are unable to predict whether an interpretation applying such tax laws to dispositions of Brasil Telecom ADSs between nonresidents could ultimately prevail in Brazilian courts. See Part Five The Merger Material Tax Considerations Brazilian Tax Considerations.

The relative volatility and illiquidity of the Brazilian securities markets may adversely affect holders of common shares and preferred shares of Brasil Telecom and Brasil Telecom ADSs.

The Brazilian securities markets are substantially smaller, less liquid and more volatile than major securities markets in the United States. The BM&FBOVESPA, which is the principal Brazilian stock exchange, had a market capitalization of R\$2,546 billion (US\$1,528 billion) as of December 31, 2010 and an average daily trading volume of R\$5.0 billion (US\$3.0 billion) for 2010. In comparison, aggregate market capitalization of the companies (including U.S. and non-U.S. companies) listed on the NYSE was US\$14.7 trillion as of December 31, 2010 and the NYSE recorded an average daily trading volume of US\$70.9 billion for 2010. There is also significantly greater concentration in the Brazilian securities markets. The ten largest companies in terms of market capitalization represented approximately 56% of the aggregate market capitalization of the BM&FBOVESPA as of December 31, 2010. The ten most widely traded stocks in terms of trading volume accounted for approximately 53% of all shares traded on the BM&FBOVESPA in 2010. These market characteristics may substantially limit the ability of holders of Brasil Telecom ADSs to sell the preferred shares underlying Brasil Telecom ADSs at a price and at a time when they wish to do so and, as a result, could negatively impact the market price of Brasil Telecom ADSs themselves.

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

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

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

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

Cautionary Statement Concerning Forward-Looking Statements

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

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

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PART THREE RISK FACTORS

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

competition in the Brazilian telecommunications sector;

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

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

the cost and availability of financing;

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

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

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

inflation and fluctuations in exchange rates;

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

other factors identified or discussed under Part Three Risk Factors of this prospectus.

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

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

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PART FOUR RECENT DEVELOPMENTS

Developments in 2011 Relating to Brasil Telecom and TNL

Portugal Telecom Alliance

On March 28, 2011:

Bratel Brasil S.A., or Bratel, a wholly-owned indirect subsidiary of Portugal Telecom SGPS S.A., or Portugal Telecom, purchased an aggregate of 261,631,051 common shares of TmarPart, representing 9.6% of the outstanding common shares of TmarPart, from BNDES Participações S.A., or BNDESPar, PREVI Caixa de Previdência dos Funcionários do Banco do Brasil, or PREVI, PETROS Fundação Petrobrás de Seguridade Social, or PETROS, and FUNCEF Fundação dos Economistas Federais, or FUNCEF.

TmarPart conducted a capital increase in which it issued 186,664,449 common shares, in which (1) Bratel purchased an aggregate of 91,225,537 common shares of TmarPart, representing 3.1% of the outstanding common shares of TmarPart, (2) AG Telecom Participações S.A., or AG Telecom, and its subsidiary Luxemburgo Participações S.A. purchased an aggregate of 36,784,491 common shares of TmarPart, representing 1.3% of the outstanding common shares of TmarPart, (3) LF Tel S.A., or LF Tel, purchased an aggregate of 36,784,491 common shares of TmarPart, representing 1.3% of the outstanding common shares of TmarPart, and (4) Fundação Atlântico de Seguridade Social, or FASS, purchased an aggregate of 21,869,930 common shares of TmarPart, representing 0.7% of the outstanding common shares of TmarPart.

TNL conducted a capital increase in which it issued 56,417,086 common shares at an issue price of R\$38.5462 per share and 28,409,175 preferred shares at an issue price of R\$28.2634 per share. The aggregate proceeds to TNL from this capital increase were R\$2,978 million. In this capital increase, TmarPart and its wholly-owned subsidiary Valverde Participações S.A. purchased 35,309,502 common shares of TNL and Bratel purchased an aggregate of 20,752,270 common shares of TNL and 28,298,549 preferred shares of TNL.

Telemar conducted a capital increase in which it issued 46,969,121 common shares at an issue price of R\$63.7038 per share and 58,696,856 class A preferred shares at an issue price of R\$50.7010 per share. The aggregate proceeds to Telemar from this capital increase were R\$5,969 million, of which R\$2,978 million represented the purchase price for the shares of Telemar subscribed to by TNL. In this capital increase, TNL purchased 46,743,149 common shares of Telemar and Bratel purchased an aggregate of 32,475,534 class A preferred shares of Telemar.

Upon the completion of these transactions, certain amendments to the shareholders' agreements governing the rights of the shareholders of TmarPart that had been entered into on January 25, 2011 became effective. For more information regarding these shareholders' agreements as amended, see Item 7. Major Shareholders and Related Party Transactions Major Shareholders TmarPart Shareholders Agreements in the TNL Annual Report.

The objective of the Portugal Telecom Alliance is to develop a global telecommunications platform that will allow for cooperation in diverse areas, aiming, among other things, to share best practices, achieve economies of scale, implement research and development initiatives, develop technologies, expand the parties' international presence, particularly in Latin America and Africa, diversify services, maximize synergies and reduce costs, seeking always to offer better services and care to customers of both groups and to create value for their shareholders.

TNL intends to use the proceeds from its capital increase and Telemar's capital increase to purchase up to 10% of the outstanding shares of Portugal Telecom, to reduce its net debt, to facilitate its operational

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PART FOUR RECENT DEVELOPMENTS

development, and to pursue market opportunities outside of Brazil. As of August 26, 2011, Telemar has purchased 64,557,566 shares of Portugal Telecom, representing 7.2% of its outstanding shares, for an aggregate purchase price of R\$1,207 million in transactions carried out through brokers that it has engaged for this purpose. In addition, Telemar has used a portion of its capital increase to prepay R\$2,000 million aggregate principal amount borrowed under an unsecured line of credit in November 2009.

In October 2010, ANATEL approved the Portugal Telecom Alliance without conditions, other than a requirement that we pay all pending administrative fines, amounting to approximately R\$228 million, regardless of the procedural posture of the proceedings which we had instituted to contest these fines. TNL sought and has been granted injunctive relief which has permitted TNL to make judicial deposits of these amounts while preserving its rights to contest these fines. ANATEL has appealed these injunctions, which appeals remain pending.

Under Brazilian antitrust regulations, ANATEL will submit the Portugal Telecom Alliance to CADE for final approval. Brazilian law permitted TNL to consummate this transaction prior to receiving the final approval from CADE. CADE will determine whether this transaction negatively impacts competitive conditions in the markets in which TNL competes or adversely affects consumers in these markets.

Management Changes

On May 26, 2011, the board of directors of Brasil Telecom elected Maxim Medvedovsky and Tarso Rebello Dias to serve on the board of executive officers of Brasil Telecom to replace João Francisco da Silveira Neto who resigned as a member of the board of executive officers of Brasil Telecom on April 15, 2011 and Marco Norci Schroeder, who resigned as a member of the board of executive officers of Brasil Telecom on May 26, 2011.

On June 30, 2011, Luiz Eduardo Falco Pires Corrêa resigned as chief executive officer of TNL and Brasil Telecom and the boards of directors of TNL and Brasil Telecom elected José Mauro Mettrau Carneiro da Cunha to serve as interim chief executive officer. On August 1, 2011 the boards of directors of TNL and Brasil Telecom elected Francisco Tosta Valim Filho as chief executive officer of TNL and Brasil Telecom.

On July 4, 2011, Francisco Aurélio Sampaio Santiago resigned as a member of the board of directors of Brasil Telecom and as an executive officer of TNL, and, as of the date of this prospectus, the shareholders of Brasil Telecom have not elected a replacement member of the board of directors of Brasil Telecom, and the board of directors of TNL has not elected a replacement executive officer of TNL. Pending the election of a replacement for Mr. Santiago as a member of the board of directors of Brasil Telecom, his alternate, Júlio César Fonseca, will perform his duties as a member of the board of directors of Brasil Telecom.

On August 25, 2011, Otávio Marques de Azevedo resigned as a member of the board of directors of TNL and Lucio Otávio Ferreira resigned as an alternate member of the board of directors of TNL. On that date, the board of directors of TNL elected Armando Galhardo Nunes Guerra Junior as a member of the board of directors of TNL and Paulo Márcio de Oliveira Monteiro as an alternate member of the board of directors of TNL.

Amendments to Concession Agreements

Amendments to Local Fixed-Line Concession Agreements

On June 30, 2011, Brasil Telecom and Telemar each entered into a concession agreement with ANATEL that governs its respective concessions to provide fixed-line services. These concession agreements consolidated Brasil Telecom's previously existing concession agreements for the Federal District and each of the states of Region II in a single concession agreement and consolidated Telemar's previously existing concession agreements for each of the states of Region I in a single concession agreement. In addition to the terms of the

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PART FOUR RECENT DEVELOPMENTS

existing obligations of Brasil Telecom and Telemar under their previously existing local fixed-line concession agreements, the new concession agreements:

remove the restrictions that had been in the local fixed-line concession agreements of Brasil Telecom and Telemar which had prohibited them from offering subscription television services, such as IP TV, over their fixed-line networks;

expand the scope of revenue generating activities that Brasil Telecom and Telemar must use to calculate the biannual fees owed by them in connection with their concession agreements, while allowing them to apply the amount of such fees to finance the expanded service obligations created by the amended General Plan on Universal Service in lieu of making payment to ANATEL;

requires Brasil Telecom and Telemar to implement electronic billing systems;

establishes new conditions under which ANATEL may access information from Brasil Telecom and Telemar;

removes the grace period during which Brasil Telecom and Telemar could repair systemic service interruptions without incurring fines; and

requires Brasil Telecom and Telemar to rescind their contracts if ANATEL determines they are contrary to any rules or regulations, economic order or public interest.

See Item 4. Information on the Company Concessions, Authorizations and Licenses Fixed-Line Services Concession Agreements in the Brasil Telecom Annual Report and the TNL Annual Report for more information about the existing obligations of Brasil Telecom and Telemar under their local fixed-line concession agreements.

Amendments to Domestic Long-Distance Concession Agreements

On June 30, 2011, Brasil Telecom and Telemar each entered into a concession agreement with ANATEL that governs its respective concessions to provide domestic long-distance services. These concession agreements consolidated Brasil Telecom's previously existing concession agreements for the Federal District and each of the states of Region II in a single concession agreement and consolidated Telemar's previously existing concession agreements for each of the states of Region I in a single concession agreement. In addition to the terms of the existing obligations of Brasil Telecom and Telemar under their previously existing domestic long-distance concession agreements, the new concession agreements:

expand the scope of revenue generating activities that Brasil Telecom and Telemar must use to calculate the biannual fees owed by them in connection with their concession agreements;

requires Brasil Telecom and Telemar to implement an electronic billing systems;

establishes new conditions under which ANATEL may access information from Brasil Telecom and Telemar;

removes the grace period during which Brasil Telecom and Telemar could repair systemic service interruptions without incurring fines; and

requires Brasil Telecom and Telemar to rescind their contracts if ANATEL determines they are contrary to any rules or regulations, economic order or public interest.

See Item 4. Information on the Company Concessions, Authorizations and Licenses Domestic Long-Distance Services Concession Agreements in the Brasil Telecom Annual Report and the TNL Annual Report for more information about the existing obligations of Brasil Telecom and Telemar under their domestic long-distance concession agreements.

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Term of Commitment (*Termo de Compromisso*)

On June 30, 2011, TNL entered into a Term of Commitment (*Termo de Compromisso*) with ANATEL and the Ministry of Communications to formalize the voluntary commitment of Brasil Telecom and Telemar to adhere to the terms of the National Broadband Plan (*Programa Nacional de Banda Larga*), created in May 2010 by Executive Decree No. 7,175/10 with the goal to make broadband access available at low cost, regardless of technology, throughout Brazil. Pursuant to the Term of Commitment, Brasil Telecom and Telemar are required to offer (1) broadband services with minimum upload and download capabilities to retail customers in certain sectors of Region I and II for a maximum price of R\$35 per month (or R\$29.90 in ICMS-exempt states), plus fees, and (2) access to the broadband infrastructure of Brasil Telecom and Telemar to certain wholesale customers, including small businesses and municipalities, in certain sectors of Region I and II for a maximum price of R\$1,253 per 2 Mbps per month and a one-time installation fee, while observing all quality standards under ANATEL regulations. Both retail and wholesale services are subject to certain network capa