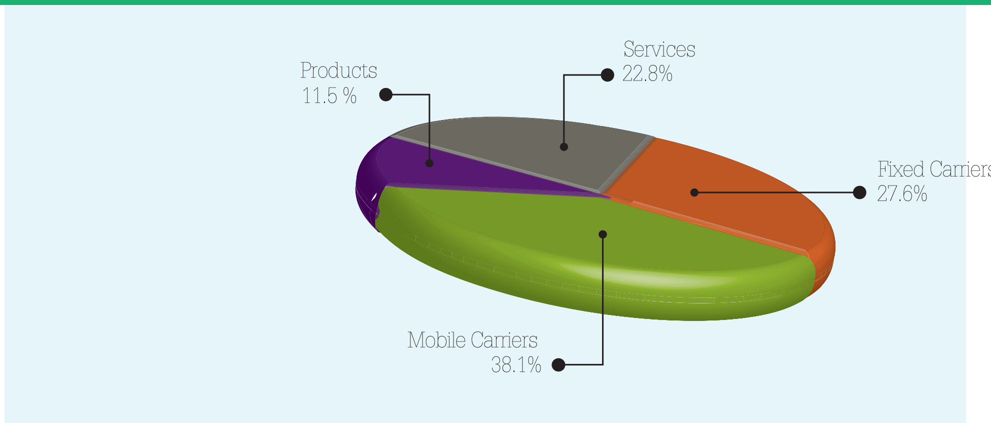
2009

A year without fears, however without growth.

For many, 2009 has started in the second semester, due to the world economic crisis started in the late 2008. Nevertheless, the year has not ended so badly: net income of companies analyzed by Anuário Telecom has decreased in 9.1% in US dollars as compared to previous year. In reals, there has been a slightly growth of 1.2%. The difference is explained by the11.3% real average devaluation in Brazil during the year. Once more, the products industry has shown a far weaker performance as compared to services.



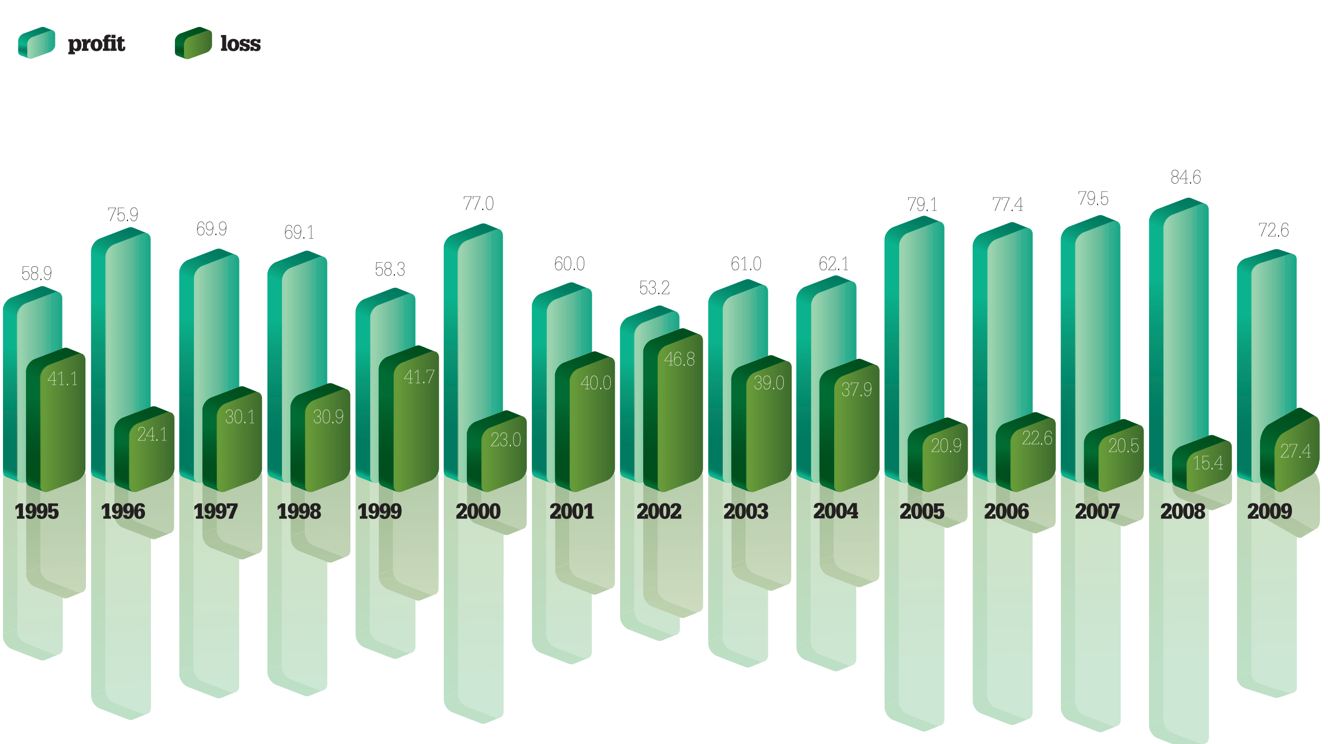
In Brazil, telecommunications are in a fast pace to become a sector dominated by conglomerates, which would be a way to balance the structure of the market where they act. This because although lately with regard to other areas of economic activity, telecommunications were also affected by instabilities, according to the analysis of professor Eli M. Noam, from the University of Columbia.

Ups and downs in telecom services were milder and one of the options of the government to manage sector businesses volatility is to allow the activity to find its own road for stability via the concentration of companies. This explains why governments are approving mergers which were considered unacceptable some years ago.

In Brazil, the acquisition of Brasil Telecom by Oi was barely consolidated and the Telemar group gained a new partner in 2010, Portugal Telecom which ended up selling its participation in Vivo to the Spanish Telefónica. On the other hand, as it had done in Mexico, the businessman Carlos Slim group slowly did the same in Brazil by concentrating all its operations in Embratel Internacional. Here, until the beginning of the second semester, the latest known step of Embratel and Claro owners was to exercise their right to purchase the total control of Net Serviços. The next step is believed to be the merger of Embratel and Claro.

The powerful French media group Vivendi managed to acquire the only successful mirror company of the country – GVT. In parallel, although current rules still require the issue of almost 30 grants for each type of service, offerings are more and more verticalized. And although the PL 29 soap opera – the government bill from 2007 which opens space and regulates this market in Brazil – has not reached its end, combos pre-

The top 100 performance



dominate in service offerings. Other undefined subjects were still open in the beginning of the second semester, with new frequency auctions promised for 2010. On the other hand, the National Broadband Plan was shaped, in spite of the complaints of private agents.

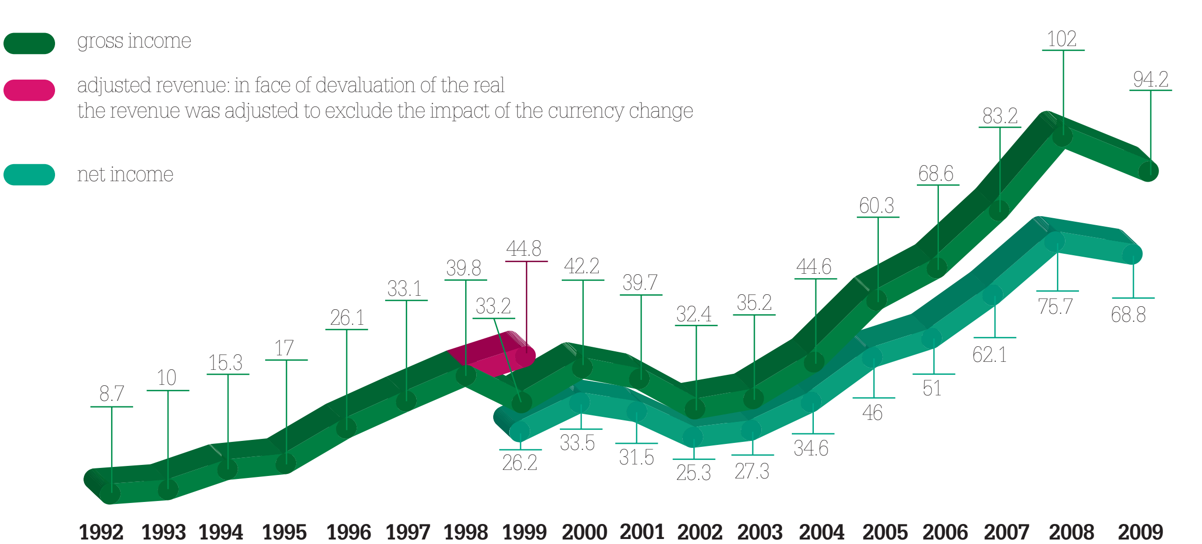
Rare occasions are more auspicious for pressure and demands than an electoral year. One of the platforms offered to the telecomm sector was the 54th Edition of the Painel Telebrasil, in August. Representing Abinee and the telecom industry, Aluizio Byrro, chairman of the Brazilian Nokia-Siemens subsidiary, was the spokesman of interests of the sector and of industry expectations for the period 2011-2014; namely, "a more technologically autonomous, innovative and competitive industry, even mastering the digital convergence". To get there, it is up to the government to decrease the external brittleness of the sector by making local companies international and strengthening the productive market of components (the traditional Achilles heel of Brazilian electro-electronic industry). The goal for 2020 is that electro-electronic industry revenues reach 7% of the GDP, twice the 3.6% estimated for 2010.

A year without advances

For a year which, according to businessmen, would only have started in the second semester, 2009 has not ended too badly for telecom companies. Revenues, in fact, have stepped back as compared to previous year. In US dollars, net revenue of companies which are part of the *Anuario Telecom* 2010 has decreased 9.1%, from US$ 75.7 billion to US$ 69 billion. In reals it remained virtually on the same level of 2008, going from R$ 136.1 billion to R$ 139 billion (+ 1.2%). Note that to have experienced real advance in 2009, net revenue of the industry would had to evolve more that the US$ devaluation, which was 11.3%, and this was not the case. (Average US dollar used in Anuário calculations to measure the performance of organizations in 2009 was R$ 2.0182, while in previous year it was R$ 1.8123).

Net revenue of product suppliers has dropped 31% in reals and 38% in US dollars; service providers' revenue has increased 8% in reals and has dropped slightly more than 3% in US dollars. Sector indicators available until the beginning of the second semester of 2010 allow for certain optimism on part of the companies. With data from Teleco consultancy firm, the Brazilian Telecommunications Association (Telebrasil) informed that in mid 2010 there were more than 247 connected accesses, with presence in all locations with at least 100 inhabitants. By minute, five new users of TV by subscription, more than 25 new broadband accesses, more than 180 mobile accesses and more than 220 customers of all services are being connected throughout the country. Since April 2010, all cities are offering mobile services. Until the end of this year, all 5.565 cities will

Market increase on gross and net income (US$ billion)

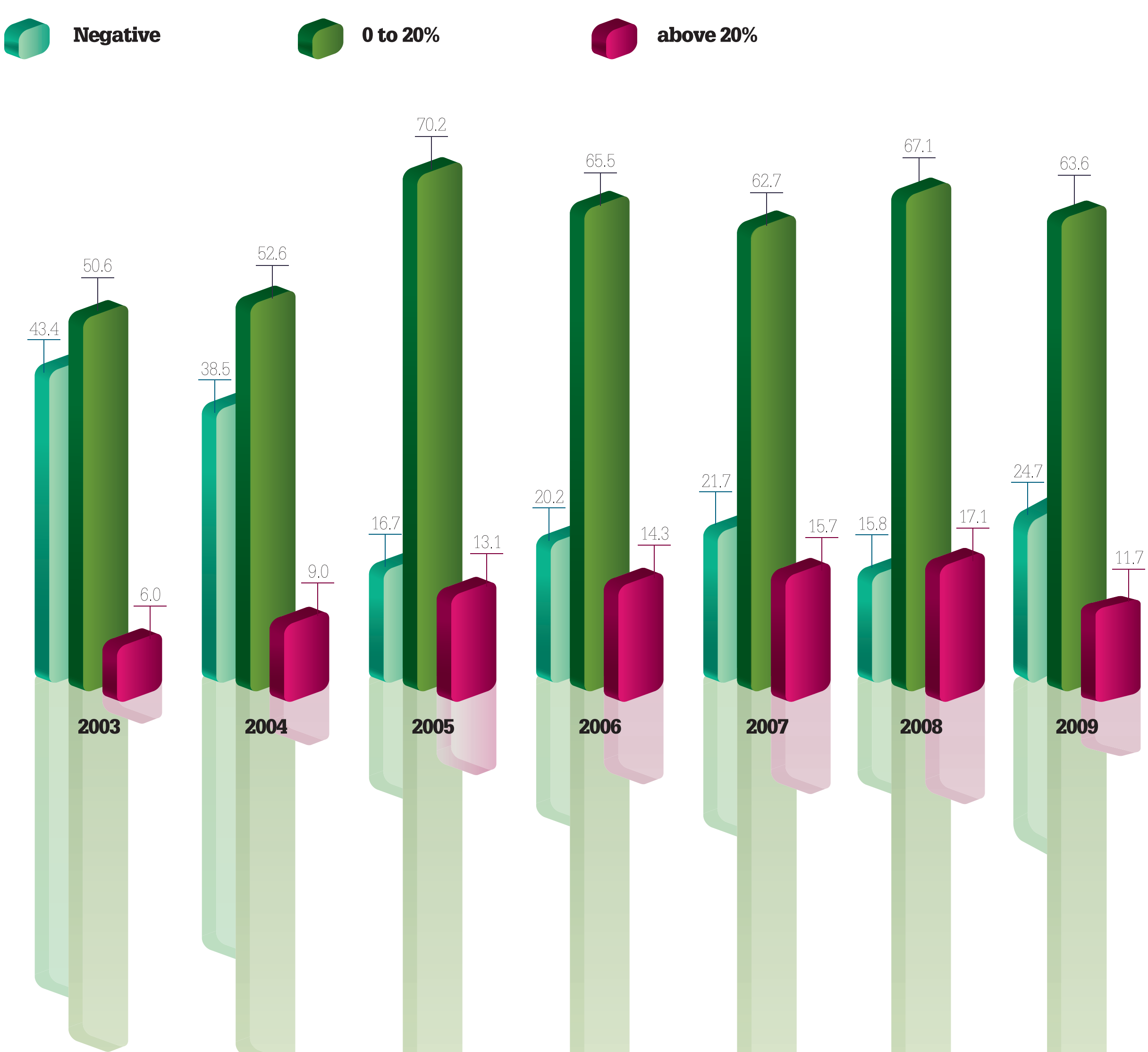


have access to fixed broadband networks.

But there is still a lot to be done, according to the entity. In fact, new governments, new ideas and new goals are on their way. In the 2010 Guarujá Letter, Telebrasil stresses: "Whoever are the new governors, they will find a more equal, fairer and more demanding country, although with increasing lack of infrastructure to meet the huge population contingent who still have insufficient education and income". Businessmen remind that the industry and the country are still waiting for structural reforms. The political and social security reforms are fundamental, but labor and tax reforms, in addition to be fundamental, cannot be postponed.

As to the always reminded legal and regulatory landmarks, apart from moments of apprehension and disappointment, it is unquestionable that Brazilian business environment was a critical factor for successes obtained. So, it is necessary to preserve this type of environment by updating the regulatory picture and the technological convergence". For the telecom sector, says Telebrasil, the convergence of networks and services, which is the basis for the evolution of the sector, can no longer wait. Rules and regulations which will make it come true have to be rapidly approved, which will foster investments. The sector insists in the need for new licenses, new frequency bands, lower taxes for the productive chain and services offering, specific and adequate financing for investment in areas of low HDI (human development index) and, of course, the application of legally constituted sector funds to offer services in destitute or frontier regions.

Margin on net sales (% of companies)



Telecom business.

revenues and market share

Hardware and Software	Net Revenue (thousands of US$)	Share (%)
Handsets and Terminals	3.504.401,93	44,46
Mobile Systems	1.897.178,63	24,07
Access Networks	1.028.823,18	13,05
Private Networks	351.101,07	4,45
Infrastructure	343.198,29	4,35
Cables	304.627,89	3,87
Public Switching	208.149,54	2,64
Components	108.293,92	1,37
Software	79.516,93	1,01
Trunking and Pay TV Systems	30.179,45	0,38
Other Products	17.439,99	0,22
Instrumentation	6.175,86	0,08
Supplies and Acessories	2.574,80	0,03
Subtotal	7.881.661,47	100,00

Services	Net Revenue (thousands of US$)	Share (%)
Cellular	26.202.643,58	43,03
PTTs	18.984.468,07	31,18
Internet/Access	4.745.399,75	7,79
Data Communications	3.088.083,08	5,07
Value added	2.440.755,63	4,01
Pay TV	2.226.604,13	3,66
Network Management	1.448.748,48	2,38
Networking	561.793,33	0,92
Integration	298.104,40	0,49
Application Development	273.104,99	0,45
Consultancy, Project and Training	220.721,64	0,36
Internet/Services	210.627,19	0,35
Other services	96.246,69	0,16
Trunking	56.806,33	0,09
VoIP	38.344,68	0,06
Subtotal	60.892.451,97	100,00
Total	68.774.113,44	