

BRASIL TELECOM SA
Form 6-K
February 13, 2004

BRT03: R\$13.10 / 1,000 shares
BRT04: R\$16,49 / 1,000 shares
BTM: US\$16,70 / ADR
Market Value: R\$8,144 million
Closing Price: February 11, 2004

Brasil Telecom S.A.

Consolidated Earnings Release

4th Quarter of 2003
Non-audited

Brasília, February 12, 2004.

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FOCUS ON THE QUARTER

Increase of 17.8% in the ADSL accesses in service

Focus on the Quarter

Increase of 17.8% in the ADSL accesses in service

Data communication revenue 15.3% higher

Decrease of 4.5% in the Gross Accounts Receivable

Net debt (ex-interco with BRP) 26.7% lower

Free cash flow of R\$502.5 million

EBITDA of R\$943.6 million, not considering the non-recurring items

EBITDA margin of 45.5%, not considering the non-recurring items

Total CAPEX of R\$398.9 million, a decrease of 50.9% in relation to 4Q02

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Highlights

Brasilia, February 12, 2004 **Brasil Telecom S.A. (NYSE: BTM; BOVESPA: BRTO3/BRTO4)** announces its consolidated results for the fourth quarter of 2003 (4Q03).

Anatel approved the **Brasil Telecom targets certification** on January 15, 2004. On January 20, 2004, the Company made public the intention to exercise the call option on MetroRed and Vant. On the 22 nd , following the publication of the amendment to the concession agreements in the Federal Official Journal, Brasil Telecom began to offer inter-regional and international long-distance services.

With the targets certification, Brasil Telecom is also able to launch its mobile operation, which coverage already reaches more than 50% of the metropolitan areas of all Region II capital cities.

Operating Performance

The **installed plant** of Brasil Telecom reached 10,686 thousand lines, an increase of 0.1% and 1.3% in relation to 3Q03 and 4Q02, respectively.

The **plant in service** achieved 9,851 thousand lines, 0.4% and 4.1% above the amount registered in the 3Q03 and 4Q02, respectively.

The 42 thousand lines in service added in the quarter contributed to the **utilization rate** growth, which reached 92.2% at the end of December, 0.3 p.p. and 2.4 p.p. above the amount registered in 3Q03 and 4Q02, respectively.

At the end of 4Q03, Brasil Telecom reached 281.9 thousand **ADSL accesses in service** , representing a growth of 17.8% and 100.4% in relation to 3Q03 and 4Q02, respectively.

Productivity Ratio stood at 1,873 LIS/employee at the end of 4Q03, against 1,861 in 3Q03. The higher productivity ratio was due to a 0.4% increase in the plant in service combined with a net reduction of 13 employees in 4Q03.

The **local traffic** remained stable in relation to 3Q03 and **DLD traffic** grew 2.0% at the same comparison, before excluding the identified frauds.

Brasil Telecom launched **BrTurbo Asas** , a Wi-Fi technology service that allows high speed Internet access through a wireless network.

Financial Performance

Net revenue in 4Q03 reached R\$2,073.2 million, a growth of 1.0% and 10.6% in relation to the one observed in 3Q03 and 4Q02, respectively.

Net revenue/Average LIS /month in 4Q03 reached R\$70.3, against R\$70,0 in 3Q03.

Revenue from data communication in 4Q03 reached R\$220.4 million, 15.3% and 57.3% above the amount registered in 3Q03 and 4Q02, respectively.

EBITDA of R\$943.6 million in 4Q03, not considering the non-recurring items. Thus, **EBITDA margin** would be 45.5%.

Considering the non-recurring items, **EBITDA** in the 4Q03 was R\$578.6 million and EBITDA margin was 27.9%.

Focus on 12 Months

Increase of 100.4% in the ADSL accesses in service

Net Revenue of 2003 grows 11.9%, reaching R\$7.9 billion

Data communication revenue 51.9% higher

EBITDA of R\$3,679.0 million, not considering the non-recurring items

EBIT of R\$1,231.6 million

Net debt (ex-interco with BRP) is 21.6% lower

Capex in fixed telephony of R\$1.3 billion, a reduction of 32,8% in relation to 2002

Free cash flow of R\$835.4 million in 2003

Average debt cost of 78.5% of CDI, or 18.3% a.a.

EBITDA of R\$3,679.0 million in 2003, not considering the non-recurring items. **EBITDA margin would be 46.5% at the year**. Brasil Telecom **hedged** 58.4% of the debt pegged to exchange variations.

Considering the non-recurring items related to 4Q03, EBITDA of 2003 was R\$3,314.0 million.

Due to the **credit recovery campaign**, R\$26.2 million was recovered in 4Q03, against R\$18.1 million in 3Q03.

The accumulated **debt cost** in 2003 is 18.3% or 78.5% of Interbank Domestic Rate for the period.

The **financial result** in 4Q03 registered an improvement of R\$13.4 million in relation to 3Q03.

In 4Q03, Brasil Telecom generated a positive **operating cash flow** of R\$977.8 million, against R\$814.1 million in 3Q03.

Net Debt

| Debt BTM (R\$ Million) | Dec 2002 | Sep 2003 | Dec 2003 | Δ Quarter | Δ Year |
|---|----------------|----------------|----------------|---------------|---------------|
| Total Debt | 5,081.8 | 4,798.1 | 4,635.8 | -3.4% | -8.8% |
| (-) Cash | 1,422.9 | 1,138.4 | 1,465.8 | 28.8% | 3.0% |
| (-) Inter Company with BRP | 1,525.3 | 1,379.6 | 1,497.8 | 8.6% | -1.8% |
| Net Debt Ex-Inter Company with BRP | 2,133.6 | 2,280.2 | 1,672.2 | -26.7% | -21.6% |

Consolidated net debt (excluding interco and debentures with the holding company) was reduced to R\$1,672.2 million by the end of December.

The **consolidated net debt / shareholder's equity** ratio of the Company was 25.1% at the end of 4Q03, against 30.6% at the end of 4Q02.

The **dollar-denominated debt** represented 5.3% of the total debt, totaling R\$245.6 million at the end of 4Q03, including the hedge adjustment.

Free cash flow in the year, taking into account the operating cash flow, excluding investment cash flow and paid interest, was positive at R\$835.4 million, an increase of 70.6% in relation to 2002.

Excluding the amount disbursed in Globenet, MetroRed and iBest acquisitions, the **free cash flow** would be R\$1,097.1 million.

Financial Indicators

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| Financial Indicators | 4Q02 | 3Q03 | 4Q03 | Δ Quarter | Δ 12 Months |
|---|---------|---------|---------|-----------|-------------|
| EBITDA / Interest Expenses | 5.56 | 4.30 | 5.35 | 24.5% | -3.7% |
| Net Debt / EBITDA (x4) | 0.58 | 0.58 | 0.45 | -21.7% | -21.7% |
| Total Debt / (EBITDA + Financial Income) (x4) | 1.30 | 1.19 | 1.12 | -5.7% | -13.9% |
| EBITDA (x4) / Lines in Service | R\$ 391 | R\$ 393 | R\$ 390 | -0.8% | -0.4% |
| EBITDA (x4) / Employees (thousand) | R\$ 665 | R\$ 731 | R\$ 730 | -0.2% | 9.7% |

* EBITDA without effects of non-recurrent itens

Consolidated Income Statement**Table 1 : Consolidated Income Statement**

| R\$ Million | 4Q02 | 3Q03 | 4Q03 | Δ Quarter | Δ12 Months | 12M02 | 12M03 | Δ Year |
|---|----------------|------------------|------------------|---------------|---------------|------------------|------------------|---------------|
| GROSS REVENUES | 2,619.3 | 2,877.1 | 2,899.8 | 0.8% | 10.7% | 9,839.7 | 11,077.4 | 12.6% |
| Local Service | 1,108.5 | 1,180.8 | 1,165.7 | -1.3% | 5.2% | 4,121.1 | 4,442.5 | 7.8% |
| Public Telephony | 87.0 | 92.3 | 115.4 | 25.0% | 32.6% | 341.8 | 394.5 | 15.4% |
| Long Distance Service | 339.8 | 391.0 | 377.1 | -3.5% | 11.0% | 1,363.7 | 1,450.5 | 6.4% |
| Fixed-Mobile Calls | 576.0 | 643.9 | 613.9 | -4.7% | 6.6% | 2,169.1 | 2,536.0 | 16.9% |
| Interconnection | 221.8 | 203.9 | 215.7 | 5.8% | -2.7% | 785.8 | 835.3 | 6.3% |
| Lease of Means | 54.8 | 51.8 | 60.9 | 17.6% | 11.1% | 235.5 | 215.5 | -8.5% |
| Data Communication | 140.1 | 191.1 | 220.4 | 15.3% | 57.3% | 503.1 | 764.1 | 51.9% |
| Supplementary and Value Added Services | 82.7 | 95.8 | 91.0 | -5.0% | 10.1% | 286.6 | 348.2 | 21.5% |
| Other | 8.7 | 26.6 | 39.6 | 48.9% | 356.8% | 33.2 | 90.9 | 173.9% |
| Deductions | (745.4) | (823.7) | (826.6) | 0.4% | 10.9% | (2,768.3) | (3,162.2) | 14.2% |
| NET REVENUES | 1,873.9 | 2,053.4 | 2,073.2 | 1.0% | 10.6% | 7,071.4 | 7,915.2 | 11.9% |
| COSTS & OPERATING EXPENSES | (948.3) | (1,090.2) | (1,494.5) | 37.1% | 57.6% | (3,718.2) | (4,601.2) | 23.7% |
| Personnel | (85.7) | (96.1) | (144.6) | 50.4% | 68.6% | (396.0) | (429.8) | 8.6% |
| Materials | (20.6) | (22.3) | (24.6) | 10.4% | 19.3% | (85.3) | (89.7) | 5.2% |
| Subcontracted Services | (300.7) | (328.3) | (363.6) | 10.7% | 20.9% | (1,122.7) | (1,288.9) | 14.8% |
| Interconnection | (406.4) | (455.6) | (461.3) | 1.2% | 13.5% | (1,526.5) | (1,772.1) | 16.1% |
| Advertising and Marketing | (26.0) | (28.5) | (28.3) | -0.8% | 8.8% | (117.6) | (85.5) | -27.3% |
| Provisions and Losses | (56.2) | (85.2) | (410.4) | 381.4% | N.A. | (292.7) | (657.8) | 124.7% |
| Other | (52.7) | (74.2) | (61.8) | -16.7% | 17.3% | (174.3) | (277.4) | 59.2% |
| EBITDA | 925.7 | 963.2 | 578.6 | -39.9% | -37.5% | 3,353.2 | 3,314.0 | -1.2% |
| Depreciation and Amortization | (520.6) | (530.0) | (505.2) | -4.7% | -2.9% | (2,002.7) | (2,082.4) | 4.0% |
| OPERATING PROFIT BEFORE FINANCIAL RESULT | 405.1 | 433.2 | 73.4 | -83.1% | -81.9% | 1,350.5 | 1,231.6 | -8.8% |
| Financial Result | (226.5) | (211.7) | (198.3) | -6.4% | -12.5% | (943.5) | (1,091.0) | 15.6% |
| Financial Revenues | 50.9 | 46.7 | 74.9 | 60.5% | 47.1% | 201.6 | 288.4 | 43.0% |
| Financial Expenses | (187.4) | (258.4) | (273.1) | 5.7% | 45.7% | (820.5) | (1,133.2) | 38.1% |
| Interest on Shareholders' Equity | (90.0) | - | - | N.A. | N.A. | (324.7) | (246.2) | -24.2% |
| OPERATING PROFIT AFTER FINANCIAL RESULT | 178.6 | 221.5 | (124.9) | N.A. | N.A. | 407.0 | 140.6 | -65.5% |
| Non-Operating Revenues (Expenses) | (33.0) | (30.2) | (360.5) | N.A. | N.A. | (138.7) | (469.0) | 238.1% |
| Goodwill Amortization - CRT Acquisition | (31.0) | (31.0) | (31.0) | 0.0% | 0.0% | (124.0) | (124.0) | 0.0% |
| Other | (2.0) | 0.8 | (329.5) | N.A. | N.A. | (14.7) | (345.0) | N.A. |
| EARNINGS BEFORE INCOME AND SOCIAL | 145.6 | 191.3 | (485.4) | N.A. | N.A. | 268.3 | (328.5) | N.A. |

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CONTRIBUTION TAXES

| | | | | | | | | |
|--|--------------|--------------|----------------|-------------|-------------|--------------|----------------|---------------|
| Income and Social Contribution Taxes | (41.6) | (78.8) | 140.3 | N.A. | N.A. | (111.4) | 58.0 | N.A. |
| EARNINGS BEFORE PROFIT SHARING | 104.0 | 112.5 | (345.1) | N.A. | N.A. | 156.9 | (270.4) | N.A. |
| Profit Sharing | (12.7) | (14.0) | 33.9 | N.A. | N.A. | (41.4) | (1.1) | -97.4% |
| EARNINGS BEFORE REVERSION OF INTEREST ON SHAREHOLDERS' EQUITY | 91.2 | 98.5 | (311.2) | N.A. | N.A. | 115.5 | (271.5) | N.A. |
| Reversion of Interest on Shareholders' Equity | 90.0 | - | - | N.A. | N.A. | 324.7 | 246.2 | -24.2% |
| NET EARNINGS (LOSSES) | 181.2 | 98.5 | (311.2) | N.A. | N.A. | 440.1 | (25.3) | N.A. |
| Goodwill Amortization - CRT Acquisition | 31.0 | 31.0 | 31.0 | 0.0% | 0.0% | 124.0 | 124.0 | 0.0% |
| NET EARNINGS (LOSSES) ADJUSTED BY GOODWILL AMORTIZATION | 212.2 | 129.5 | (280.2) | N.A. | N.A. | 564.1 | 98.7 | -82.5% |
| Net Earnings (Losses)/1,000 shares - R\$ | 0.3361 | 0.1806 | (0.5709) | N.A. | N.A. | 0.8163 | (0.0464) | N.A. |
| Net Earnings (Losses)/ADR - US\$ | 0.2849 | 0.1854 | (0.5928) | N.A. | N.A. | 0.6918 | (0.0482) | N.A. |

Operating Performance

Plant

Table 2 : Plant

| PLANT | 4Q02 | 3Q03 | 4Q03 | Δ Quarter | Δ 12 Months |
|--|---------------|---------------|---------------|-------------|-------------|
| Lines Installed (Thousand) | 10,548 | 10,678 | 10,686 | 0.1% | 1.3% |
| Additional Lines Installed (Thousand) | 4 | 22 | 9 | -58.7% | 137.9% |
| Lines in Service - LIS (Thousand) | 9,465 | 9,809 | 9,851 | 0.4% | 4.1% |
| Residential | 6,862 | 7,168 | 7,166 | 0.0% | 4.4% |
| Non-Residential | 1,540 | 1,567 | 1,566 | -0.1% | 1.7% |
| Public Telephones | 293 | 297 | 296 | - | 1.0% |
| Pre-paid | 206 | 232 | 266 | 15.1% | 29.3% |
| Other (including PBX) | 564 | 544 | 546 | 0.2% | -3.3% |

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|---|--------------|--------------|--------------|-----------------|-----------------|
| Additional LIS (Thousand) | 237 | 68 | 42 | -38.8% | -82.4% |
| Average LIS (Thousand) | 9,347 | 9,775 | 9,830 | 0.6% | 5.2% |
| LIS/100 Inhabitants | 23 | 23 | 23 | -0.1% | 1.5% |
| Public Telephones/1,000 Inhabitants | 7 | 7 | 7 | -0.6% | -1.4% |
| Public Telephones/100 Lines Installed | 3 | 3 | 3 | -0.2% | -0.3% |
| Utilization Rate | 89.7% | 91.9% | 92.2% | 0.3 p.p. | 2.4 p.p. |
| Digitization Rate | 99.0% | 99.0% | 99.0% | 0.1 p.p. | 0.2 p.p. |
| ADSL Lines in Service (Thousand) | 141 | 239 | 282 | 17.8% | 100.4% |

Lines Installed

In 4Q03, Brasil Telecom installed 8.9 thousand lines, ending the year with 10.7 million terminals . In relation to 4Q02, the plant registered an increase of 138.5 thousand lines.

Graph 1 : Plant Evolution

Lines in Service

Plant in service totaled 9.9 million lines in 2003 , due to the addition of 385.7 thousand lines in the year, representing a growth of 4.1% during 2003. The addition of residential lines accounted for 78.8% of this total amount. Pre-paid lines increased by 29.3% in the year.

During the quarter, Brasil Telecom continued with its policy of not disconnecting defaulting customers at switching centers with idle capacity.

Utilization Rate

The utilization rate stood at 92.2% in 4Q03, against 89.7% in 4Q02 , resulting from the growth of 1.3% in the plant installed, combined with an increase of 4.1% in the plant in service.

ADSL

Brasil Telecom doubled its ADSL accesses in service in just the year , reaching 281.9 thousand accesses at the end of 2003.

In December 2003, average gross revenue per subscriber reached R\$94.0 , a 26% growth in relation to the rate registered in December 2002. This growth was a result of the incentive to sell

accesses with greater speeds, migration of plans and the tariff adjustment of June.

Graph 2 : ADSL Accesses

Targets

Quality Targets

In 4Q03, Brasil Telecom accomplished all of the quality goals predicted in the General Plan of Quality Targets established by Anatel in relation to the offering of switched fixed telephony service, in long-distance and local segments.

Universalization Targets

At a meeting held by Anatel's Board of Directors on January 14 and 15, 2004, Brasil Telecom received approval for the achievement of the universalization targets . At the same occasion, Brasil Telecom received authorization to:

1. provide local and DLD fixed telephone services in Regions I (Telemar's Region) and III (Telefonica's Region), as well as in the sectors 20, 22 and 25 of Region II, corresponding to the operation areas of the concessionaries Sercomtel (Londrina, PR) and CTBC Telecom (partial territories of São Paulo, Minas Gerais, Goiás and Mato Grosso do Sul states);
2. provide international long distance (ILD) fixed telephone service in Regions I, II and III of the General Concession Plan;
3. originate DLD calls, through Amendment to the Concession Contracts, to any place within the Brazilian territory;
Regarding the PCS, Anatel authorized Brasil Telecom to use radio frequency for its mobile operation.

Traffic

Table 3 : Traffic

| TRAFFIC | 4Q02 | 3Q03 | 4Q03 | Δ Quarter | Δ 12 Months |
|----------------------------------|---------|---------|---------|-----------|-------------|
| Exceeding Local Pulses (Million) | 3,255.6 | 3,098.9 | 2,927.4 | -5.5% | -10.1% |

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|---|----------------|----------------|----------------|--------------|---------------|
| Domestic Long Distance Minutes (Million) | 1,755.9 | 1,709.4 | 1,559.4 | -8.8% | -11.2% |
| Fixed-Mobile Minutes (Million) | 1,142.9 | 978.5 | 991.0 | 1.3% | -13.3% |
| Exceeding Pulses/Average LIS/Month | 116.1 | 105.7 | 99.3 | -6.1% | -14.5% |
| DLD Minutes/Average LIS/Month | 62.6 | 58.3 | 52.9 | -9.3% | -15.6% |
| Fixed-Mobile Minutes/Average LIS/Month | 40.8 | 33.4 | 33.6 | 0.7% | -17.6% |

Exceeding Local Pulses

Billed local traffic remained stable in comparison to 3Q03. However, due to the ongoing improvement of the ascertainment revenue process and to the implementation of tools aiming at fraud's detection and elimination, the Company has been carrying out, in a more promptly way, the interruption of that traffic and not considering that in revenues anymore. Due to these measures, local traffic registered a 5.5% drop.

Domestic Long-Distance Traffic

In 4Q03, **DLD traffic** grew 2.0% in relation to the previous quarter, before excluding the effects of the identified frauds.

DLD Market Share

The DLD market share of Brasil Telecom in the intra-sector segment reached 89.4% in 4Q03, while in the intra-regional segment Brasil Telecom registered 76.0%.

Graph 3 : DLD Market Share

Fixed-Mobile Traffic

Fixed-Mobile traffic grew 3.1% in 4Q03 , before excluding the effects of the identified frauds. After this effect fixed-mobile traffic totaled 1.0 billion minutes in 4Q03, out of which 91.7% refers to VC-1 calls, 6.7% to VC-2 calls and 1.6% to VC-3 calls.

Tariffs

Recent Higher Justice Court Decision keeps IPCA Adjustment The recent decision of Higher Justice Court in relation to the rate readjustment did not alter the current situation in relation to the percentages granted and applied on June 29, 2003. It is worth mentioning that the merit of the question has not yet been judged.

Fixed-Mobile Adjustment Anatel released, on February 09, 2004, the authorized fixed-mobile tariff adjustments. The average adjustments were 6.99% and 9.17% for VC and VU-M, respectively.

Subsidiaries

Brasil Telecom Celular In 2003, the main platforms which will be used for the mobile service operation , with emphasis on the prepaid service, voice mail, short messages (SMS), multimedia messages (MMS), data services (WAP, OTA, Middleware) and anti-fraud platforms were defined and contracted.

Brasil Telecom Celular already counts on 146 installed Base Transceiver Stations - BTS, which assures the coverage of more than 50% of the metropolitan area in the ten capital cities of Region II , well over the amount required by Anatel. The minimum coverage required was of at least 50% of the metropolitan area in at least six capital cities in Region II, since there are no cities in the region with more than 500 thousand inhabitants.

The detailing of the mobile strategy was concluded and the bases of the launching offers aimed at attracting and maintaining the clients were outlined. In this stage, innovative and isonomic offers related to the synergy existing between the fixed and mobile operations were enhanced. **The first test performed was an offer extended to the employees of Brasil Telecom and their appointees** , which were able to acquire accesses with special financing conditions. **The offer was successful considering that 11,000 people showed an interest in acquiring postpaid accesses from Brasil Telecom Celular .**

Financial Performance

Revenue

Table 4 : Consolidated Operating Gross Revenues

| R\$ Million | 4Q02 | 3Q03 | 4Q03 | Δ Quarter | Δ 12 Months | 12M02 | 12M03 | Δ Year |
|------------------------------|----------------|----------------|----------------|--------------|--------------|----------------|-----------------|--------------|
| GROSS REVENUES | 2,619.3 | 2,877.1 | 2,899.8 | 0.8% | 10.7% | 9,839.7 | 11,077.4 | 12.6% |
| Local Service | 1,108.5 | 1,180.8 | 1,165.7 | -1.3% | 5.2% | 4,121.1 | 4,442.5 | 7.8% |
| Installation | 6.0 | 12.9 | 8.9 | -31.2% | 48.8% | 32.6 | 35.5 | 8.9% |
| Basic Subscription | 727.7 | 749.5 | 748.6 | -0.1% | 2.9% | 2,656.6 | 2,867.2 | 7.9% |
| Measured Service | 345.9 | 388.5 | 378.7 | -2.5% | 9.5% | 1,314.8 | 1,427.2 | 8.5% |
| Lease of Lines | 0.8 | 0.6 | 0.6 | 5.3% | -21.3% | 5.2 | 2.2 | -57.3% |
| Other | 28.2 | 29.3 | 29.0 | -1.2% | 2.8% | 111.8 | 110.3 | -1.4% |
| Public Telephony | 87.0 | 92.3 | 115.4 | 25.0% | 32.6% | 341.8 | 394.5 | 15.4% |
| Long Distance Service | 339.8 | 391.0 | 377.1 | -3.5% | 11.0% | 1,363.7 | 1,450.5 | 6.4% |
| Intra-Sector | 256.6 | 295.3 | 281.6 | -4.6% | 9.8% | 1,029.0 | 1,088.3 | 5.8% |
| Intra-Region | 83.1 | 95.5 | 95.3 | -0.2% | 14.7% | 334.1 | 361.7 | 8.3% |
| Borderline | 0.1 | 0.1 | 0.1 | -0.9% | 1.0% | 0.6 | 0.6 | -5.3% |
| Fixed-Mobile Calls | 576.0 | 643.9 | 613.9 | -4.7% | 6.6% | 2,169.1 | 2,536.0 | 16.9% |
| VC-1 | 464.2 | 516.2 | 525.8 | 1.9% | 13.3% | 1,791.8 | 2,062.8 | 15.1% |
| VC-2 | 99.0 | 105.4 | 69.5 | -34.1% | -29.8% | 331.6 | 399.9 | 20.6% |
| VC-3 | 12.8 | 22.4 | 18.6 | -16.9% | 44.9% | 45.7 | 73.2 | 60.1% |

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| | | | | | | | | |
|---|----------------|----------------|----------------|--------------|---------------|----------------|----------------|---------------|
| Interconnection | 221.8 | 203.9 | 215.7 | 5.8% | -2.7% | 785.8 | 835.3 | 6.3% |
| Fixed-Fixed | 169.0 | 150.6 | 151.3 | 0.4% | -10.5% | 604.5 | 607.1 | 0.4% |
| Mobile-Fixed | 52.8 | 53.2 | 64.5 | 21.1% | 22.1% | 181.3 | 228.2 | 25.9% |
| Lease of Means | 54.8 | 51.8 | 60.9 | 17.6% | 11.1% | 235.5 | 215.5 | -8.5% |
| Data Communication | 140.1 | 191.1 | 220.4 | 15.3% | 57.3% | 503.1 | 764.1 | 51.9% |
| Supplementary and Value Added Services | 82.7 | 95.8 | 91.0 | -5.0% | 10.1% | 286.6 | 348.2 | 21.5% |
| Other | 8.7 | 26.6 | 39.6 | 48.9% | 356.8% | 33.2 | 90.9 | 173.9% |
| Deductions | (745.4) | (823.7) | (826.6) | 0.4% | 10.9% | (2,768.3) | (3,162.2) | 14.2% |
| NET REVENUES | 1,873.9 | 2,053.4 | 2,073.2 | 1.0% | 10.6% | 7,071.4 | 7,915.2 | 11.9% |

Graph 4 : Gross Revenue Breakdown

3Q03
R\$2,877 million

4Q03
R\$2,900 million

Local Service

Gross revenue from local service reached R\$1,165.7 million in 4Q03, a 5.2% increase in relation to 4Q02, basically accompanied by the growth of the average plant in service during the period.

Gross revenue from activation fee totaled R\$8.9 million in 4Q03, 48.8% more than the amount registered in 4Q02. This performance is a result of the 480.1 thousand lines activated in the quarter, of which 30% were benefited with promotions.

Gross revenue from basic subscription reached R\$748.6 million in the quarter, a growth of 2.9% in comparison to R\$727.7 million in 4Q02. This variation can be explained by a 5.2% increase in the average lines in service, compensated by the greater presence of alternative plans.

Gross revenue from measured service totaled R\$378.7 million in the 4Q03, an increase of 9.5% in relation to 4Q02, basically due to the tariff readjustment, offset by the effect of frauds.

Public Telephony

Gross revenue from public telephony reached R\$115.4 million in 4Q03, a 25.0% increase in comparison to 3Q03.

In spite of the stability in card sales for public phones, there was a higher credit usage in Brasil Telecom concession area and a CSC 14 supremacy in long distance calls originated in public telephones.

Domestic Long Distance

Gross revenue from DLD reached R\$377.1 million in 4Q03, representing an increase of 11.0% in comparison with 4Q02 due to the tariff readjustment.

Inter-Networks

Gross revenue from fixed-mobile calls reached R\$613.9 million in 4Q03, a 6.6% increase in relation to 4Q02, explained by the tariff readjustment, partially offset by traffic reduction.

The operation of CSC 14 in the calls originated from cell phones contributed with revenue of R\$37.4 million in 4Q03, against R\$42.0 million in 3Q03.

Interconnection

In 4Q03, gross revenue from interconnection grew 5.8% in comparison with 3Q03, performance explained by the 21.1% increase in mobile-fixed calls. The mobile plant in Region II grew 14.6% in 4Q03, jumping from 11.3 million accesses in September to 13.0 million accesses in December of 2003.

Data Communication

In 4Q03, gross revenue from data communication registered a 15.3% increase, reaching R\$220.4 million.

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The following trends were registered in the quarter:

Growth of 17.8% in the number of ADSL accesses in service;
Growth of 8.8% in the number of billed IP dedicated accesses; and
Growth of 5.4% in the number of billed Frame-Relay accesses.

A year ago, gross revenue from data communication represented 5.4% of total revenue, while in 4Q03 the segment started to represent 7.6% of total gross revenue.

Graph 5: Revenues from Data Communication

Supplementary and Value-Added Services

Gross revenue from supplementary and value-added services increased 10.1% in 4Q03, in comparison with 4Q02, totaling R\$91.0 million.

In December 2003 there was 5.7 million activated intelligent services, against 4.1 million in December 2002.

Other Revenues

In 4Q03, other revenues reached R\$39.6 million, **a growth of 356.8% in relation to 4Q02**, mainly derived from the services offered by iBest and Globenet.

Gross Revenue Deductions

Gross revenue deductions registered R\$826.6 million in the 4Q03, representing 28.5% of gross revenue in the quarter, against 28.6% in the 3Q03.

Net Revenue/Avg LIS/month

Net operating revenue/Average LIS/month registered in the 4Q03 was R\$70.3, against R\$70.0 in the 3Q03.

Costs and Expenses

Table5: Consolidated Operating Costs and Expenses

| R\$ Million | 4Q02 | 3Q03 | 4Q03 | Δ Quarter | Δ12 Months |
|--|------------------|------------------|------------------|------------------|-------------------|
| NET REVENUES | 1,873.9 | 2,053.4 | 2,073.2 | 1.0% | 10.6% |
| Costs | (1,151.6) | (1,226.7) | (1,242.4) | 1.3% | 7.9% |
| Personnel | (26.2) | (29.8) | (42.0) | 41.1% | 60.5% |
| Materials | (18.4) | (20.4) | (23.2) | 13.7% | 25.9% |
| Subcontracted Services | (547.6) | (605.5) | (623.9) | 3.0% | 13.9% |
| Interconnection | (406.4) | (455.6) | (461.3) | 1.2% | 13.5% |
| Other | (141.2) | (149.9) | (162.6) | 8.5% | 15.1% |
| Depreciation and Amortization | (493.6) | (487.0) | (456.6) | -6.2% | -7.5% |
| Other | (65.8) | (84.1) | (96.7) | 15.0% | 46.9% |
| GROSS PROFIT | 722.3 | 826.7 | 830.8 | 0.5% | 15.0% |
| Sales Expenses | (132.5) | (134.4) | (158.4) | 17.8% | 19.5% |
| Personnel | (29.3) | (31.6) | (44.9) | 42.4% | 53.3% |
| Materials | (0.6) | (0.8) | (0.6) | -31.1% | 0.8% |
| Subcontracted Services | (94.2) | (99.1) | (110.8) | 11.8% | 17.6% |
| Advertising and Marketing | (26.0) | (28.5) | (28.3) | -0.8% | 8.8% |
| Other | (68.2) | (70.6) | (82.5) | 16.9% | 21.0% |
| Depreciation and Amortization | (1.4) | (1.3) | (1.3) | 1.7% | -8.7% |
| Other | (7.0) | (1.7) | (0.7) | -56.2% | -89.6% |
| General and Administrative Expenses | (110.3) | (129.8) | (155.1) | 19.6% | 40.6% |
| Personnel | (25.3) | (29.0) | (47.7) | 64.5% | 88.5% |
| Materials | (1.1) | (0.7) | (0.5) | -17.0% | -51.4% |
| Subcontracted Services | (78.2) | (90.3) | (95.9) | 6.2% | 22.6% |
| Depreciation and Amortization | (3.5) | (6.1) | (7.2) | 18.3% | 105.1% |
| Other | (2.2) | (3.7) | (3.8) | 2.0% | 73.3% |
| Information Technology | (54.1) | (71.5) | (84.1) | 17.6% | 55.6% |
| Personnel | (5.0) | (5.8) | (9.9) | 72.0% | 100.5% |
| Materials | (0.5) | (0.4) | (0.3) | -25.6% | -42.0% |
| Subcontracted Services | (13.0) | (17.6) | (22.6) | 28.5% | 73.4% |
| Depreciation and Amortization | (22.0) | (35.6) | (40.1) | 12.6% | 82.3% |
| Other | (13.6) | (12.2) | (11.3) | -7.7% | -17.3% |
| Provisions and Losses | (56.2) | (85.2) | (410.4) | 381.4% | N.A. |
| Doubtful Accounts | (63.7) | (65.6) | (102.6) | 56.3% | 61.0% |
| Contingencies | 7.5 | (19.6) | (307.8) | N.A. | N.A. |
| Other Operating Revenues (Expenses) | 35.9 | 27.4 | 50.6 | 84.5% | 41.1% |
| OPERATING PROFIT BEFORE FINANCIAL RESULTS | 405.1 | 433.2 | 73.4 | -83.1% | -81.9% |
| R\$ Million | 4Q02 | 3Q03 | 4Q03 | Δ Quarter | Δ12 Months |
| COSTS AND OPERATING EXPENSES | (1,468.8) | (1,620.3) | (1,999.8) | 23.4% | 36.1% |
| Depreciation and Amortization | (520.6) | (530.0) | (505.2) | -4.7% | -2.9% |
| Interconnection | (406.4) | (455.6) | (461.3) | 1.2% | 13.5% |

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| | | | | | |
|---------------------------|---------|---------|---------|--------|-------|
| Subcontracted Services | (300.7) | (328.3) | (363.6) | 10.7% | 20.9% |
| Personnel | (85.7) | (96.1) | (144.6) | 50.4% | 68.6% |
| Provisions and Losses | (56.2) | (85.2) | (410.4) | 381.4% | N.A. |
| Materials | (20.6) | (22.3) | (24.6) | 10.4% | 19.3% |
| Advertising and Marketing | (26.0) | (28.5) | (28.3) | -0.8% | 8.8% |
| Other | (52.7) | (74.2) | (61.8) | -16.7% | 17.3% |

| R\$ Million | 4Q02 | 3Q03 | 4Q03 | Δ Quarter | Δ12 Months |
|-----------------------------------|-----------|-----------|-----------|-----------|------------|
| COSTS AND OPERATING EXPENSES | (1,468.8) | (1,620.3) | (1,999.8) | 23.4% | 36.1% |
| (+) Depreciation and Amortization | 520.6 | 530.0 | 505.2 | -4.7% | -2.9% |
| (+) Provisions and Losses | 56.2 | 85.2 | 410.4 | 381.4% | N.A. |
| (=) CASH COST | (892.1) | (1,005.0) | (1,084.2) | 7.9% | 21.5% |

Graph 6: Operating Costs and Expenses Breakdown (Excluding Depreciation, Provisions and Losses)

3Q03

R\$1,005 million

4Q03

R\$1,084 million

Operating Costs and Expenses

Operating costs and expenses totaled R\$1,999.8 million in 4Q03, against R\$1,620.3 million in the previous quarter.

Cash cost (operating costs and expenses excluding depreciation, amortization, provisions and losses) was R\$1,084.2 million in 4Q03.

Net reduction of 13 employees in the quarter

At the end of 4Q03, 5,259 employees were working for Brasil Telecom, against 5,272 in the previous quarter. This reduction is a result of the 130 admissions and 165 dismissals which occurred in the period. In addition, 22 employees of Globenet became employees of Brasil Telecom.

Personnel

Costs and expenses with personnel reached R\$144.6 million, due to a change in the profit sharing accounting, reclassified as an operating disbursement.

Excluding the effect of the profit sharing change, the costs and expenses with personnel would have been R\$98.3 million, stable in relation to 3Q03.

Productivity

Brasil Telecom reached a productivity ratio of 1,873 LIS/employee in 4Q03, representing an increase of 0.7% in relation to the presented in 3Q03.

Graph 7: LIS/Employee

Subcontracted services

The costs and expenses for third party services, excluding interconnection and advertising & marketing, **totaled R\$363.6 million in 4Q03**.

The R\$35.3 million increase in comparison to 3Q03 can basically be explained by higher expenses with: (i) software maintenance; (ii) collection services due to the loss recovery program performed in the quarter; (iii)

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utilities costs; (iv) maintenance of the data processing plant and equipment; and (v) readjustments related to call center contracts.

Interconnection

Interconnection costs totaled R\$461.3 million in 4Q03, stable in relation to the previous quarter.

Expenses with Advertisement and Marketing

Expenses with advertising and marketing totaled R\$28.3 million in 4Q03, 0.8% lower in comparison to the previous period.

Losses with Accounts Receivable

The ratio of Losses with Accounts Receivable with gross revenue for 2003 was stable at 2.7%, stable in relation to 2002. Losses with Accounts Receivable totaled R\$298.0 million in 2003.

Accounts Receivable

In 4Q03, gross accounts receivable registered a reduction of R\$96.7 million in relation to 3Q03.

Net losses in 4Q03 were lower than those observed in 3Q03 due to the credit recovery campaign promoted in the last quarter. A total of R\$26.2 million was recovered in 4Q03 against R\$18.1 million in 3Q03.

With basis on the evolution of the balance for installments of accounts receivable, Brasil Telecom noticed that a few defaulting clients, in light of the economic slowdown, were not able to honor the commitments assumed. As a result, the Company increased the provisions for doubtful accounts by R\$34.9 million.

By deducting allowance for doubtful accounts worth R\$183.0 million, **Brasil Telecom's net receivable accounts totaled R\$1,859.7 million at the end of 2003.**

Graph 8: Accounts Receivable / Gross Revenue Ratio

Table 6: Gross Accounts Receivable

| | Dec/02 | Mar/03 | Jun/03 | Sep/03 | Dec/03 |
|------------------------------|----------------|----------------|----------------|----------------|----------------|
| Total (R\$ Million) | 1,696.6 | 1,890.1 | 2,033.0 | 2,139.5 | 2,042.7 |
| Due | 56.4% | 58.5% | 61.6% | 64.0% | 60.8% |
| Overdue (up to 30 days) | 19.3% | 16.1% | 14.4% | 12.9% | 14.6% |
| Overdue (between 31-60 days) | 7.1% | 7.1% | 6.1% | 7.3% | 4.7% |
| Overdue (between 61-90 days) | 4.0% | 5.0% | 3.3% | 2.4% | 3.9% |
| Overdue (over 90 days) | 13.3% | 13.3% | 14.6% | 13.5% | 11.5% |

Provision for Contingencies

In 4Q03, provisions for contingencies totaled R\$307.8 million.

According to Brasil Telecom's legal counsel opinion, **contingent liabilities were registered in 4Q03, which amounted to R\$245.5 million, related to the operations of the Rio Grande do Sul branch, former Companhia Riograndense de Telecomunicações S.A. - CRT**, due to events occurred prior to the acquisition of that company, such as labor, civil and tax proceedings, and court costs and success fees.

The appeals filed in higher courts have not reversed the scenario of such legal proceedings. Besides that, recent court decisions regarding such matters indicate the need for reviewing the risk of loss to probable .

Other Operating Costs and Expenses/Revenues

Other Operating Costs and Revenues/Expenses totaled R\$61.8 million in expenses in 4Q03, a 16.7% reduction in comparison with 3Q03.

Ebitda

Table7: EBITDA Margin Gains and Losses

| R\$ Million | 4Q02 | Vertical | 3Q03 | Vertical | 4Q03 | Vertical |
|--|----------------|---------------|------------------|---------------|------------------|---------------|
| GROSS REVENUES | 2,619.3 | 139.8% | 2,877.1 | 140.1% | 2,899.8 | 139.9% |
| Local Service | 1,108.5 | 59.2% | 1,180.8 | 57.5% | 1,165.7 | 56.2% |
| Public Telephony | 87.0 | 4.6% | 92.3 | 4.5% | 115.4 | 5.6% |
| Long Distance Service | 339.8 | 18.1% | 391.0 | 19.0% | 377.1 | 18.2% |
| Fixed-Mobile Calls | 576.0 | 30.7% | 643.9 | 31.4% | 613.9 | 29.6% |
| Interconnection | 221.8 | 11.8% | 203.9 | 9.9% | 215.7 | 10.4% |
| Lease of Means | 54.8 | 2.9% | 51.8 | 2.5% | 60.9 | 2.9% |
| Data Communication | 140.1 | 7.5% | 191.1 | 9.3% | 220.4 | 10.6% |
| Supplementary and Value Added Services | 82.7 | 4.4% | 95.8 | 4.7% | 91.0 | 4.4% |
| Other | 8.7 | 0.5% | 26.6 | 1.3% | 39.6 | 1.9% |
| Deductions | (745.4) | -39.8% | (823.7) | -40.1% | (826.6) | -39.9% |
| NET REVENUES | 1,873.9 | 100.0% | 2,053.4 | 100.0% | 2,073.2 | 100.0% |
| COSTS & OPERATING EXPENSES | (948.3) | -50.6% | (1,090.2) | -53.1% | (1,494.5) | -72.1% |
| Personnel | (85.7) | -4.6% | (96.1) | -4.7% | (144.6) | -7.0% |
| Materials | (20.6) | -1.1% | (22.3) | -1.1% | (24.6) | -1.2% |
| Subcontracted Services | (300.7) | -16.0% | (328.3) | -16.0% | (363.6) | -17.5% |
| Interconnection | (406.4) | -21.7% | (455.6) | -22.2% | (461.3) | -22.2% |
| Advertising and Marketing | (26.0) | -1.4% | (28.5) | -1.4% | (28.3) | -1.4% |
| Provisions and Losses | (56.2) | -3.0% | (85.2) | -4.2% | (410.4) | -19.8% |
| Other | (52.7) | -2.8% | (74.2) | -3.6% | (61.8) | -3.0% |
| EBITDA | 925.7 | 49.4% | 963.2 | 46.9% | 578.6 | 27.9% |

EBITDA of R\$3,679.0 million in 2003, without considering non-recurring items

EBITDA of Brasil Telecom was R\$3,679.0 million in 2003, without considering the non-recurring items. Taking these items into account, Brasil Telecom ended the year of 2003 with an EBITDA of R\$3,314.0 million.

EBITDA of 4Q03 would be R\$943,6 million, if the non-recurring items registered in 4Q03 weren't considered. Thus, EBITDA margin would have been 45.5%.

Financial Result

Table 8: Consolidated Financial Result

| R\$ million | 3Q03 | 4Q03 | Δ |
|--------------------------|----------------|----------------|-------|
| Financial Revenue | 48.9 | 78.6 | 60.7% |
| Local Currency | 52.9 | 66.9 | 26.5% |
| Foreign Currency | (4.0) | 11.7 | N.A. |
| Financial Expense | (260.6) | (276.9) | 6.2% |
| Local Currency | (263.1) | (259.7) | -1.3% |
| Foreign Currency | 2.5 | (17.2) | N.A. |

| | | | |
|-------------------------|----------------|----------------|--------------|
| Financial Result | (211.7) | (198.3) | -6.4% |
|-------------------------|----------------|----------------|--------------|

Financial Result

In 4Q03, Brasil Telecom registered a negative net financial result of R\$198.3 million, 6.4% better than the amount registered in 3Q03.

Other Items

Amortization of Reconstituted Goodwill

In 4Q03, Brasil Telecom amortized R\$31.0 million of reconstituted goodwill referent to the acquisition of CRT (without affecting the cash flow and the distribution of dividends), accounted for as non-operating expenses.

PP&E write-offs

Brasil Telecom booked property, plant & equipment write-offs related to the Rio Grande do Sul branch, former Companhia Riograndense de Telecomunicações S.A. (CRT), as a result of the physical inventory performed for transmission equipment, tools and instruments and multi-pair cables, among others, at the amount of R\$302.7 million. Other write-offs, worth R\$20.0 million, were added to this amount. These amounts do not represent any disbursement above those already made by the Company.

Net Earnings

Net loss totaled R\$311.2 million in 4Q03 (-R\$0.5709/1,000 shares). Net loss/ADR was -US\$0.5928 in 4Q03. **Net loss in 2003 was R\$25.3 million due to the non-recurring items.**

Net loss adjusted by goodwill totaled R\$280.2 million in 4Q03. **In 2003, the net earnings adjusted by goodwill was R\$98.7 million.**

Balance Sheet

Table9: Consolidated Balance Sheet

| R\$ Million | Dec/02 | Dec/03 |
|--|-----------------|-----------------|
| CURRENT ASSETS | 3,469.7 | 3,985.5 |
| Cash and Equivalents | 1,422.9 | 1,465.8 |
| Accounts Receivables (Net) | 1,542.9 | 1,859.7 |
| Deferred and Recoverable Taxes | 314.1 | 501.3 |
| Other Recoverable Amounts | 112.4 | 107.4 |
| Inventory | 23.3 | 8.0 |
| Other | 54.2 | 43.3 |
| LONG TERM ASSETS | 1,106.4 | 1,363.1 |
| Loans and Financing | 6.6 | 7.5 |
| Deferred and Recoverable Taxes | 657.7 | 736.4 |
| Other | 442.1 | 619.2 |
| PERMANENT ASSETS | 10,814.4 | 9,977.4 |
| Investment (Net) | 112.2 | 286.4 |
| Property, Plant and Equipment (Net) | 10,040.5 | 9,046.0 |
| Property, Plant and Equipment (Gross) | 24,077.2 | 22,915.0 |
| Accumulated Depreciation | (14,036.7) | (13,869.1) |
| Deferred Assets (Net) | 661.7 | 645.0 |
| TOTAL ASSETS | 15,390.5 | 15,326.0 |
| CURRENT LIABILITIES | 2,623.9 | 3,957.8 |
| Loans and Financing | 683.3 | 1,990.3 |
| Suppliers | 919.0 | 935.7 |
| Taxes and Contributions | 371.0 | 462.1 |
| Dividends Payable | 349.6 | 296.2 |
| Provisions | 95.4 | 76.5 |
| Salaries and Benefits | 44.1 | 61.6 |
| Consignment for Third Parties | 78.6 | 51.7 |
| Other | 82.9 | 83.7 |
| LONG TERM LIABILITIES | 5,792.0 | 4,693.9 |
| Loans and Financing | 4,398.5 | 2,645.6 |
| Provisions | 795.7 | 1,128.3 |
| Taxes and Contributions | 391.9 | 633.1 |
| Authorization for Services Exploration | 175.0 | 211.8 |
| Other | 30.9 | 75.1 |
| DEFERRED INCOME | 11.0 | 11.4 |

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| | | |
|-----------------------------|-----------------|-----------------|
| SHAREHOLDERS' EQUITY | 6,963.5 | 6,662.8 |
| Capital Stock | 3,335.8 | 3,373.1 |
| Capital Reserves | 1,613.3 | 1,579.8 |
| Profit Reserves | 273.2 | 273.2 |
| Retained Earnings | 1,802.0 | 1,512.3 |
| Treasury Shares | (60.8) | (75.6) |
| TOTAL LIABILITIES | 15,390.5 | 15,326.0 |

Indebtedness

Table 10: Indebtedness

| R\$ Million | Currency | Cost | Maturity | % Total | Balance Dec/03 |
|---|----------|--------------------|-------------------|---------------|----------------|
| Short Term | | | | 42.9% | 1,990.3 |
| Private Debenture (BRP) | R\$ | 100% CDI | Jul/2006 | | 498.2 |
| Inter Company (BRP) | US\$ | 1.75% p.a. | Jul/2014 | | 9.1 |
| BNDES | R\$ | TJLP + 6.5% p.a. | Dec/2007 | | 15.6 |
| BNDES | R\$ | TJLP + 3.85% p.a. | Dec/2007 | | 338.3 |
| BNDES | R\$ | TJLP + 3.85% p.a. | Oct/2007 | | 80.7 |
| BNDES | R\$ | Basket + 6.5% | Dec/2007 | | 41.2 |
| BNDES | R\$ | Basket + 3.85% | Nov/2007 | | 13.8 |
| BRDE | R\$ | IGP-M + 12.0% p.a. | Sep/2006 | | 7.5 |
| FCO | R\$ | 14% p.a. | Jan/2008 | | 5.0 |
| Public Debenture - 1 st Issuance | R\$ | 109% CDI | May/2004 | | 514.3 |
| Public Debenture - 2 nd Issuance | R\$ | 109% CDI | Dec/2004 | | 405.6 |
| Financial Institutions II | US\$ | Lib6 + 4.0% p.a. | Mar/2006 | | 12.9 |
| Financial Institutions III | US\$ | Lib6 + 2.4% p.a. | Dec/2005 | | 10.3 |
| Financial Institutions IV | US\$ | Lib6 + 0.5% p.a. | Jul/2008-Jul/2011 | | 13.5 |
| Suppliers I | US\$ | Lib3 + 2.95% p.a. | Jun/2007 | | 0.3 |
| Suppliers II | US\$ | 1.75% p.a. | Feb/2014 | | 0.2 |
| Hedge Adjustmest | | | | | 23.6 |
| Long Term | | | | 57.1% | 2,645.6 |
| Private Debenture (BRP) | R\$ | 100% CDI | Jul/2006 | | 910.0 |
| Inter Company (BRP) | US\$ | 1.75% p.a. | Jul/2014 | | 80.5 |
| BNDES | R\$ | TJLP + 6.5% p.a. | Dec/2007 | | 43.8 |
| BNDES | R\$ | TJLP + 3.85% p.a. | Dec/2007 | | 1,063.6 |
| BNDES | R\$ | TJLP + 3.85% p.a. | Oct/2007 | | 224.0 |
| BNDES | R\$ | Basket + 6.5% | Dec/2007 | | 114.8 |
| BNDES | R\$ | Basket + 3.85% | Nov/2007 | | 39.3 |
| BRDE | R\$ | IGP-M + 12.0% p.a. | Sep/2006 | | 14.2 |
| FCO | R\$ | 14% p.a. | Jan/2008 | | 15.4 |
| Financial Institutions II | US\$ | Lib6 + 4.0% p.a. | Mar/2006 | | 18.6 |
| Financial Institutions III | US\$ | Lib6 + 2.4% p.a. | Dec/2005 | | 10.3 |
| Financial Institutions IV | US\$ | Lib6 + 0.5% p.a. | Jul/2008-Jul/2011 | | 76.5 |
| Suppliers I | US\$ | Lib3 + 2.95% p.a. | Jun/2007 | | 1.5 |
| Suppliers II | US\$ | 1.75% p.a. | Feb/2014 | | 2.0 |
| Ajuste de Hedge | | | | | 31.1 |
| Total Debt | | | | 100.0% | 4,635.8 |

Total Debt

At the end of December, Brasil Telecom's total consolidated debt was R\$4.6 billion, 3.4% less than the amount registered in 3Q03.

Average Cost of Debt

Brasil Telecom's debt had an average accumulated cost for the year of 2003 of 18.3% or 78.5% of CDI (Domestic Interbank Rate).

Net Debt

Net debt totaled R\$3,170.1 million, a reduction of 13.4% in relation to September of 2003. Excluding the interco and the private debenture with the holding company, the net debt at the end of December was R\$1,672.2 million.

Table 11: Indebtedness by Currency

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| Debt BTM (R\$ Million) | Dec 2002 | Sep 2003 | Dec 2003 | Δ Quarter | Δ Year |
|---|----------------|----------------|----------------|---------------|---------------|
| Short Term | 683.3 | 1,673.4 | 1,990.3 | 18.9% | 191.3% |
| In R\$ | 552.8 | 1,524.6 | 1,865.3 | 22.4% | 237.4% |
| In US\$ | 57.5 | 45.1 | 52.4 | 16.1% | -8.9% |
| In Currency Basket | 72.9 | 103.7 | 72.5 | -30.0% | -0.6% |
| Long Term | 4,398.5 | 3,124.7 | 2,645.6 | -15.3% | -39.9% |
| In R\$ | 3,877.8 | 2,761.2 | 2,271.0 | -17.8% | -41.4% |
| In US\$ | 277.1 | 195.8 | 193.2 | -1.4% | -30.3% |
| In Currency Basket | 243.6 | 167.7 | 181.4 | 8.2% | -25.6% |
| Total Debt | 5,081.8 | 4,798.1 | 4,635.8 | -3.4% | -8.8% |
| (-) Cash | 1,422.9 | 1,138.4 | 1,465.8 | 28.8% | 3.0% |
| (-) Inter Company with BRP | 1,525.3 | 1,379.6 | 1,497.8 | 8.6% | -1.8% |
| Net Debt Ex-Inter Company with BRP | 2,133.6 | 2,280.2 | 1,672.2 | -26.7% | -21.6% |

Long term debt

At the end of 4Q03, 57.1% of the total debt was registered in the long term with the following amortization schedule:

Table 12: Amortization Schedule of Long Term Debt

| Maturity | % Long Term Debt |
|----------------|------------------|
| 2005 | 36.1% |
| 2006 | 40.3% |
| 2007 | 20.0% |
| 2008 and after | 3.6% |

Indebtedness denominated in U.S. dollars At the end of December 2003, the dollar-pegged debt totaled R\$245.6 million and the currency basket denominated debt represented R\$253.9 million, all the amounts considering their respective hedge adjustments

In 4Q03, Brasil Telecom changed the registering form of hedge contracts, breaking it down according to short and long term foreign currency denominated debt.

On December 31, 2003, Brasil Telecom was hedged for 58.4% of the debt pegged to exchange variation, including the currency basket debt.

Leverage Degree

On December 31, 2003, Brasil Telecom's financial leverage, represented by the ratio of its net debt (excluding the debt with the holding company) was equal to 25.1%, against 32.7% in September.

Investments in the Permanent Assets

Table 13: Breakdown of Investments in the Permanent Assets

| R\$ Million | 4Q02 | 3Q03 | 4Q03 | 12M02 | 12M03 | Δ Quarter | Δ Year |
|--|--------------|--------------|--------------|----------------|----------------|--------------|---------------|
| Network Expansion | 294.3 | 168.9 | 159.0 | 809.5 | 674.3 | -5.9% | -16.7% |
| Conventional Telephony | 109.4 | 60.7 | 62.7 | 416.5 | 302.8 | 3.2% | -27.3% |
| Transmission Backbone | 21.8 | 23.3 | 5.4 | 73.3 | 57.3 | -76.7% | -21.8% |
| Data Network | 138.8 | 75.2 | 61.2 | 231.3 | 264.9 | -18.6% | 14.5% |
| Intelligent Network | 12.1 | 7.0 | 19.8 | 34.6 | 28.8 | 182.8% | -16.8% |
| Network Management Systems | 8.9 | 2.0 | 7.6 | 23.4 | 14.7 | 279.0% | -37.4% |
| Other | 3.3 | 0.8 | 2.3 | 30.3 | 5.9 | 190.5% | -80.6% |
| Network Operation | 124.5 | 68.4 | 68.2 | 372.8 | 251.6 | -0.2% | -32.5% |
| Public Telephony | 1.3 | 1.2 | 0.2 | 12.4 | 8.3 | -85.6% | -33.3% |
| Information Technology | 144.9 | 42.8 | 81.8 | 366.8 | 210.1 | 91.0% | -42.7% |
| Expansion Personnel | 23.5 | 20.2 | 18.5 | 98.4 | 83.0 | -8.6% | -15.7% |
| Other | 199.1 | 22.3 | 62.3 | 188.4 | 468.5 | 178.8% | 148.6% |
| Total Investments in Permanent Assets | 787.5 | 323.8 | 389.9 | 1,848.3 | 1,695.8 | 20.4% | -8.3% |
| Expansion Financial Expenses | 25.5 | 16.5 | (0.2) | 129.4 | 61.3 | N.A. | -52.6% |
| Expansion Financial Expenses PCS | - | 5.4 | 9.2 | - | 36.9 | 72.5% | N.A. |
| Total | 813.0 | 345.7 | 398.9 | 1,977.7 | 1,794.0 | 15.4% | -9.3% |

Investments in permanent assets Investments in fixed telephony of Brasil Telecom S.A. totaled R\$1,328.2 million in the year of 2003, 32.8% lower than the amount registered in 2002. In 4Q03, R\$350.4 million was invested, against R\$323.3 million in the previous quarter

The investments in the subsidiaries, Brasil Telecom Celular, Globenet, Metrored and iBest, are included in the account "others". A total of R\$109.2 million was invested in the PCS operation throughout 2003. The acquisitions of Globenet, MetroRed and iBest, represented a disbursement of R\$356.7 million in the year.

Cash flow

Table 14: Consolidated Cash Flow

| R\$ Million | 4Q02 | 3Q03 | 4Q03 |
|---|----------------|----------------|----------------|
| OPERATING ACTIVITIES | | | |
| (+) Net Income of the Period | 181.2 | 98.5 | (311.2) |
| (+) Minority Participation | | (0.0) | (0.0) |
| (+) Items with no Cash Effects | 697.7 | 918.6 | 1,528.8 |
| Depreciation and Amortization | 520.6 | 523.9 | 510.8 |
| Losses with Accounts Receivable from Services | 76.2 | 68.1 | 67.8 |
| Provision for Doubtful Accounts | (2.8) | (2.4) | 34.8 |
| Provision for Contingencies | (12.0) | 19.6 | 309.5 |
| Deferred Taxes | 10.3 | (41.4) | 50.5 |
| Amortization of Goodwill Paid in the Acquisition of Investments | 31.0 | 37.2 | 24.5 |
| Result from the Write-off of Permanent Assets | 8.9 | 1.2 | 329.9 |
| Financial Expenses | 126.3 | 312.6 | 211.2 |
| Other Expenses/Revenues with no Cash Effects | (60.8) | (0.1) | (10.0) |
| (-) Equity Changes | (134.6) | 203.0 | 239.7 |
| (=) Cash Flow from Operating Activities | 1,013.5 | 814.1 | 977.8 |
| INVESTMENT ACTIVITIES | | | |
| Financial Investments | 0.8 | 0.0 | (1.2) |
| Investment Suppliers | 141.0 | 64.0 | 56.7 |
| Funds from Sales of Permanent Assets | 9.1 | 4.0 | 2.2 |
| Investments in Permanent Assets | (787.5) | (332.7) | (361.9) |
| Acquisition of New Companies | - | - | - |
| Other Investment Flows | (16.0) | (0.0) | 0.0 |
| (=) Cash Flow from Investment Activities | (652.6) | (264.7) | (304.2) |
| FINANCING ACTIVITIES | | | |
| Dividends/Interests on Shareholders' Equity paid in the Period | (0.6) | (1.2) | (3.9) |
| Loans and Financing | 494.9 | (365.9) | (345.4) |
| Loans Obtained | 718.0 | 60.0 | 0.8 |
| Loans Paid | (111.5) | (144.9) | (175.1) |
| Interest Paid | (111.6) | (281.0) | (171.1) |
| Acquisition of Own Shares | (21.9) | (14.8) | - |
| Other Financing Flows | 0.3 | (3.9) | 3.0 |
| (=) Cash Flow from Financing Activities | 472.8 | (385.9) | (346.3) |
| CASH FLOW OF THE PERIOD | | | |
| | 833.7 | 163.5 | 327.3 |
| Cash and Cash Equivalents - current balance | | | |
| | 1,422.9 | 1,138.4 | 1,465.8 |
| Cash and Cash Equivalents - previous balance | | | |
| | 589.3 | 974.9 | 1,138.4 |
| Variation in Cash and Cash Equivalents | 833.6 | 163.5 | 327.3 |

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| | | | |
|---|----------------|--------------|--------------|
| OPERATING CASH FLOW | 1,013.5 | 814.1 | 977.8 |
| (-) Investments on Permanent Assets (includes Investment Suppliers) | (652.6) | (264.7) | (304.2) |
| (-) Interest Paid | (111.6) | (281.0) | (171.1) |
| <hr/> | | | |
| (=) FREE CASH FLOW | 249.3 | 268.4 | 502.5 |
| <hr/> | | | |

Operating cash flow in 4Q03 was R\$977.8 million The operating generation of Brasil Telecom reached **R\$977.8 million in 4Q03**, surpassing by 20.1% the amount registered in the previous quarter.

By deducting from the operating activities generation, the flow of investments for the period in the amount of R\$304.2 million in 4Q03, net operating generation of Brasil Telecom reached R\$673.6 million in the period, against R\$549.4 million in 3Q03.

Free cash flow in 4Q03 was R\$502.5 million Brasil Telecom free cash flow in **4Q03 was R\$502.5 million**, against R\$268.4 million in 3Q03, 87.2% above the amount registered in the previous quarter.

Stock Market

Table 15: Stock Performance

| | Closing Price as of Dec/31/03 | Performance | | |
|--|-------------------------------------|-------------|-----------------|-----------------|
| | | In 4Q03 | In 12 months | In 24 months |
| Common Shares (BRT03) (in R\$/1,000 shares) | 15.95 | 25.6% | 41.2% | 51.9% |
| Preferred Shares (BRT04) (in R\$/1,000 shares) | 15.20 | 17.0% | 29.6% | 15.2% |
| ADR (BTM) (in US\$/ADR) | 15.86 | 17.0% | 52.2% | -10.6% |
| Ibovespa (points) | 22,236 | 38.9% | 97.3% | 63.8% |
| Itel (points) | 888 | 23.5% | 66.8% | 32.9% |
| IGC (points) | 1,845 | 35.7% | 79.7% | 82.5% |
| Dow Jones (points) | 10,425 | 12.4% | 25.0% | 4.0% |

Graph 9: Stock Performance in 4Q03 Bovespa and NYSE

(Base 100 = September 30, 2003)

Table 16: Share in the Theoretical Portfolio

| | Ibovespa | | Itel | | IGC | |
|-------|----------|----------|---------|----------|---------|----------|
| | Sep /Dec | Jan/ Apr | Sep/Dec | Jan/ Apr | Sep/Dec | Jan/ Apr |
| BRT03 | - | - | 0.3950% | 0.3610% | 0.1420% | 0.1070% |
| BRT04 | 2.3660% | 2.4750% | 8.9420% | 7.4310% | 3.2200% | 2.2110% |

Shareholders Structure

Table 17: Shareholders Structure

| Dec 2003 | Common Shares | % | Preferred Shares | % | Total | % |
|------------------------------|------------------------|---------------|------------------------|---------------|------------------------|---------------|
| Brasil Telecom Participações | 247,231,759,431 | 99.1% | 109,202,099,844 | 36.9% | 356,433,859,275 | 65.4% |
| ADR | - | - | 18,114,369,000 | 6.1% | 18,114,369,000 | 3.3% |
| Treasury | - | - | 5,718,771,117 | 1.9% | 5,718,771,117 | 1.0% |
| Other | 2,365,290,111 | 0.9% | 162,533,850,437 | 55.0% | 164,899,140,548 | 30.2% |
| Total | 249,597,049,542 | 100.0% | 295,569,090,398 | 100.0% | 545,166,139,940 | 100.0% |

| Sep 2003 | Common Shares | % | Preferred Shares | % | Total | % |
|------------------------------|-----------------|-------|------------------|-------|-----------------|-------|
| Brasil Telecom Participações | 241,646,691,695 | 96.8% | 114,787,167,580 | 38.8% | 356,433,859,275 | 65.4% |
| ADR | - | - | 18,458,166,000 | 6.2% | 18,458,166,000 | 3.4% |
| Treasury | - | - | 6,331,110,503 | 2.1% | 6,331,110,503 | 1.2% |

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| | | | | | | |
|--------------|------------------------|---------------|------------------------|---------------|------------------------|---------------|
| Other | 7,950,357,847 | 3.2% | 155,992,646,315 | 52.8% | 163,943,004,162 | 30.1% |
| Total | 249,597,049,542 | 100.0% | 295,569,090,398 | 100.0% | 545,166,139,940 | 100.0% |

Corporate Governance

Public Offering

In an official letter issued on October 21, 2003, **the Brazilian Securities and Exchange Commission (CVM) granted concession of a Public Offer for the acquisition of common shares for preferred shares, of Brasil Telecom S.A. issuance**, in the condition of Object Company, to be conducted by Brasil Telecom Participações S.A., in the condition of Offering Company.

Presently, **71% of the common shares permissible for this operation were exchanged for preferred shares at the request of the shareholders**. Despite the adhesion period of the Public Acquisition Offer (OPA) having ended on December 2, 2003, **the acceptance of the OPA may still occur until December 10, 2004**, which is the put period defined in the bid notice. This is a good opportunity for the investors of common shares of Brasil Telecom S.A. to migrate to preferred shares of the Company, which have higher liquidity.

Change in the By-Laws

At the Special Shareholders Meeting held on January 16, 2004, the alteration of the restrictions set forth in article 24, subparagraph VIII, of the Company Bylaws was approved through the following text:

Article 24 Besides the attributions set forth by law, it is the responsibility of the Board of Directors to: (...) VIII. authorize the alienation or payment of assets which integrate the permanent assets of the Company, of which the individual value of the asset is equal to or over R\$500,000.00 (five hundred thousand reais), readjusted, as of September 30, 1999, with basis on the IGP-DI price index variation or, in its absence, by the index which comes to replace it. Sole Paragraph: The Board of Directors may delegate to any member of the board, the power to deliberate over subparagraph VIII of this article, by determining or not the limits of the said functions

New Products and Services

BrTurbo Asas

Brasil Telecom launched **BrTurbo Asas**, a service which offers Internet at high speed through a wireless network. Besides the convenience of accessing applications and services without the need of cables, BrTurbo Asas also offers the exclusive Travel Channel, a gateway packed with tips about cultural programs in the cities where the access is being made, besides information about restaurants, pharmacies, body shops, maps of locations and many other facilities and conveniences.

The new solution makes easier the life of those who are traveling for business or leisure, since the person can connect to the Internet or the private network of airports, hotels, cafes or any other establishment accredited as an Asas Center (area where the BrTurbo Asas service can be used).

BrTurbo Asas may be acquired through two plans: eventual use or subscription. Until January 31, 2004, the clients paid nothing and, after this date, those who chose the subscription plan will receive a 50% discount for the year. In line with a philosophy aimed at the client, BrTurbo offers a new solution integrated to a network with points scattered throughout several Brazilian cities.

102 Plus

Brasil Telecom and Mídia Telecom are launching a new media which uses our Directory Assistance service - 102. It is dubbed **102 Plus**, a new channel that enables companies and professionals to sponsor queries made to 102 through an ad or by offering to the user, free of charge, search by activity or business profile.

102 Plus is available in the entire coverage area of Brasil Telecom. Through it, searches can be carried out by activity, operating hours or, even, payment methods of the establishments.

Besides the benefits to the clients, 102 Plus places the advertiser in direct contact with its target market. The client-company can make use of jingles or detailed messages about services and products with a maximum duration of 15 seconds, which exclusively reach the people who are interested in the information.

The 102 is the most popular service on the market with around 20 million calls a month and more than seven million monthly Internet accesses.

Vetor

Brasil Telecom launched in 2003 its main data communication product for corporate and business clients: the Vetor.

Vetor was created with the objective of offering an integrated, virtual, unique and safe solution to the clients and is delivered through the IP network of Brasil Telecom using Broadband access.

It is fundamentally aimed at private virtual networks - VPN and it offers, at high speed and with considerable savings, the possibility of different simultaneous applications such as e-mails, data transmission, voice and multimedia. While typical accesses are restricted to a range between 64Kb and 128Kb, Vetor offers a range of between at least 256Kb up to 155Mb.

Through Vetor, the client pays a simple subscription fee, regardless of usage time, for each effectively installed point, with direct transmission which enables a 20% shrink in total communication costs.

Therefore, Brasil Telecom offers flexible and innovative services to the market aiming at excellence in the provision of data communication services while propitiating savings to the client.

Recognition

Most Innovative from Information Week Magazine

The October edition of the Information Week magazine showed the result of a study which pointed out the 100 most innovative Brazilian companies to use information technology. **This year, in the third edition of this award, Brasil Telecom ranked in 16th place in the general ranking (in last year's study, BrT was in 36th place) and it came in first place for telecommunication companies.**

This study took into consideration three main topics – collaboration, metrics and knowledge management – evaluated using a 30-question survey. A total of 220 companies participated in the research.

ABRH/DF Award

The Program Prominent People (*Gente em Destaque*) was recognized by the Brazilian Human Resource Association (*Associação Brasileira de Recursos Humanos- FD*) with the Candango Award of Excellence in Human Resources.

2003 Abraforte Award

The president of BrTurbo, Serhan Ozmen, was the winner of the Abraforte 2003 Award, in the category Internet Provider. With only two years of operation, the provider whose content is 100% broadband of BrT Serviços de Internet, an integral subsidiary of Brasil Telecom, was honored with an important award of the sector. The award was given by the Brazilian Association for the Development of Telecommunication Network Business (*Associação Brasileira para Fomento de Negócios em Rede de Telecomunicações - Abraforte*) to the most prominent executives in the telecommunications segment in 2003.

Recent Events

Exercise of call option on Vant and MetroRed With the target approval, **Brasil Telecom manifested** on January 20, 2004, before MetroRED Telecommunications Group Ltd. (**MetroRED**) and FTT Ventures, Limited (**FTT**), as well as before Aescom Sul Ltda. (**Aescom**), **its intention to exercise its option to buy the remaining capital, respectively, of MTH do Brasil Ltda. (MTH), the company which holds 99.9% of the capital stock of MetroRED Telecomunicações Ltda. (MetroRED Brasil), and of Vant Telecomunicações S.A. (Vant).**

With the conclusion of the acquisitions, Brasil Telecom will directly or indirectly become the holder of 100% of the capital stock of the above mentioned companies. It is worth noting that the Company has already previously acquired 19.9% of the capital stock of MTH and Vant. It is worth noting that the Company has already previously acquired 19.9% of the capital stock of MTH and Vant. The total amount for the purchase of the remaining 80.1% of capital stock of MTH will be equivalent to US\$51.0 million, while the total amount for the purchase of the remaining 80.1% of the voting capital of Vant will be equivalent to R\$15.6 million.

MetroRED established itself in Brazil in August 1997 and, on December 1998, it began its commercial operations to provide a wide range of telecommunication services through optical fiber digital networks. The MetroRED Brasil system has 339 kilometers of local network in São Paulo, Rio de Janeiro and Belo Horizonte and 1,485 kilometers of long distance network connecting the largest metropolitan commercial centers. MetroRED Brasil also has an Internet Solution Center in São Paulo, which offers co-location, hosting and other value-added service.

In turn, Vant is a company which provides corporate network services and was founded in October 1999. Initially focused on the TCP/IP network, Vant was the first carrier in Brazil to offer services with a network 100% based on this technology. Vant services the whole country by being present in the main Brazilian capital cities and offers a vast portfolio of voice and data products.

The conclusion of the above mentioned transactions is conditioned to verification of certain usual conditions for operations of this nature, including approval by Anatel to transfer the control of MetroRED and Vant.

Interest on Shareholders Equity **Brasil Telecom credited the amount of R\$238.1 million as interest on shareholder equity on January 30, 2004**, equivalent to R\$0.441377628 gross per thousand shares and R\$0.375170984 net of income tax per thousand preferred and ordinary shares, according to Article 9 of Law 9249 of December 26, 1995 e Deliberation # 207/96 of Brazilian SEC - CVM.

Interest on Shareholders Equity may be credited to dividends relative to fiscal year 2004 and is subject to the approval of the 2005 Ordinary General Shareholders Meeting, which will indicate the date of the payment.

Indicators

Table 18: Evolution of the Indicators

| PLANT | 4Q02 | 1Q03 | 2Q03 | 3Q03 | 4Q03 |
|---|-------------|-------------|-------------|-------------|-------------|
| Lines installed (thousand) | 10,548 | 10,608 | 10,656 | 10,678 | 10,686 |
| Additional lines installed (thousand) | 4 | 60 | 48 | 22 | 9 |
| Lines in service - US (thousand) | 9,465 | 9,595 | 9,741 | 9,809 | 9,851 |
| Residential (thousand) | 6,862 | 6,979 | 7,107 | 7,168 | 7,166 |
| Non-residential (thousand) | 1,540 | 1,548 | 1,565 | 1,567 | 1,566 |
| Public phones (thousand) | 293 | 296 | 297 | 297 | 296 |
| Pre-paid (thousand) | 206 | 215 | 218 | 232 | 266 |
| Other (including PBX) (thousand) | 564 | 557 | 554 | 546 | 557 |
| Additional lines in service (thousand) | 237 | 130 | 146 | 68 | 42 |
| Average lines in service (thousand) | 9,347 | 9,530 | 9,668 | 9,775 | 9,830 |
| Utilization rate | 89.7% | 90.5% | 91.4% | 91.9% | 92.2% |
| Teledensity (US/100 inhabitants) | 23.1 | 23.2 | 23.5 | 23.5 | 23.4 |
| ADSL lines in service (thousand) | 140.7 | 165.1 | 194.8 | 239.4 | 281.9 |
| TRAFFIC | 4Q02 | 1Q03 | 2Q03 | 3Q03 | 4Q03 |
| Exceeding local pulses (million) | 3,256 | 2,973 | 2,959 | 3,099 | 2,927 |
| Domestic long distance - DLD (million minutes) | 1,756 | 1,611 | 1,744 | 1,709 | 1,559 |
| Fixed-mobile (million minutes) | 1,143 | 1,058 | 1,058 | 979 | |
| VC-1 (million minutes) | 1,021 | 939 | 947 | 877 | 909 |
| VC-2 (million minutes) | 108 | 104 | 98 | 85 | 66 |
| VC-3 (million minutes) | 14 | 14 | 13 | 16 | 16 |
| PRODUCTIVITY | 4Q02 | 1Q03 | 2Q03 | 3Q03 | 4Q03 |
| # of employees | 5,565 | 5,543 | 5,311 | 5,272 | 5,259 |
| Average # of employees | 5,669 | 5,554 | 5,427 | 5,292 | 5,266 |
| LIS/employee | 1,701 | 1,731 | 1,834 | 1,861 | 1,873 |
| Net revenue/average # of employees/month (R\$ thousand) | 110.2 | 112.5 | 117.6 | 129.4 | 131.2 |
| EBITDA/average # of employees/month (R\$ thousand) | 54.4 | 52.3 | 55.3 | 60.3 | 36.6 |

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| | | | | | |
|--|-------|-------|-------|-------|--------|
| Net earnings/average # of employees/month (R\$ thousand) | 10.7 | 8.3 | 3.0 | 6.2 | (19.7) |
| Exceeding local pulses/average US/month | 116.1 | 104.0 | 102.0 | 105.7 | 99.3 |
| DLD minutes/average US/month | 62.6 | 56.3 | 60.1 | 58.3 | 52.9 |
| Fixed-mobile minutes/average US/month | 40.8 | 37.0 | 36.5 | 33.4 | 33.6 |
| Net revenue/average US/month (R\$) | 66.8 | 65.5 | 66.0 | 70.0 | 70.3 |
| EBITDAjaverage US/month (R\$) | 33.0 | 30.5 | 31.0 | 32.6 | 19.6 |
| Net earnings/average US/month (R\$) | 6.5 | 4.8 | 1.7 | 3.4 | (10.6) |

| QUALITY | 4Q02 | 1Q03 | 2Q03 | 3Q03 | 4Q03 |
|------------------------|----------|----------|----------|----------|----------|
| Quality goals achieved | 34/35/35 | 35/35/35 | 35/35/35 | 35/35/34 | 35/35/35 |
| Digitization rate | 99.0% | 99.0% | 99.0% | 99.0% | 99.0% |

| PROFITABILITY | 4Q02 | 1Q03 | 2Q03 | 3Q03 | 4Q03 |
|------------------------|-------|-------|-------|-------|--------|
| EBITDA margin | 49.4% | 46.5% | 47.0% | 46.6% | 27.9% |
| Net margin | 9.7% | 7.4% | 2.6% | 4.8% | -15.0% |
| Return on equity - ROE | 2.6% | 2.0% | 0.7% | 1.4% | -4.7% |

| CAPITAL STRUCTURE | 4Q02 | 1Q03 | 2Q03 | 3Q03 | 4Q03 |
|---|-------|-------|-------|-------|-------|
| Cash and cash equivalents (R\$ million) | 1,423 | 1,388 | 975 | 1,138 | 1,466 |
| Total debt (R\$ million) | 5,082 | 4,997 | 4,857 | 4,798 | 4,636 |
| Short term debt | 13.4% | 14.2% | 25.5% | 34.9% | 42.9% |
| Long term debt | 86.6% | 85.8% | 74.5% | 65.1% | 57.1% |
| Net debt (R\$ million) | 3,659 | 3,608 | 3,882 | 3,660 | 3,170 |
| Debt with BRP (inter-company + debenture) (R\$ million) | 1,525 | 1,461 | 1,524 | 1,439 | 1,498 |
| Net debt excluding debt with BRP (R\$ million) | 2,134 | 2,148 | 2,359 | 2,221 | 1,672 |
| Shareholders' equity (R\$ million) | 6,964 | 6,838 | 6,887 | 6,974 | 6,663 |
| Net debt/shareholders' equity | 52.5% | 52.8% | 56.4% | 52.5% | 47.6% |
| Net debt excluding debt with BRP/shareholders' equity | 30.6% | 31.4% | 34.3% | 31.8% | 25.1% |

Next Events

Teleconference: 4Q03 Results

Phone: (719) 457-2657

Date: February 13 (Friday)

Time: 9:00 a.m. (Eastern time)

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