

BRASIL TELECOM SA
Form 6-K
May 27, 2010

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN ISSUER

**PURSUANT TO RULE 13a-16 OR 15d-16 OF
THE SECURITIES EXCHANGE ACT OF 1934**

For the month of May 2010

(Commission File No. 1-15256)

BRASIL TELECOM S.A.

(Exact name of Registrant as specified in its Charter)

BRAZIL TELECOM COMPANY

(Translation of Registrant's name into English)

SIA Sul, Área de Serviços Públicos, Lote D, Bloco B

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Brasília, D.F., 71.215-000

Federative Republic of Brazil

(Address of Registrant's principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1) .

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7) .

Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes No

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b):

EXHIBITS

**Exhibit
Number**

Description of Document

1	Financial Statements of Brasil Telecom S.A. at and for the years ended December 31, 2009 and 2008 prepared in accordance with Brazilian GAAP (Free Translation)
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Brasil Telecom S.A. (BrT) and

Brasil Telecom S.A. (BrT) and

Subsidiaries

Financial Statements as of

December 31, 2009 and 2008 and

Independent Auditors Report

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

INDEPENDENT AUDITORS' REPORT

To the Management and Shareholders of

Brasil Telecom S.A.

Brasília, DF

1. We have audited the accompanying balance sheets, Company and consolidated, of Brasil Telecom S.A. and subsidiaries, as of December 31, 2009 and 2008, and the related statements of operations, changes in shareholders' equity (Company), cash flows and value added, for the years then ended, prepared under the responsibility of the Company's Management. Our responsibility is to express an opinion on these financial statements.
2. Our audits were conducted in accordance with auditing standards in Brazil and comprised: (a) planning of the work, taking into consideration the significance of the balances, volume of transactions, and the accounting and internal control systems of the Company and its subsidiaries; (b) checking, on a test basis, the evidence and records that support the amounts and accounting information disclosed; and (c) evaluating the significant accounting practices and estimates adopted by the Company's Management, as well as the presentation of the financial statements taken as a whole.
3. In our opinion, the financial statements referred to in paragraph 1 present fairly, in all material respects, the individual and consolidated financial positions of Brasil Telecom S.A. and its subsidiaries as of December 31, 2009 and 2008, and the results of their operations, the changes in shareholders' equity (Company), their cash flows, and the values added in operations for the years then ended, in conformity with Brazilian accounting practices.
4. As commented in note 1(b), on September 25, 2009, the Supervisory Board and the Board of Directors of Brasil Telecom S.A. and its shareholder Coari Participações S.A. approved Step 3 of Stage 2 of the Corporate Restructuring, which comprises the exchange of shares held by non-controlling shareholders in Brasil Telecom S.A. for shares of Coari Participações S.A.
5. As described in note 2, as a result of the convergence of accounting practices, criteria and estimates and understanding of the new controlling shareholder, which identified certain differences of understanding on the conceptual application of prior periods' accounting standards, the balance sheets as of December 31, 2008 and statements of operations for the year then ended, presented for comparative purposes, were reclassified and are being restated as provided in NPC 12 *Accounting Policies, Changes in Accounting Estimates and Errors*, approved by CVM Resolution 506/06.
6. The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.
Rio de Janeiro, March 11, 2010

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

Marco Antonio Brandão Simurro
Engagement Partner

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

Brasil Telecom S.A. (BrT) and

Brasil Telecom S.A. (BrT) and Subsidiaries

Balance Sheets as of December 31, 2009 and 2008

In thousands of Brazilian reais, unless otherwise stated.

	Note	Company 2009	Reclassified 2008	Consolidated 2009	Reclassified 2008
Assets					
Current					
Cash and cash equivalents	9	705,836	580,978	1,717,441	1,478,558
Short-term investments	9	118,476	135,672	381,951	561,867
Trade accounts receivable	10	1,769,378	1,959,083	1,992,141	2,210,090
Inventories		2,280	4,748	42,063	54,048
Due from related parties	11	29,008			
Deferred and recoverable taxes	12	711,360	672,655	1,001,255	935,690
Escrow deposits	13	351,501	673,834	359,561	678,972
Other assets		130,218	160,707	179,469	188,237
		3,818,057	4,187,677	5,673,881	6,107,462
Noncurrent					
Noncurrent assets					
Due from related parties	11	1,342,313		1,674,750	
Deferred and recoverable taxes	12	4,140,948	717,761	5,052,839	1,523,772
Escrow deposits	13	1,576,757	2,210,475	1,596,736	2,224,993
Other assets		166,936	132,534	186,687	145,625
Investments	14	3,955,331	3,998,596	5,374	3,744
Property, plant and equipment	15	5,476,413	4,333,280	6,993,405	5,902,124
Intangible assets	16	508,794	562,203	1,572,404	1,632,218
		17,167,492	11,954,849	17,082,195	11,432,476
Total assets		20,985,549	16,142,526	22,756,076	17,539,938
Liabilities and shareholders equity					
Current liabilities					
Trade accounts payable		1,131,439	1,333,291	1,554,278	1,889,543
Loans and financing	17	1,502,029	1,468,344	1,003,352	760,627
Payroll, related taxes and benefits		45,274	80,276	83,608	110,157
Deferred and payable taxes	19	550,164	582,205	691,861	700,019
Tax refinancing program	20	27,704	4,381	29,683	4,434
Dividends/interest on capital and profit sharing	22	128,477	403,364	141,253	424,022
Reserve for contingent liabilities	21	406,893	199,565	433,390	218,297
Accruals for pension fund	24	104,533	148,391	104,533	148,391
Permits and concessions payable	18		65,578	99,240	160,074
Other liabilities		316,872	230,447	365,180	344,379
		4,213,385	4,515,842	4,506,378	4,759,943
Noncurrent liabilities					

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Long-term liabilities					
Loans and financing	17	3,096,298	3,811,555	3,637,497	4,125,351
Payroll, related taxes and benefits			10,971	1,085	11,483
Deferred and payable taxes	19	233,434	232,050	273,552	259,960
Tax refinancing program	20	327,347		355,051	713
Reserve for contingent liabilities	21	1,394,845	674,290	1,440,105	710,380
Accruals for pension fund	24	575,180	607,400	575,180	607,400
Permits and concessions payable	18			609,848	623,585
Advances from customers		30,144	34,908	240,732	189,172
Other liabilities		20,015	14,558	21,233	16,655
		5,677,263	5,385,732	7,154,283	6,544,699
Non-controlling interests				514	(5,656)
Shareholders equity	22				
Capital		3,731,059	3,470,758	3,731,059	3,470,758
Capital reserves		6,980,315	1,338,246	6,980,315	1,338,246
Capital expenditure reserve		383,527	1,431,948	383,527	1,431,948
		11,094,901	6,240,952	11,094,901	6,240,952
Total liabilities and shareholders equity		20,985,549	16,142,526	22,756,076	17,539,938

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

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

Brasil Telecom S.A. (BrT) and

Brasil Telecom S.A. (BrT) and Subsidiaries

Statements of Operations at

For the Years Ended December 31, 2009 and 2008

In thousands of Brazilian reais, unless otherwise stated

		Company		Consolidated	
	Note	2009	Reclassified 2008	2009	Reclassified 2008
Gross operating revenue	4	15,163,404	14,395,739	17,771,913	17,007,142
Deductions from gross revenue		(6,208,444)	(4,747,840)	(6,893,351)	(5,425,960)
Net operating revenue		8,954,960	9,647,899	10,878,562	11,581,182
Cost of services rendered and goods sold	5	(4,719,752)	(4,960,004)	(5,905,598)	(6,180,293)
Gross profit		4,235,208	4,687,895	4,972,964	5,400,889
Operating income (expenses)					
Equity in subsidiaries	14	(46,664)	(52,333)		
Selling expenses	5	(1,049,761)	(918,206)	(1,391,535)	(1,338,360)
General and administrative expenses	5	(1,128,191)	(1,109,710)	(1,434,808)	(1,339,567)
Other operating incomes (expenses), net	6	(3,214,112)	(504,100)	(3,417,476)	(731,549)
		(5,438,728)	(2,584,349)	(6,243,819)	(3,409,476)
Operating income (expenses) before financial income (expenses)		(1,203,520)	2,103,546	(1,270,855)	1,991,413
Financial income		432,912	431,430	576,197	697,190
Financial expenses		(752,612)	(971,250)	(857,546)	(1,109,170)
Financial expenses, net	7	(319,700)	(539,820)	(281,349)	(411,980)
Income (loss) before taxes		(1,523,220)	1,563,726	(1,552,204)	1,579,433
Income tax and social contribution					
Current	8	(448,012)	(569,228)	(449,903)	(637,908)
Deferred	8	828,543	35,318	861,418	86,440
Income (loss) before non-controlling interests		(1,142,689)	1,029,816	(1,140,689)	1,027,965
Non-controlling interests				(2,000)	1,851
Net income (loss) for the year		(1,142,689)	1,029,816	(1,142,689)	1,029,816
Shares outstanding at balance sheet date (thousands)		589,789	547,499		
Net income (loss) per share at yearend (R\$)		(1.94)	1.88094		

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

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

Brasil Telecom S.A. (BrT) and

Brasil Telecom S.A. (BrT) and Subsidiaries

Statements of Changes in the Shareholders' Equity

For the Years Ended December 31, 2009 and 2008

In thousands of Brazilian reais, unless otherwise stated.

Capital	Share subscription premium		Special goodwill on merger	Special reserve on merger of net assets	Capital reserves			Stock Options	Other		Capital expenditure reserve		Retained earnings
	Goodwill Reserve	Treasury shares			Investment grants	Interest on works in progress	Special inflation adjustment Law 8200/1991		Other reserves	Treasury shares	Legal Reserve	Investment reserve	
3,470,758	458,684	(99,822)			123,558	745,756	31,287	872	123,334	(54,870)	349,155		356,750
													1,029,810
													20,480
											51,491		(51,490)
													(324,300)
												377,277	(377,277)
												654,025	(654,025)
									1,953	2,563			
								4,931					4,931
3,470,758	458,684	(99,822)			123,558	745,756	31,287	5,803	125,287	(52,307)	400,646	1,031,302	
			366,787	2,378									
260,301			3,861,439	1,413,592									82,630
													(1,142,685)
										(17,119)	(1,031,302)		1,048,420
													11,500
									1,085	2,487			
								(5,699)					130,000

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3,731,059	458,684	(99,822)	4,228,226	1,415,970	123,558	745,756	31,287	104	126,372	(49,820)	383,527
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3,731,059						6,980,315					383,527
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												2009	2008
												18.81	11.40

- (a) Recognition of special goodwill reserve on merger of Copart 2 on July 31, 2009.
- (b) Capital increase and recognition of special goodwill reserve on merger of BrT Part on September 30, 2009.

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

Brasil Telecom S.A. and

Brasil Telecom S.A. and Subsidiaries

Statements of Cash Flows

For the Years Ended December 31, 2009 and 2008

In thousands of Brazilian reais, unless otherwise stated

	Company		Consolidated	
	2009	2008	2009	2008
Cash flows from operating activities				
Net income (loss) before income tax and social contribution	(1,523,220)	1,563,726	(1,552,204)	1,579,433
Items not affecting cash				
Depreciation and amortization	1,364,951	1,486,702	1,980,544	2,066,046
Losses on trade receivables	450,862	301,956	549,602	370,242
Reserve for contingent liabilities	3,316,626	688,223	3,339,706	711,486
Accruals for pension fund	5,817	81,324	5,817	81,324
Recovery of pension funds expenses surplus		(61,104)		(61,104)
Proceeds from write-off of permanent assets	21,407	38,207	78,300	6,921
Equity in subsidiaries	46,664	52,333		
Losses (gains) on investments		1,269		35,010
Financial charges	493,872	662,727	488,427	622,995
	5,700,199	3,251,637	6,442,396	3,832,920
Changes in assets and liabilities				
Customers receivables	(261,157)	(329,200)	(331,653)	(390,631)
Inventories	2,468	1,390	11,985	(21,338)
Payroll, related taxes and benefits	(45,975)	10,329	(36,949)	18,091
Trade accounts payable	(64,045)	(155,947)	(100,748)	(367,808)
Taxes	(58,267)	(96,728)	(55,393)	(152,173)
Permits and concessions payable	(65,578)	65,578	(74,571)	90,773
Reserve for contingent liabilities	(335,107)	(439,090)	(348,240)	(451,050)
Accruals for pension fund	(81,895)	(13,278)	(81,895)	(13,278)
Tax Refinancing Program	350,670		379,587	
Other asset and liability accounts	119,056	36,661	12,573	99,052
	(439,830)	(920,285)	(625,304)	(1,188,362)
Cash provided by operating activities				
Interest paid	(619,859)	(515,348)	(580,949)	(525,468)
Income tax and social contribution paid Company	(383,775)	(565,485)	(426,785)	(619,923)
Income tax and social contribution paid Third parties	(12,736)	(16,685)	(20,103)	(23,444)
	(1,016,370)	(1,097,518)	(1,027,837)	(1,168,835)
Net cash provided by operating activities	2,720,779	2,797,560	3,237,051	3,055,156

Brasil Telecom S.A. (BrT) and

Brasil Telecom S.A. (BrT) and Subsidiaries

Statements of Cash Flows

For the Years Ended December 31, 2009 and 2008

In thousands of Brazilian reais, unless otherwise stated.

	Company		Consolidated	
	2009	2008	2009	2008
Cash flows from investing activities				
Short-term investments	17,196	179,911	179,916	1,283,442
Credit with related parties			(300,000)	
Escrow deposits	(1,455,113)	(1,710,775)	(1,476,340)	(1,723,203)
Funds obtained in the sale of permanent assets	6,548	24,096	6,788	24,223
Permanent assets investments	(730,685)	(1,087,418)	(1,398,252)	(1,438,442)
Investments		(25,920)	(1,500)	
Fixed and intangible assets	(730,685)	(1,061,498)	(1,396,752)	(1,438,442)
Net cash used in investing activities	(2,162,054)	(2,594,186)	(2,987,888)	(1,853,980)
Cash flows from financing activities				
Dividends/ interest on capital paid in the year	(274,764)	(684,610)	(274,764)	(684,610)
Loans and financing	(437,460)	742,418	(13,873)	378,000
Borrowings	494,167	1,103,756	757,014	739,338
Repayment of loans, financing and debentures	(931,627)	(336,428)	(770,887)	(336,428)
Payment of liability due to lease		(24,910)		(24,910)
Net cash provided by (used in) financing activities	(712,224)	57,808	(288,637)	(306,610)
Cash and cash equivalent acquired from BrT Part merger (Note 1 (b) (v))	278,357		278,357	
Cash flows for the year	124,858	261,182	238,883	894,566
Cash and cash equivalents				
Cash and cash equivalents at end of year	705,836	580,978	1,717,441	1,478,558
Cash and cash equivalents at beginning of year	580,978	319,796	1,478,558	583,992
Changes in the year	124,858	261,182	238,883	894,566

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

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

Brasil Telecom S.A. and**Brasil Telecom S.A. and Subsidiaries****Statements of Value Added****For the Years Ended December 31, 2009 and 2008****In thousands of Brazilian Reais, unless otherwise stated**

	Company		Consolidated	
	2009	2008	2009	2008
Income				
Sales of services and products	15,163,404	14,395,739	17,771,913	17,007,142
Voluntary discounts and reimbursements	(2,721,910)	(1,064,653)	(2,958,049)	(1,320,766)
Provision for doubtful debts	(450,862)	(301,956)	(549,602)	(370,242)
Other operating incomes (expenses), net	196,537	430,161	236,582	463,579
	12,187,169	13,459,291	14,500,844	15,779,713
Supplies acquired from third parties				
Materials	(93,805)	(64,546)	(301,636)	(395,232)
Third-party services	(4,167,559)	(4,313,519)	(4,506,598)	(4,730,837)
Others	(72,199)	(92,802)	(100,250)	(93,636)
	(4,333,563)	(4,470,867)	(4,908,484)	(5,219,705)
Gross value added	7,853,606	8,988,424	9,592,360	10,560,008
Retentions				
Depreciation and amortization	(1,364,951)	(1,486,702)	(1,980,544)	(2,066,046)
Reserve for contingent liabilities	(3,516,422)	(688,222)	(3,550,211)	(711,486)
	(4,881,373)	(2,174,924)	(5,530,755)	(2,777,532)
Wealth created by Company	2,972,233	6,813,500	4,061,605	7,782,476
Wealth received in transfer				
Equity in subsidiaries	(46,664)	(52,333)		
Dividends (investments at acquisition cost)		3,016		3,016
Financial income	432,912	431,430	576,197	697,190
Rental incomes	129,816	121,040	89,693	86,975
	516,064	503,153	665,890	787,181
Total wealth for distribution	3,488,297	7,316,653	4,727,495	8,569,657
Wealth distributed				
Personnel				
Salaries and wages	(177,529)	(227,987)	(379,806)	(409,784)
Benefits	(158,229)	(221,495)	(288,242)	(337,805)
Severance pay fund (FGTS)	(67,902)	(34,963)	(89,383)	(49,685)
Other	(47,083)	(81,324)	(47,083)	(81,324)

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	(450,743)	(565,769)	(804,514)	(878,598)
Taxes and contributions				
Federal	(305,119)	(1,411,824)	(596,223)	(1,759,656)
State	(2,985,605)	(3,152,079)	(3,333,070)	(3,493,436)
Municipal	(11,708)	(12,745)	(33,583)	(34,657)
	(3,302,432)	(4,576,648)	(3,962,876)	(5,287,749)

Brasil Telecom S.A. (BrT) and

Brasil Telecom S.A. (BrT) and Subsidiaries

Statements of Value Added

For the Years Ended December 31, 2009 and 2008

In thousands of Brazilian reais, unless otherwise stated

	Company		Consolidated	
	2009	2008	2009	2008
Donations & sponsorship	(14,642)	(23,283)	(15,824)	(23,006)
Lessors and lenders				
Employee profit sharing	(30,995)		(45,243)	
Interest & other financial charges	(550,050)	(823,011)	(643,311)	(950,983)
Rentals, leases and insurances	(282,124)	(298,126)	(396,416)	(401,356)
	(863,169)	(1,121,137)	(1,084,970)	(1,352,339)
Shareholders				
Non-controlling interests			(2,000)	1,851
Retained earnings	1,142,689	(1,029,816)	1,142,689	(1,029,816)
	1,142,689	(1,029,816)	1,140,689	(1,027,965)
Value added distributed	3,488,297	7,316,653	4,727,495	8,569,657

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

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

Brasil Telecom S.A. and

Brasil Telecom S.A. and Subsidiaries

Notes to the Financial Statements

For the Years Ended December 31, 2009 and 2008

(Amounts in thousands of Brazilian reais, unless otherwise stated)

1. OPERATIONS

Brasil Telecom S.A. (Company or BrT) is a STFC concessionaire Switched Fixed Telephone Service and performs since July of 1998 in the Region II of PGO Grant General Plan, that includes the Brazilian states of Acre, Rondônia, Mato Grosso, Mato Grosso do Sul, Tocantins, Goiás, Paraná, Santa Catarina and Rio Grande do Sul, besides Federal District, in the installment of STFC in the modalities of local and long intra-regional distance. Since January 2004, the Company has also been providing services in the form of national and international long-distance calls in all Regions and, as from January 2005, local calls also started to be provided outside Region II.

The company business, as well as the services rendered by it and the rates charged are regulated by ANATEL Brazilian National Agency of Telecommunications.

The concession contracts in force, in the local services and long distance modes, came into effect starting from January 1, 2006, with validity until December 31, 2025. Additional information on those contracts is mentioned in the Note 23 (h).

Information relating to STFC quality and universal service targets is available for shareholders monitoring at ANATEL s electronic page, on the following website: www.anatel.gov.br.

The Company is a Brazilian Securities and Exchange Commission (CVM) and the US Securities and Exchange Commission (SEC) registrant, and its shares are traded on the BOVESPA and the New York Stock Exchange (NYSE) as American Depositary Receipts (ADRs).

Since September 30, 2009 the Company s shareholder s control is exercised directly by Coari Participações S.A. (Coari), whose equity represents 79.63% of voting capital and 48.20% of total capital. Until mentioned date, the Company was controlled by Brasil Telecom Participações S.A. (BrT Part), a company constituted on May 22, 1998 due to the process of privatization of Telebrás System.

The corporate restructuring resulting in direct control of the Company by Coari is presented in specific comments of this note see item b , and had origin at the Brasil Telecom s acquisition by Telemar Norte Leste S.A. (TMAR) that, on January 8, 2009 acquired through its indirect subsidiary Copart 1 Participações S.A. (Copart 1) the stock control of BrT Part and of the Company.

The change of control of Brasil Telecom to Telemar consisted of the acquisition of 100% of Invitel S. A. shares (Invitel), at the time holding 99.99% of the shares of Solpart Participações S.A. (Solpart), which held 51.41% of BrT Part voting capital and 18.93% of its total capital.

The Share Acquisition Agreement (the Agreement), entered into on April 25, 2008, was disclosed through a Material Fact by the involved companies issued on the same date, and supplemental material facts were issued on events or facts inherent to the Contract. All material facts are available for consultation on the website www.brasiltelecom.com.br/ri.

Brasil Telecom S.A. and

Brasil Telecom S.A. and Subsidiaries

Notes to the Financial Statements (Continued)

For Years Ended December 31, 2009 and 2008

(Amounts in thousands of Brazilian reais, unless otherwise stated)

(a) Main direct and indirect subsidiaries of the Company

14 Brasil Telecom Celular S.A. (BrT Celular)

BrT is wholly-owned subsidiary, which operates since the last quarter of 2004 to provide Personal Mobile Services (SMP), and has a permit to operate in Region II of the PGO.

BrT Serviços de Internet S.A. (BrTI)

BrT is wholly-owned subsidiary, which holds the control of the following entities:

iG Companies

The iG companies comprise Internet Group (Cayman) Limited (iG Cayman), iG Participações S.A. (iG Part) and Internet Group do Brasil S.A. (iG Brasil). iG Brasil operates as a dialup and broadband Internet access provider. It also provides value-added services targeted for the home and corporate markets, including the Internet connection accelerator. In addition, iG also sells advertising space on its portal.

iG Cayman is a holding company that controls control of iG Part, where exists investments of 32.53% of iG Brasil joint stock. iG Part and iG Brasil are firms established in Brazil.

Brasil Telecom Cabos Submarinos Ltda. (BrT CS)

BrT CS , together with its subsidiaries, operates through a system of underwater optical fiber cables, with connection points in the United States, Bermuda, Venezuela and Brazil, allowing data traffic through integrated service packages, offered to local and foreign corporate customers.

BrT Comunicação Multimídia Ltda. (BrT Multimídia)

The Company held 90.46% interest in the capital of BrT Multimídia, whereas the remaining 9.54% is held by BrTI.

BrT Multimídia provides private telecommunications network services through local optical fiber digital networks in São Paulo, Rio de Janeiro and Belo Horizonte, and a long-distance network connecting these metropolitan business centers. It operates nationwide through commercial agreements with other telecommunications companies to offer services to the other Brazilian regions. It also has Internet Solution Centers in São Paulo, Brasília, Curitiba, Porto Alegre, Rio de Janeiro and Fortaleza, which offer services of co-location , hosting and other services of aggregate value.

Brasil Telecom Call Center S.A. (BrT Call Center)

BrT Call Center's business purpose is the provision of call center services for third parties, including customer service, outbound and inbound telemarketing, training, support, consulting services and related activities, among other services. This company's startup was in November 2007 by providing call center services for BrT and its subsidiaries which require this type of service. Previously, the call center services were outsourced.

Brasil Telecom S.A. and

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Notes to the Financial Statements (Continued)

For Years Ended December 31, 2009 and 2008

(Amounts in thousands of Brazilian reais, unless otherwise stated)

BrT Card Serviços Financeiros Ltda. (BrT Card)

BrT Card, established to provide management, control and support services for the development and sale of financial products and services, holds 99.99% of the shares, whereas the remaining capital is held by BrTI. At balance sheet date, BrT Card had only highly liquid cash investments resulting from the payment of capital, and had not yet started its operations.

(b) Company corporate restructuring

The purpose of the corporate restructuring was to optimize the control structure, streamline cross-shareholdings and use the synergy between activities, enhancing operational efficiency.

On December 19, 2008, the National Telecommunications Agency (ANATEL) issued Act 7828, whereby the Executive Board granted prior approval for the subsequent corporate acts regarding the merger of the companies or the merger of the shares of the companies Invitel, Solpart and BrT Part by TMAR.

According to the Material Fact disclosed on July, 15, 2009 and the amendment to this Material Fact on July, 21, 2009, as well as the Material Fact disclosed on August, 12, 2009, the Stage 1 and the Step 2 of Stage 2 of corporate restructuring were performed, on July, 31 and September, 30, 2009, respectively, comprehending a series of mergers, in terms of arts. 230 and 252 of Brazilian Corporate Law by TMAR subsidiaries firms, as described below.

- (i) Merger of Invitel by its subsidiary Solpart, with absorption of the equity of Invitel by Solpart and the resulting Invitel's extinction on July 31, 2009.
- (ii) Merger of Solpart by its parent company Copart 1, with absorption of the equity of Solpart by Copart 1 and the consequent Solpart's extinction on July 31, 2009.
- (iii) Merger of Copart 1 by BrT Part., with absorption of the equity of Copart 1 by BrT Part, through which Coari, holder of all the shares of Copart 1, received BrT Part shares in exchange for its Copart 1 shares, which was liquidated on July 31, 2009.
- (iv) Merger of Copart 2 by BrT, with absorption of the equity of Copart 2, through which Coari, holder of all the shares of Copart 2, received BrT shares in exchange for its Copart 2 shares, which was liquidated on July 31, 2009.

The net assets of Copart 2 merged by BrT Part totaled R\$369,165, without resulting in a capital increase of BrT Part, an amount fully recorded as capital reserve, pursuant to Article 200 of the Brazilian Corporate Law.

As a result of the merger of Copart 2, 0.0005041618 BrT common shares were exchanged for each Copart 2 common share and 0.0471152627 BrT preferred shares were exchanged for each Copart 2 preferred share (share exchange ratio).

Brasil Telecom S.A. and

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Notes to the Financial Statements (Continued)

For Years Ended December 31, 2009 and 2008

(Amounts in thousands of Brazilian reais, unless otherwise stated)

The Company holds 13,231,556 own preferred shares in treasury, which have been kept in treasury.

- (v) Merger of BrT Part by BrT, with absorption of the equity of BrT Part, through which Coari, holder of 54.45% of BrT Part shares and 10.62% of BrT shares, received 231,077,513 shares, where 161,359,129 common and 69,718,384 preferred were exchanged for its BrT Part shares, liquidated on September 30, 2009. As a result, Coari holds 48.20% of BrT equity.

The net assets of BrT Part merged by BrT totaled R\$5,535,332, resulting in a capital increase of BrT of R\$260,301, where R\$1,413,592 was recorded as capital reserve and R\$3,861,439 was allocated to special goodwill reserve, pursuant to CVM Instruction 319/1999.

The capital increase is represented by the issue of 201,143,307 common shares and 209,155,151 preferred shares of BrT, which were fully attributed to BrT Part shareholders. Therefore, BrT capital increased R\$3,731,059, represented by 203,423,176 common shares and 399,597,370 shares.

As a result of BrT Part merger, 1.2190981 common shares of BrT were exchanged for each BrT Part common share and 0.1720066 BrT common shares and 0.9096173 BrT preferred shares for each BrT Part preferred share (share exchange ratio)

BrT Part holds 1,480,800 common shares in treasury, which have been cancelled. BrT holds 13,231,556 preferred shares in treasury, which have been kept in treasury.

All valuations of the equities and net assets of the merged companies have been conducted by specialized companies, in compliance with Articles 226 and 227 of the Brazilian Corporate Law, based on carrying amounts as of May 31, 2009, adjusted by corporate events that occurred from this date to the mergers date (July 31, 2009 and September 30, 2009) and the most significant subsequent events. Other changes in financial position have been recorded by the merging company:

Balance Sheet Copart 2	05/31/2009
Current assets	7,258
Investments	559,390
Intangible assets	366,788
 Total Assets	 933,436
Current Liabilities	4,880
Noncurrent liabilities	1
Shareholders equity	928,555
 Total liabilities	 933,436

Brasil Telecom S.A. and**Brasil Telecom S.A. and Subsidiaries****Notes to the Financial Statements (Continued)****For Years Ended December 31, 2009 and 2008**

(Amounts in thousands of Brazilian reais, unless otherwise stated)

Balance sheet BrT Part	05/31/2009
Current assets	584,415
Noncurrent assets	1,495,722
Investments	7,345,051
Property, plant and equipment	455
Total Assets	9,425,643
Current Liabilities	330,789
Noncurrent liabilities	11,512
Shareholders' equity	9,083,342
Total Liabilities	9,425,643

Changes in shareholders' equity from May 31, 2009 to September 30, 2009 were accounted by the Company and total R\$82,637.

As required by Law 6404/76 (Brazilian Corporate Law), the mergers have been submitted to and approved by the shareholders of Invitel, Solpart, Copart 1, BrT Part, Copart 2, Coari and the Company, at the Shareholders' Meetings of said companies held on July 31, 2009 and September 30, 2009.

The Company's shareholder structure as of September 30, 2009 is as follows:

Shareholder structure Brasil Telecom S.A.

Shareholder	Common shares	%	Preferred shares	%	Total	%
Coari	161,990,001	79.63%	128,675,049	32.20%	290,665,050	48.20%
Non-controlling interests	41,433,175	20.37%	257,690,765	64.49%	299,123,940	49.60%
Treasury shares			13,231,556	3.31%	13,231,556	2.20%
Total	203,423,176	100.00%	399,597,370	100.00%	603,020,546	100.00%

Goodwill originally recorded under Brazilian GAAP by Copart 1, merged by BrT Part, arises partly from the merger of Solpart by Copart 1 and partly from the merger of Invitel by Solpart, in the total nominal amount of R\$8,235,520, related to the acquisition of 100% of the shares of Invitel and 35.52% of the shares of BrT Part. Recorded goodwill is based on the appreciation of the property, plant and equipment and the Switched Fixed Telephony Services (STFC) concession right of the Company. As a result of the merger of Copart 1 by BrT Part, goodwill will be amortized in books by BrT Part pursuant to prevailing tax and accounting legislation, and will not generate any tax utilization in the first phase of the corporate restructuring.

Goodwill originally recorded under Brazilian GAAP by Copart 2, merged by the Company, totaling R\$737,664, arises from the acquisition of 10.62% of the shares of BrT and is based on the appreciation of the property, plant and equipment and the Switched Fixed Telephony Services (STFC) concession right of the Company. As a result of the merger of Copart 2 by the Company, goodwill will be amortized in books by BrT, pursuant to prevailing tax and accounting legislation, and will generate tax utilization.

Brasil Telecom S.A. and

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Notes to the Financial Statements (Continued)

For Years Ended December 31, 2009 and 2008

(Amounts in thousands of Brazilian reais, unless otherwise stated)

Note that for the calculation of the net asset resulting from the downstream mergers of Copart 1 and Copart 2 into and with BrT Part and BrT, respectively, Copart 1 and Copart 2 recorded as in force of provision for net equity integrity maintenance of its subsidiaries, the amounts of R\$4,072,381 and R\$340,522, respectively. The recognized provisions reduce goodwill amounts based in STFC Company concession to the amount of the related tax benefit due to its amortization, as prescribed by Article 1, Paragraph (a) of CVM Instruction 319/1999.

After the completion of the Step 2 of the Stage 2, the resulting corporate structure is:

Under the U.S. Securities Act of 1933, the merger of the BrT Part (Stage 2) was declared as effective by the Securities and Exchange Commission (SEC) on September 2, 2009.

According to the disclosed in the Material Fact, from August 12, 2009, continuing the corporate restructuring process, the Coari's and BrT's Board of Directors and managements, approved the Step 3 of the Stage 2 of the Corporate Restructuring, on September 25, 2009, which defines the merging of BrT shares by Coari, open company, direct subsidiary of TMAR, objectifying to turn BrT into a wholly-owned Coari's subsidiary; however, in function of facts disclosed in the Material Fact published on January 14, 2010, the process is currently paused.

Brasil Telecom S.A. and

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Notes to the Financial Statements (Continued)

For Years Ended December 31, 2009 and 2008

(Amounts in thousands of Brazilian reais, unless otherwise stated)

2. PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS AND CONSOLIDATION CRITERIA

Financial statements preparation criteria

The financial statements have been prepared and are presented in accordance with Brazilian accounting practices, provisions of the Brazilian Corporate Law and CVM regulations, and the changes introduced by Laws 11638/07 and 11941/09.

With the enactment of Law 11638/07, which was designed to update the Brazilian Corporate Law, so as to enable the convergence of Brazilian accounting practices with the International Financial Reporting Standards (IFRS), new accounting standards and technical pronouncements have been issued by the Accounting Pronouncements Committee (CPC), in conformity with such international accounting standards.

In 2009, 26 new pronouncements (CPCs) and 12 technical interpretations (ICPCs) were issued by CPC and approved by CVM Resolutions for mandatory adoption beginning 2010. The CPCs and ICPCs which may be applicable to the Company, considering the nature of its operations, are as follows:

CPC	Title
15	Business Combinations
16	Inventories
20	Borrowing Costs
21	Interim Financial Reporting
22	Operating Segments
23	Accounting Policies, Changes in Accounting Estimates and Errors
24	Events after the Reporting Period
25	Provisions, Contingent Liabilities and Contingent Assets
26	Presentation of Financial Statements
27	Property, Plant and Equipment
30	Revenues
32	Income Taxes
33	Employee Benefits
36	Consolidated Financial Statements
37	First-time Adoption of International Financial Reporting Standards
38	Financial Instruments: Recognition and Measurement
39	Financial Instruments: Presentation
40	Financial Instruments: Disclosures

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43 First-time Adoption of Technical Pronouncements CPC 15 to 40

ICPC Title

01 Concession Agreements

04 Scope of Technical Pronouncement CPC 10 Share-based Payment

05 Technical Pronouncement CPC 10 Share-based Payment Treasury and Group Share Transactions

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Notes to the Financial Statements (Continued)

For Years Ended December 31, 2009 and 2008

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08 Accounting for Proposed Dividend Payments

10 Clarifications of Technical Pronouncements CPC 27 - Property, Plant and Equipment and CPC 28 - Investment Property

The Company's management is analyzing the effects of the changes introduced by these new pronouncement and, in the event of adjustments arising from the adoption of new accounting practices beginning January 1, 2010, the Company will analyze the need to remeasure the impacts that would be produced on its 2009 financial statements, for comparative purposes, as if the new procedures were already in effect at the beginning of the year ended December 31, 2009.

Consolidation criteria

The Company and its subsidiaries maintain consistent accounting practices.

Consolidated financial statements were prepared according to CVM Instruction 247/1996 and include the financial statements of the Company's direct and indirect subsidiaries. The main consolidation procedures are as follows:

Addition of assets, liabilities, income and expense accounts according to their accounting substance;

Elimination of intercompany accounts and transactions;

Elimination of investments and equity interests in subsidiaries;

Disclosure of non-controlling interests in shareholders' equity and income (loss); and

Consolidation of exclusive investment funds (note 9).

Adoption of Technical Pronouncement CPC 02 Effects of Changes in Exchange Rates and Translation of Financial Statements

a) Functional and reporting currency

The Company and its subsidiaries operate has telecom carriers in the Brazil and engage in related telecom industry activities (see note 1), and the currency used in their operations is the Brazilian real (R\$).

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

the sale price of their products and services;

the costs of services and sales;

the cash flows for trade receivables and trade payments; and

interest, investments and borrowings.

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Brasil Telecom S.A. and

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Notes to the Financial Statements (Continued)

For the Years Ended December 31, 2009 and 2008

(Amounts in thousands of Brazilian reais, unless otherwise stated)

Accordingly, the Company and its subsidiaries' functional currency is the Brazilian real (R\$), which is also the reporting currency.

b) Transactions and balances

The transactions in foreign currency are translated into the functional currency using the exchange rate in effect on the transaction date. Foreign exchange differences from translation are recognized in the statement of operations.

c) Group companies

The Company has investments in companies headquartered abroad, none of which is hyperinflationary economies and with functional currency other than the Brazilian real (R\$).

d) Non-cash items indexed to foreign currency

The company and its subsidiaries do not have non-cash items indexed to foreign currency (other than the functional and reporting currency).

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Brasil Telecom S.A. and

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Notes to the Financial Statements (Continued)

For the Years Ended December 31, 2009 and 2008

(Amounts in thousands of Brazilian reais, unless otherwise stated)

Reclassifications

We reclassified several items of the comparative financial statements for the year ended December 31, 2008 to conform them to the best disclosure accounting practices. These reclassifications are as follows:

	Balances originally reported as of 12/31/2008	Inflation adjustment of reserve for contingent liabilities (i)	Employee and management profit sharing (ii)	Taxes (iii)	Reversal of interest on capital (iv)	Share-based compensation (v)	Tax Refinancing Program (vi)	Consignment in favor of third parties (vii)	Deferred income tax/ social contribution (viii)	Loans and financing (ix)	Company Adjusted balances as of 12/31/2008
Deferred and recoverable taxes (current)	704,281								(31,626)		672,655
Deferred and recoverable taxes (current)	816,000								(98,239)		717,761
Trade accounts payable	1,486,435							(153,144)			1,333,291
Loans and financing (current)	1,378,424									89,920	1,468,344
Provisional financial instruments (current)	89,920									(89,920)	
Payable and deferred taxes (current)	618,212						(4,381)		(31,626)		582,205
Tax financing program (operating)							4,381				4,381
Other liabilities (current)	77,303							153,144			230,447
Loans and financing (current)	3,679,402									132,153	3,811,555
Provisional financial instruments	132,153									(132,153)	

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instruments (incurrent)									
able and ferred taxes (incurrent)	330,289							(98,239)	232,05
ot of sales services	(4,981,993)		21,989						(4,960,00
vice selling enses	(938,015)		19,809						(918,20
eral and ministrative enses	(1,165,656)		38,535		17,411				(1,109,71
er rating ome enses), net ancial enses	(401,323)	131,098	(80,333)	(136,131)		(17,411)			(504,10
	(733,022)	(131,098)			324,300				(539,82
versal of rest on ital DRE	324,300				(324,300)				
uctions n gross ene	(4,883,971)			136,131					(4,747,84
Total effects						Assets (129,865)	Liabilities (129,865)	Gross profit 150,120	

Brasil Telecom S.A. and

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Notes to the Financial Statements (Continued)

For Years Ended December 31, 2009 and 2008

(Amounts in thousands of Brazilian reais, unless otherwise stated)

	Balances originally reported as of 12/31/2008	Inflation adjustment of reserve for contingent liabilities (i)	Employee and management profit sharing (ii)	Taxes (iii)	Reversal of interest on capital (iv)	Share-based compensation (v)	Tax Refinancing Program (vi)	Consignment in favor of third parties (vii)	Deferred income tax/social contribution (viii)	Loans and financing (ix)	Consolidated Adjusted balances as of 12/31/2008
Deferred and recoverable taxes (current)	967,393								(31,703)		935,690
Deferred and recoverable taxes (non-current)	1,622,319								(98,547)		1,523,772
Trade accounts payable	2,060,414							(170,871)			1,889,543
Loans and financing (current)	670,707									89,920	760,627
Contingent financial instruments (current)	89,920									(89,920)	
Payable and deferred taxes (current)	736,156						(4,434)		(31,703)		700,019
Financing program (non-floating)							4,434				4,434
Other liabilities (current)	173,508							170,871			344,379
Loans and financing (non-current)	3,993,198									132,153	4,125,351
Contingent financial instruments (non-current)	132,153									(132,153)	
Payable and deferred taxes (non-current)	359,220						(713)		(98,547)		259,960
Financing program (non-floating)							713				713
Cost of sales services	(6,209,418)		29,125								(6,180,293)

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Service selling expenses	(1,364,223)		25,863						(1,338,360)
General and administrative expenses	(1,401,349)		44,371		17,411				(1,339,567)
Other operating expenses), net	(468,853)	138,421	(99,359)	(284,347)		(17,411)			(731,548)
Financial expenses									
	(597,859)	(138,421)			324,300				(411,980)
Reversal of interest on capital DRE	324,300				(324,300)				
Reductions in gross revenue	(5,710,307)			284,347					(5,425,960)

					Assets	Liabilities	Gross profit
Total effects					(130,250)	(130,250)	313,472

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Brasil Telecom S.A. and

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Notes to the Financial Statements

For the Years Ended December 31, 2009 and 2008 (Continued)

(Amounts in thousands of Brazilian reais, unless otherwise stated)

- (i) Inflation adjustment of contingent liabilities was previously recognized in other operating expenses and started to be recognized as financial expenses.
- (ii) Previously recorded in Operating costs and expenses , segregated in the structure costs of services and sales, selling expenses and general and administrative expense, employee and management profit sharing is now recognized in Other operating expenses .
- (iii) Previously, taxes on gross revenue were recorded as a deduction of gross revenue. Currently, these taxes are recognized as other operating expenses in the consolidated financial statements.
- (iv) Interest on capital declared to shareholders is recorded under financial expenses. Its reversal in 2008, however, was stated in the line prior to Net income. Starting the current year, the reversal is stated under financial expenses, in a separate line account.
- (v) Share-based compensation, a benefit granted to officers, was previously recognized in General and administrative expenses and started to be recognized in Other operating expenses , disclosed in a specific line item.
- (vi) Taxes in installments part of this program were previously recognized in Deferred and payable taxes and started to be recognized in a specific line item of the balance sheet as Tax Refinancing Program.
- (vii) These amounts were previously recognized in Trade accounts payable , in the balance sheet, and started to be disclosed in Other liabilities .
- (viii) Deferred income tax and social contribution were recognized in deferred and recoverable taxes or deferred and payable taxes, depending on the origin of the tax determined. Currently they are accounted for at their net amount in Deferred and recoverable taxes .
- (ix) Derivatives were previously stated in a specific line account of the balance sheet. Correctly these amounts are included in loans and financing.

3. SIGNIFICANT ACCOUNTING PRACTICES

Significant accounting practices adopted in the preparation of the financial statements are as follows:

(a) Cash and cash equivalents

Comprise cash, bank, and highly liquid short-term investments, immediately convertible to known cash amounts, and are stated at fair value at the balance sheet date, do not exceed their market value, and their classification is determined as shown in item (b) below.

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Notes to the Financial Statements (Continued)

For Years Ended December 31, 2009 and 2008

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(b) Short-term investments

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

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

(c) Trade accounts receivable

Receivables from telecommunications services are stated at the tariff or service amount on the date they were provided and do not differ from their fair value. Service receivables include receivables from services provided and not billed by the balance sheet date, whose amount is calculated based on the measurements made on balance sheet date or estimates considering historic performance. Taxes are also calculated on an accrual basis. Receivables from sales of handsets and accessories are stated at the sales prices and recorded when the products are delivered and accepted by the customers.

Charges of past-due bills are recognized when the bill of the first billing cycle subsequent to the payment of the past-due bill is issued.

(d) Allowance for doubtful accounts

An allowance for write-down to the recoverable value is recorded when there is objective evidence that the Company will not be able to collect all the amounts due within the original terms of its receivables.

The criterion adopted for recording the allowance for doubtful accounts takes into consideration the calculation of the actual loss percentages incurred on each maturity of accounts receivable, from when receivables are past-due for more than 60 days, increasing progressively, as follows:

Past-due receivables	% loss accrued
From 1 to 60 days	Zero
From 61 to 90 days	40
From 91 to 120 days	60
From 121 to 150 days	80
Over 150 days	100

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Notes to the Financial Statements (Continued)

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In the year ended December 31, 2008, the criterion adopted for recording the allowance for doubtful accounts takes into consideration the calculation of the actual loss percentages incurred on each maturity of accounts receivable. Future losses on the current receivables balance are estimated based on these loss percentages.

(e) Inventories

Segregated and classified as follows:

Maintenance material inventories classified in current assets in accordance with the period in which they will be used are stated at average cost, not exceeding replacement cost;

Inventories for plant expansion, classified under property, plant and equipment, are stated at average cost of purchase and are used to expand the telephone plant; and

Inventories of goods for resale, classified in current assets are stated at average cost of purchase, basically represented by handsets and accessories. For handsets and accessories, adjustments to probable realizable value are recorded in those cases in which the purchases are made at amounts exceeding sales prices. These losses are considered efforts to gain new customers. Recoverable losses are recognized for obsolete inventories.

(f) Investments

Investments in subsidiaries are accounted for under the equity method, plus unamortized goodwill if based on the appreciation of the assets. Other investments are stated at cost, less an allowance for adjustment to realizable value, when applicable.

(g) Property, plant and equipment

Stated at costs of purchase or construction and includes the appreciation arising from the corporate restructuring (see note 1(b)), less accumulated depreciation. Historical costs include expenses directly attributable to the acquisition of assets. Financial charges on obligations financing assets and construction works in progress are capitalized.

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

Assets under finance leases are recorded in property, plant and equipment, as prescribed by CVM Resolution 554/2008, at the lower of fair value or the present value of the minimum lease payments, from the initial date of the agreement.

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

Brasil Telecom S.A. and

Brasil Telecom S.A. and Subsidiaries

Notes to the Financial Statements (Continued)

For Years Ended December 31, 2009 and 2008

(Amounts in thousands of Brazilian reais, unless otherwise stated)

(h) Intangible assets

Stated at cost, less accumulated amortization and the allowance for impairment losses, when applicable.

Consist basically of regulatory permits for the use of radiofrequency and the provision of Personal Mobile Services (SMP), software use rights and goodwill on the acquisition of investments, calculated based on expected future economic benefits.

Amortization of intangible assets is calculated under the straight-line method and considers, in the case of: (i) permit terms the effective term of the permit, and (ii) software a maximum period of five years. Goodwill calculated based on expected future earnings is not amortized from 2009.

(i) Impairment of long-lived assets

An assessment is performed annually or whenever events or changes in circumstances indicate that the carrying amount of an asset or group of assets may not be recoverable. Long-lived assets may be identified as assets which have indefinite useful lives and assets subject to depreciation and amortization (property, plant and equipment and intangible assets). Impairment losses, if any, are recognized in the amount by which the carrying amount of an asset exceeds its recoverable value. Recoverable value is the higher of fair value less cost to sell and value in use. In order to be tested for impairment, the assets are grouped into the smallest identifiable group for which there are cash generating units (CGUs), and projections are made based on discounted cash flows, supported by expectations on the Company's operations in its various business segments.

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

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

Entity-related information sources: evidence of obsolescence or damage, discontinuation plans, performance reports, etc.; and

Outside information sources: fair values of the assets, technologic environment, market environment, economic environment, regulatory environment, legal environment, interest rates, return rates on investments, market value of Company shares, etc.

The recovery of these assets is supported by projections for assets with infinite useful lives. Additionally, according to Company tests, there are no evidences of impairment to result in the realization of projections for assets with finite useful lives.

(j) Discount to present value

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

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Notes to the Financial Statements (Continued)

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(Amounts in thousands of Brazilian reais, unless otherwise stated)

In general terms, when applicable, the discount rate used is the average return of investments for financial assets or interest charged on Company borrowings financial liabilities. The contra entry is the asset or liability that originated the financial instrument, when applicable, and the deemed financial charges are allocated to income (loss) using the rate used for their calculation.

The Company concluded that there are no assets and liabilities recorded as of December 31, 2009 and 2008 subject to the discount to present value, in view of the following: (i) their nature; (ii) short-term realization of certain balances and transactions; and (iii) absence of cash assets and cash liabilities with embedded or disclosed interest. When financial instruments are measured at the amortized costs, they are adjusted for inflation at the related contractual interest.

(k) Impairment of financial assets

The Company measures at the balance sheet date whether there is objective evidence that financial assets or a group of financial assets is impaired. A financial asset or group of financial assets is considered impaired when there is objective evidence, as a result of one or more events that occurred after the initial recognition of the asset, that the estimated future cash flows have been impacted.

(l) Loans and financing

Stated at amortized cost, plus inflation adjustment of exchange rate changes and interest incurred through the balance sheet date.

Transaction costs incurred are measured at amortized cost and recognized in liabilities, as a reduction to the balance of loans and financing, and are expenses over the contract term.

The Company and its subsidiaries do not use hedge accounting.

(m) Derivative financial instruments

We contract derivatives to mitigate the exposure to market risks arising from changes in exchange rates on foreign currency-denominated debts and, therefore, are classified in line account Loans and financing .

Derivatives are initially recognized at market value on the date a derivative contract is entered into and are subsequently measured at fair value. Changes in the fair value of any of these derivatives are recorded directly in the statement of operations.

(n) Reserve for contingent liabilities

Recorded for contingent risks assessed by management and the Company's in-house and outside legal counsel as probable loss, based on the expected outcome of ongoing lawsuits.

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Notes to the Financial Statements (Continued)

For Years Ended December 31, 2009 and 2008

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(o) Employee benefits

Benefits offered are as follows:

Pension plans The private pension plans and other postretirement benefits sponsored by the Company for the benefit of its employees are managed by three foundations. Contributions are determined based on actuarial calculations, when applicable, and charged to income (loss) on the accrual basis.

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

The obligation recognized in the balance sheet as regards the defined benefit pension plans presenting a deficit, corresponds to the present value of the benefits defined at the balance sheet date, less the fair value of the plan's assets. The defined benefit is annually calculated by independent actuaries, who use the projected unit credit method. The present value of the defined benefit is determined by discounting the estimated future cash outflows, using the projected inflation rate plus long-term interest. After the acquisition of BrT, on January 8, 2009, management started to review and reconcile the accounting practices and estimates of the Company and its parent, which was completed at the end of 2009, and the Company started to use the recognition of actuarial gains and losses under the corridor approach.

Stock Options The Company has a stock option plan for its management and employees, and options granted are settled in shares. The fair value of the services received from employees in exchange for stock options is determined based on the fair value of the stock options, established on grant date.

Until the change in Company control, in January 2009, the Company maintained a stock option plan for its officers and employees for the purchase of shares of its parent at the time BrT Part, classified as settled in shares and cash. These options were fully exercised in the current year as a result of the change in the control of the Company.

The fair value of the services received from employees and management in exchange for stock options is recognized as expenses during the vesting period. The Company reviews the estimate of the number of options expected to be exercised and recognizes the impacts of this review in income or loss. The options settled in shares are recorded as an expense as a contra entry to an increase in shareholders' equity.

Employee profit sharing The accrual includes the employee profit sharing program and is accounted for on the accrual basis and involves all eligible employees, proportionately to the period of time worked in the year, according to the Program's rules. The amount, which is paid by April of the year subsequent to the year profit sharing is accrued, is determined based on the target program established with the employees' unions, under a collective bargaining agreement, pursuant to Law 10101/00 and the bylaws.

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Notes to the Financial Statements (Continued)

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(p) Use of estimates

The preparation of financial statements requires Management to make estimates to record certain assets, liabilities and other transactions. The financial statements include, therefore, estimates related to the useful lives of property, plant and equipment, the recoverable amount of long-lived assets, the reserve for contingent liabilities, the calculation of the provisions for income tax, the fair value measurement of financial instruments, and the calculation of the employee benefits. Actual results could differ from those estimates.

(q) Revenue recognition

Revenues refer mainly to the amount of the payments received or receivable from sales of services in the regular course of the Company's activities. Revenue is stated at the gross amount, less approximate taxes, returns and discounts.

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

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

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

(r) Expense recognition

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

(s) Financial income and expenses

Financial income is recognized on the accrual basis and comprises interest on receivables settled after due date, gains on short-term investments and gains on derivatives. Financial expenses consist of interest and other charges on loans, financing, derivative contracts, and other financial transactions.

Interest on capital to be attributed to mandatory minimum dividends is recorded as financial expenses and reversed to retained earnings, as in substance it consists of allocation of net income.

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For Years Ended December 31, 2009 and 2008

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To avoid impacting financial ratios and allow the comparability between presented periods, the reversals are being presented under financial expenses, thus annulling its impacts.

(t) Income tax and social contribution current and deferred

Income tax and social contribution on income are recorded on the accrual basis. Said taxes attributed to temporary differences and tax loss carryforwards are recorded in assets or liabilities, as applicable, only under the assumption of future realization or payment. The Company prepares technical studies that consider the future generation of taxable income, according to management exaltations, considering the continued operations. Future earnings are compared to the nominal value of recoverable taxes over a period limited to ten years and reduces the deferred tax credit as it identifies that future taxable income sufficient for the partial or total utilization of deferred taxes is less than probable. The technical studies are updated annually and the tax credits are adjusted based on the results of these reviews.

(u) Accounting for government grants and disclosure of government assistance

Government grants are recorded in income (loss) for the year as a reduction of related expenses.

(v) Earnings (loss) per share

Earnings (loss) per share are calculated based on the amount of outstanding shares at the balance sheet date. Outstanding shares are represented by the total shares issued, less the shares held in treasury.

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Notes to the Financial Statements (Continued)

For Years Ended December 31, 2009 and 2008

(Amounts in thousands of Brazilian reais, unless otherwise stated)

4. OPERATING REVENUE

	COMPANY		CONSOLIDATED	
	2009	Reclassified 2008	2009	Reclassified 2008
Fixed telephone service				
Local service	6,482,188	6,552,637	6,480,886	6,549,741
Connection fees	17,239	10,919	17,239	10,919
Subscriptions	3,887,870	3,675,872	3,887,986	3,675,529
Fixed	742,783	922,171	741,469	919,765
Fixed to Mobile VC1	1,818,659	1,926,237	1,818,547	1,926,096
Rentals	1,597	1,135	1,606	1,129
Other	14,040	16,303	14,039	16,303
Long-distance service	2,546,168	2,858,961	2,543,726	2,852,611
Intra-sector fixed calls	752,084	834,620	752,080	834,586
Intraregional (intra-sector) fixed calls	215,171	247,348	215,175	247,235
Intraregional fixed calls	203,313	232,180	203,307	232,176
VC2	733,448	782,384	731,865	778,771
Fixed originated calls	285,815	300,398	285,482	300,386
Mobile originated calls	447,633	481,986	446,383	478,385
VC3	611,443	719,682	610,591	717,098
Fixed originated calls	296,871	353,816	296,834	353,770
Mobile originated calls	314,572	365,866	313,757	363,328
International	30,709	42,747	30,708	42,745
Interconnection	466,776	436,343	357,521	373,810
Fixed to fixed	189,719	210,150	189,250	209,957
Mobile to fixed	277,057	226,193	168,271	163,853
Assignment of means	462,434	537,652	382,350	449,409
Public telephony	351,569	474,656	351,569	474,656
Supplementary services, Smart network and advanced telephony	547,423	419,679	546,288	417,234
Other	27,204	32,207	23,598	30,713
Total fixed telephone service	10,883,762	11,312,135	10,685,938	11,148,174

Continues

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Notes to the Financial Statements (Continued)

For Years Ended December 31, 2009 and 2008

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... continued

	COMPANY		CONSOLIDATED	
	2009	Reclassified 2008	2009	Reclassified 2008
Mobile telephone service				
Telephone			1,997,267	1,894,397
Subscriptions			439,854	401,746
Calls made			641,791	642,109
Call surcharge			1,995	5,499
Roaming			19,774	16,437
Interconnection			644,530	662,238
Value added services			225,766	154,434
Other services			23,557	11,934
Sale of goods			114,324	225,670
Cell phones			82,710	221,522
Electronic cards <i>Brazil Chip</i> , accessories and other goods			31,614	4,148
Total mobile telephone service			2,111,591	2,120,067
Data communication and other services				
Data communication	4,274,029	3,076,102	4,525,642	3,249,938
Other core business services	5,613	7,502	448,742	488,963
Total data communication and other services	4,279,642	3,083,604	4,974,384	3,738,901
Gross operating revenue	15,163,404	14,395,739	17,771,913	17,007,142
Deductions from gross revenue	(6,208,444)	(4,747,840)	(6,893,351)	(5,425,960)
Taxes	(3,486,534)	(3,683,187)	(3,935,302)	(4,105,194)
Other deductions	(2,721,910)	(1,064,653)	(2,958,049)	(1,320,766)
Net operating revenue	8,954,960	9,647,899	10,878,562	11,581,182

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Notes to the Financial Statements (Continued)

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5. COST OF SALES AND SERVICES AND OPERATING EXPENSES

Cost of sales and services

	COMPANY		CONSOLIDATED	
	2009	Reclassified 2008	2009	Reclassified 2008
Interconnection	(2,012,970)	(2,151,933)	(2,025,529)	(2,202,660)
Depreciation and amortization	(1,000,377)	(1,245,623)	(1,528,809)	(1,683,112)
Outside services	(934,635)	(783,594)	(1,101,379)	(970,645)
Rentals and insurance	(280,521)	(296,785)	(386,452)	(395,008)
Connection means	(191,973)	(205,776)	(128,526)	(143,434)
Personnel	(132,643)	(129,236)	(397,001)	(338,489)
Concession Agreement Extension Fee - ANATEL	(71,038)	(65,578)	(71,038)	(65,578)
Supplies	(72,807)	(60,483)	(75,559)	(64,073)
Cost of handsets and other			(86,838)	(236,603)
Other costs	(22,788)	(20,996)	(104,467)	(80,691)
Total	(4,719,752)	(4,960,004)	(5,905,598)	(6,180,293)

Selling expenses

	COMPANY		CONSOLIDATED	
	2009	Reclassified 2008	2009	Reclassified 2008
Allowance for doubtful accounts	(450,862)	(301,956)	(549,602)	(370,242)
Outside services	(453,607)	(423,269)	(539,099)	(546,989)
Personnel	(124,937)	(163,914)	(176,085)	(237,650)
Rentals and insurance	(12,954)	(24,324)	(29,078)	(49,838)
Depreciation and amortization	(2,719)	(3,070)	(8,802)	(9,164)
Supplies	(2,141)	(1,214)	(81,692)	(90,844)
Other expenses	(2,541)	(459)	(7,177)	(33,633)
Total	(1,049,761)	(918,206)	(1,391,535)	(1,338,360)

General and administrative expenses

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CONSOLIDATED

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	2009	Reclassified 2008	2009	Reclassified 2008
Outside services	(547,528)	(710,723)	(672,511)	(803,746)
Depreciation and amortization	(361,855)	(215,936)	(442,933)	(291,479)
Personnel	(202,664)	(164,362)	(294,517)	(220,049)
Rentals and insurance	(13,457)	(15,241)	(20,441)	(19,875)
Supplies	(1,972)	(2,849)	(3,253)	(3,693)
Other expenses	(715)	(599)	(1,153)	(725)
Total	(1,128,191)	(1,109,710)	(1,434,808)	(1,339,567)

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Notes to the Financial Statements (Continued)

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6. OTHER OPERATING INCOME (EXPENSES), NET

	COMPANY		CONSOLIDATED	
	2009	Reclassified 2008	2009	Reclassified 2008
Other operating income				
Proceeds from the settlement of litigation (i)		169,885		169,885
Rental of operational infrastructure and other	129,816	121,040	89,693	86,975
Fines	93,913	90,460	107,676	103,395
Recovery of expenses on pension funds	40,479	61,104	40,479	61,104
Court settlements with telecom companies		21,517		21,403
Technical and administrative services	49,357	63,829	50,674	60,639
Recovery of taxes and recovered expenses	193,557	81,700	212,918	145,084
Income from write-off of property, plant and equipment	18,100	6,364	89,947	18,836
Grants received	4,154	4,751	9,024	15,284
Income from write-off of maintenance/resale inventories	2,387		1,169	
Reversal of allowance for realizable value of property, plant and equipment	45		3,403	
Other income	13,407		17,146	29,523
Total	545,215	620,650	622,129	712,128
Other operating expenses				
Reserve for contingent liabilities	(3,316,626)	(557,124)	(3,339,706)	(573,065)
Pension fund reserves	(5,817)	(81,324)	(5,817)	(81,324)
Employee and management profit sharing	(30,995)	(80,333)	(45,243)	(99,359)
Taxes (except on gross revenue, income tax and social contribution)	(179,403)	(246,527)	(324,874)	(429,979)
Fines	(78,854)		(94,336)	
Write-off of property, plant and equipment	(22,038)	(35,586)	(78,300)	(40,103)
Endowments and sponsorships	(14,642)	(23,283)	(15,824)	(23,006)
Write-off of maintenance/resale inventories	(120)	(392)	(6,866)	(2,202)
Write-off of allowance for investment losses		(497)		(497)
Amortization of goodwill on acquisition of investments		(22,073)		(82,291)
Court costs	(48,803)	(58,597)	(49,911)	(59,430)
Share-based compensation		(17,411)		(17,411)
Allowance for realizable value of property, plant and equipment			(2,573)	
Loss on investments		(1,269)		(35,010)
Other expenses	(62,029)	(334)	(76,155)	
Total	(3,759,327)	(1,124,750)	(4,039,605)	(1,443,677)
Total other operating income (expenses), net	(3,214,112)	(504,100)	(3,417,476)	(731,549)

- (i) Refer to the amount received as a result of the Litigation Settlement and Termination Instrument entered into by the Company, its subsidiary BrT Celular and parent company, Opportunity Fund/Banco Opportunity and its related companies, and TMAR. This settlement met the common interest of the parties above, committed to create a favorable situation for the change in control of Brasil Telecom, as discussed in note 1.

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Notes to the Financial Statements (Continued)

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7. FINANCIAL INCOME (EXPENSES)

	COMPANY		CONSOLIDATED	
	2009	Reclassified 2008	2009	Reclassified 2008
Financial income				
Inflation adjustment of escrow deposits	253,652	203,282	255,798	204,842
Interest and inflation adjustment on other assets	54,619	50,810	10,813	80,832
Income from short-term investments	44,618	41,227	145,832	206,441
Financial discounts obtained	2,483	476	12,324	692
Income from derivative transactions	(2,039)	31,500	(2,039)	31,889
Interest and inflation adjustment on intercompany loans	41,291		73,727	
Interest and inflation adjustment on taxes	34,395	98,432	40,597	113,492
Other (i)	3,893	5,703	39,145	59,002
Total	432,912	431,430	576,197	697,190
Financial expenses				
Interest on loans payable to third parties	(247,302)	(264,781)	(204,689)	(267,195)
Inflation adjustment and exchange rate changes third-party borrowings	187,034	(231,451)	186,257	(231,593)
Expense on derivative transactions	(98,891)	54,391	(98,891)	54,408
Interest on debentures	(140,873)	(134,933)	(140,873)	(134,933)
Interest and inflation adjustment on other liabilities	(70,989)	(112,006)	(177,276)	(242,078)
Inflation adjustment of reserve for contingent liabilities	(199,796)	(131,098)	(210,505)	(138,421)
Interest on taxes	(95,823)	(53,527)	(104,885)	(62,025)
Withholding income tax (IRRF) on financial transactions and banking fees	(2,663)	(14,702)	(3,053)	(16,046)
Interest and commissions on intercompany loans repayable	(52,105)	(51,487)	(94)	
Interest on capital payable		(324,300)		(324,300)
Reversal of interest on capital		324,300		324,300
Exchange rate variation on foreign investments			(49,869)	(37,347)
Other	(31,204)	(31,656)	(53,668)	(33,940)
Total	(752,612)	(971,250)	(857,546)	(1,109,170)
Total financial expenses, net	(319,700)	(539,820)	(281,349)	(411,980)

(i) Other financial income consists basically of inflation adjustment of amounts recoverable related to Arrangement 69/1998 (ICMS).

8. DEFERRED INCOME TAX AND SOCIAL CONTRIBUTION

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Taxes on income encompass the income tax and the social contribution on net income. The income tax rate is 25% and the social contribution rate is 9%, generating aggregate taxation of 34%.

In the year ended December 31, 2009, we paid R\$446,888 (2008 R\$643,367) of income tax and social contribution on a consolidated basis, of which R\$426,785 (2008 R\$619,923) refer to tax calculated by the Company and its subsidiaries and R\$20,103 (2008 R\$23,444) to taxes withheld on third parties.

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

	COMPANY		CONSOLIDATED	
	2009	2008	2009	2008
Current taxes	(448,012)	(569,228)	(449,903)	(637,908)
Income tax and social contribution	(448,012)	(569,228)	(449,903)	(637,908)
Deferred taxes	828,543	35,318	861,418	86,440
Total	380,531	(533,910)	411,515	(551,468)

	COMPANY		CONSOLIDATED	
	2009	Reclassified 2008	2009	Reclassified 2008
Income before taxes and profit sharing	(1,523,220)	1,563,726	(1,552,204)	1,579,433
Income of companies not subject to income tax and social contribution calculation (i)			(3,170)	(8,704)
Total taxed income	(1,523,220)	1,563,726	(1,555,374)	1,570,729
Business income tax (IRPJ) and social contribution on net income (CSLL)				
IRPJ + CSLL taxed income (10%+15%+9%=34%)	517,895	(531,667)	528,827	(534,048)
Equity in subsidiaries	(15,866)	(17,793)		
Tax effects of interest on capital		103,297		103,297
Permanent exclusions (additions)	77,078	(88,938)	77,274	(122,912)
Utilization of tax loss carryforwards			19,088	13,098
Unrecognized deferred tax assets	(88,081)		(98,149)	(3,198)
IRPJ/CSLL effect on goodwill (IN 319/99 - CVM)	(36,736)		(36,736)	
Taxes in Installments of Law 11941/09	(83,369)		(84,754)	
Other	9,610	1,190	5,965	(7,706)
IRPJ/CSLL effect on statement of operations	380,531	(533,910)	411,515	(551,468)

(i) Income of subsidiaries that do not recognize income tax and social contribution on tax loss carryforwards because they do not have any prospects that they will be recovered.

The financial statements for the year ended December 31, 2009 were prepared considering the best management estimates regarding the tax treatment under the criteria set out in the Transitional Tax Regime (RTT).

9. CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS

The cash equivalents and the short-term investments made by the Company and its subsidiaries, in the years ended December 31, 2009 and 2008, are classified as held for trading and are measured at their fair values.

(a) Cash and cash equivalents

	COMPANY		CONSOLIDATED	
	2009	Reclassified 2008	2009	Reclassified 2008
Cash and banks	106,117	150,160	174,896	167,838
Cash equivalents	599,719	430,818	1,542,545	1,310,720
Total	705,836	580,978	1,717,441	1,478,558

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	COMPANY		CONSOLIDATED	
	2009	Reclassified 2008	2009	Reclassified 2008
Exclusive Investment Funds	599,207	248,198	1,134,355	562,537
CDB (i)	512		319,767	
Private securities		182,620		639,160
Investments Abroad			88,423	109,023
Cash Equivalents	599,719	430,818	1,542,545	1,310,720

(i) CDB Certificates of deposit (CD)

(b) *Short-Term Investments*

	COMPANY		CONSOLIDATED	
	2009	Reclassified 2008	2009	Reclassified 2008
Exclusive investment funds	118,476	135,672	381,951	561,867
Short-term investments	118,476	135,672	381,951	561,867
Current	118,476	135,672	381,951	561,867

(c) *Exclusive investment funds portfolio*

All investment funds where BrT and its subsidiaries invest resources are group unique funds, where, on December, 31, 2009, BrT has nearly 48% (2008 24%), BrT Celular 32% (2008 29%) and the other subsidiaries hold 20% (2008 47%) of these funds units.

The composition of the consolidated exclusive funds is shown below:

	Consolidated Balances of Exclusive Investment Funds	
	2009	2008
Repurchase Operations	807,224	542,950
Private securities	325,022	19,587
Government securities	1,585	
Others	524	
Securities classified as Cash Equivalents	1,134,355	562,537
Government securities	347,789	371,036
Private securities	34,162	190,831
Securities Classified as Short Term Short-term investments	381,951	561,867
Total Applied on Exclusive Funds	1,516,306	1,124,404

The Company has placed short-term investments in exclusive investment funds in Brazil and abroad, for the purpose of generating cash remuneration for the Company, with benchmark CDI in Brazil and Libor in foreign.

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10. TRADE ACCOUNTS RECEIVABLE

	COMPANY		CONSOLIDATED	
	2009	2008	2009	2008
Services billed	1,468,513	1,411,893	1,652,530	1,589,911
Services not yet billed	784,098	889,574	852,406	954,353
Sales of goods	2,126	159	54,412	60,249
Subtotal	2,254,737	2,301,626	2,559,348	2,604,513
Provision for Doubtful Debts	(485,359)	(342,543)	(567,207)	(394,423)
Services Rendered	(485,359)	(342,543)	(562,344)	(389,377)
Sales of goods			(4,863)	(5,046)
Total	1,769,378	1,959,083	1,992,141	2,210,090
Not yet due	1,503,605	1,563,740	1,670,805	1,776,216
Overdue, with delay of:				
01 to 30 Days	351,420	394,218	390,579	428,620
31 to 60 Days	110,253	107,666	129,197	125,636
61 to 90 Days	74,555	69,690	92,318	79,852
91 to 120 Days	55,914	47,440	71,829	54,354
Above to 120 Days	158,990	118,872	204,620	139,835
Total	2,254,737	2,301,626	2,559,348	2,604,513

As disclosed in note 3(d), the Company changed its accounting estimate on the allowance for doubtful accounts, in line with the estimate adopted by its indirect parent company TMAR. This change in estimate generated a consolidated increase in the allowance for doubtful accounts by approximately R\$53,985 and net loss for the first half totaling R\$38,541, net of taxes.

Past-due receivables are subject to a 2% fine on total debt, recorded under other operating income and collection of monthly prorated arrears interest of 1%, recorded under financial income and recognized when the first bill is issued after the payment of the past-due bill.

The Company can block call origination after 30 days past due, and block call origination and receiving after 60 days past due, and remove the terminal from the customer after 90 days past due, provided the customers is notified 15 days in advance. After the terminal is removed, which usually takes place after 95 and 110 days past due, the name of the nonperforming customer is sent to credit reporting agencies.

The changes to the SMP Regulation went into effect on February 13, 2008, as approved by ANATEL Resolution 477/2007. This Resolution changed the default rules, as detailed below:

full blocking starts after 45 days, i.e., 30 days after partial blocking and no longer 15 days; and

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the total term to terminate the contract is now 90 days after the maturity of the bill, as the other deadlines were not changed.

11. DUE FROM RELATED PARTIES

	COMPANY	
	2009	2008
Loan with Subsidiaries	28,590	
Interest on Loan	418	
Total	29,008	
Current	29,008	

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BrT signed in May 20, 2009 a loan agreement with the subsidiary BrT Call Center. The maturity of this loan is the date May 20, 2010. The remuneration corresponds to the rate of 115% of the CDI.

	COMPANY		CONSOLIDATED	
	2009	2008	2009	2008
Private debentures principal	1,200,000		1,500,000	
Interest on private debentures	142,313		174,750	
Total	1,342,313		1,674,750	
Noncurrent	1,342,313		1,674,750	

Private debentures issued by TMAR*Company Rights acquired by merger*

The Company Rights refer to the subscription by the merged BrT Part, on February 17, 2009, of 11,648 nonconvertible debentures, issued by TMAR - indirect parent company, for a unit price of R\$103, totaling R\$1,200,000. These debentures mature in five years, on December 11, 2013. These debentures yield interest equivalent to the DI compounded by spread of 4.0% per year, to be paid on the debentures maturity.

The subscription carried out by BrT Part was transferred to the Company, as a consequence of the BrT Part's merger by the Company.

Subscription by BrT Part

On March 12, 2009, BrT Celular subscribed 2,885 nonconvertible debentures, issued by TMAR, for a unit price of R\$104, totaling R\$300,000. These debentures mature in five years, on December 11, 2013. These debentures yield interest equivalent to the DI compounded by spread of 4.0% per year, to be paid on the debentures maturity.

12. DEFERRED AND RECOVERABLE TAXES

	COMPANY		CONSOLIDATED	
	2009	Revision 2008	2009	Revision 2008
ICMS to be recovered (i)	433,222	503,325	593,764	644,121
IR on temporary differences (ii)	2,900,852	612,307	2,977,040	669,334
CS on temporary differences (ii)	1,039,883	192,792	1,065,049	209,770
IR on tax loss (ii)	2,649		582,933	540,801
CS on negative basis (ii)			217,078	198,495
IR to be recovered (iii)	230,540	12,152	297,335	74,345

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CS to be recovered (iii)	15,699	1,504	29,910	6,207
IRRF/CSLL - Tax withheld at source	11,124	5,583	36,052	12,904
Other recoverable taxes	218,339	62,753	254,933	103,485
Total	4,852,308	1,390,416	6,054,094	2,459,462
Current	711,360	672,655	1,001,255	935,690
Noncurrent	4,140,948	717,761	5,052,839	1,523,772

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- (i) The recoverable ICMS (Tax on Goods and Services) is a result mainly, of credits established on the acquisition of goods from fixed asset, which compensation with this tax fiscal obligations occur up to 48 months, according Supplementary Law 102/2000.
- (ii) BRT and its subsidiaries record its deferred tax assets arising from temporary differences, of tax losses and negative basis of social contribution, in accordance with the provisions of Deliberation CVM 273/1998 and CVM Instruction 371/2002.

As follows, there are presented periods of assessment expectation of assets from deferred taxes relating to income tax and social contribution on net income, whose origins are based on temporary differences between the outcome accounting system by competence system and tax outcome, as well as tax loss on the negative basis of social contribution, where existing. The outcoming deadlines are based on technical study founded in future tax profits generated from fiscal years where temporary differences become expenditure fiscally deductible, which consider the actions taken by the Company aiming at broadening the customer basis for activities in the expansion phase. The values recognized in the financial statements are based on technical studies submitted annually to the approval of management and board of directors as well as to the examination of fiscal board.

	COMPANY	CONSOLIDATED
2010	288,168	341,669
2011	400,844	460,788
2012	416,649	500,920
2013	374,650	480,003
2014	340,160	444,052
From 2015 to 2017	805,905	1,047,936
From 2018 to 2020	552,501	802,224
From 2021 to 2023	458,704	458,704
From 2024 onwards	305,803	305,802
Total	3,943,384	4,842,098
Current	288,168	341,668
Noncurrent	3,655,216	4,500,430

The expected recovery in the value of R\$917,408 onwards year 2020 arises from:

- (i) R\$86,663 related to the provision to cover the actuarial deficiency of pension plans, whose obligation is being financially settled in accordance with the maximum remaining period of 12 years, according to the delimited term established by SPC – Secretary of Complementary Previdence. Notwithstanding the time limit set by SPC and in accordance with the estimated future profits tax, the Company is able to compensate its taxes on a period less than ten years, if the Company fully anticipate the debt settlement; and (ii) R\$830,745 related to a amount of depreciation of the goodwill based upon the STFC license, with tax utilization foresee for years 2020 to 2025.

On December 31, 2009, in accordance with Instruction CVM 319/1999, as amended by Instruction CVM N° 349/2001, in the context of the mergers described in Note 1 (b), the balance of STFC license recorded in the Company by the mergers of Copart 2 and BrT Part totaling R\$2,215,540 was transferred from intangible assets for deferred and recoverable taxes, R\$138,679 in current and R\$2,076,861 in noncurrent.

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Additionally, on September 30, 2009 the Company recorded income tax and deferred social contribution, resulting from the corporate restructuring completed on that date (Note 1(b)), in which fair value of (R\$6,867,895) regarding to STFC licenses of the Company was recorded, net of provisions to keep the integrity of the net assets (R\$4,412,903), totaling R\$2,454,993, being R\$1,671,554 of income tax and R\$601,759 of social contribution.

For the direct and indirect subsidiaries that do not have a profitable record and/or any expectation of generating sufficient taxable income over the next ten years, the tax credits in relation to income tax losses and a negative social contribution base, along with tax credits on timing differences, have not been fully recognized. The credits without accounting recognition totalled R\$106,215 (2008 - R\$124,715).

- (iii) The Company and its subsidiaries record IRRF credits on financial applications, loan, dividends and other that are used as deduction in time assessments.

13. ESCROW DEPOSITS

The balances of escrow deposits referring to contingencies with possible and remote loss risks are as follows:

	COMPANY		CONSOLIDATED	
	2009	2008	2009	2008
Civil	3,960,523	2,781,859	3,991,946	2,802,545
Labor	568,407	505,753	576,521	512,183
Tax	564,073	346,538	576,926	351,302
Subtotal	5,093,003	3,634,150	5,145,393	3,666,030
Reduction per re-classification for:				
Reserve for contingent liabilities	(2,766,551)	(509,448)	(2,781,111)	(520,287)
Deferred and payable taxes	(398,194)	(240,393)	(407,985)	(241,778)
Total	1,928,258	2,884,309	1,956,297	2,903,965
Current	351,501	673,834	359,561	678,972
Noncurrent	1,576,757	2,210,475	1,596,736	2,224,993

Escrow deposits bounded to liabilities provisions are presented in deductible manner of those provisions (see Notes 19 and 21).

14. INVESTMENTS

	COMPANY		CONSOLIDATED	
	2009	2008	2009	2008
Equity evaluated by Earnings	3,951,475	3,994,870		

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Equity evaluated by Acquisition Cost (i)	3,703	3,703	5,203	3,703
Incentives Tax, net for losses provisions	130		130	
Other Investments	23	23	41	41
Total	3,955,331	3,998,596	5,374	3,744

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- (i) Investments stated at cost are represented by interests obtained by converting shares or capital quotas of tax incentives in regional FINOR/FINAN funds, Laws for Incentives for Information Technology Companies and Audiovisual Law. They are predominantly composed of shares of other telecommunications companies located in the regions covered by these regional incentives. Main data related to equity evaluated by patrimonial equivalence method are the following:

Subsidiaries	On December 31, 2009			COMPANY			Equity interest %	
	Shareholders equity (unsecured liabilities)	Net income (loss) for the year	Number of shares (thousand) shares	Common Shares	Preferred shares	Quotas	Total Capital	Voting Capital
BrT Celular	2,926,231	(21,322)	4,473,443				100	100
BrTI	362,888	9,811	685,154				100	100
BrT CS	318,943	5,934				272,443,966	99.99	99.99
BrT Multimídia	305,679	7,352				399,253	90.46	90.46
VANT	(239)	(2,620)	141,511,999				99.99	99.99
BrT Call Center	19,635	545	11,270	22,370			99.99	99.99
BrT Card	8,135	19				7,499,999	99.99	99.99
iG Brasil	259,425	11,957	112,047,365				13.65	13.65
NTPA	3,461	425				32,645,507	99.99	99.99
NTIN	270	43	1,003				100	100

Subsidiaries	On December 31, 2008			COMPANY			Equity interest %	
	Shareholders equity	Net income (loss) for the year	Number of shares (thousands) Shares	Common Shares	Preferred shares	Quotas	Total Capital	Voting Capital
BrT Celular	2,926,231	(147,946)	4,473,443				100	100
BrTI	332,993	(70,245)	685,154				100	100
BrT CS	266,307	106,666				272,443,966	99.99	99.99
BrT Multimídia	281,376	43,088				399,253	90.46	90.46
VANT	4,462	(3,257)	141,511,999				99.99	99.99
BrT Call Center	21,880	(5,119)	11,270	22,370			99.99	99.99
BrT Card	7,676	176				7,499,999	99.99	99.99
iG Brasil	240,709	34,503	112,047,365				13.65	13.65

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Subsidiaries	Equity in subsidiaries		Investment Value		Provision for Unsecured Liabilities 2009
	2009	2008	2009	2008	
Brt Celular	(147,946)	(125,952)	2,926,321	3,074,177	
BrTI	29,895	(70,245)	362,888	332,993	
BrT CS	52,636	106,666	318,943	266,307	
BrT Multimídia	21,984	38,977	276,514	254,530	
VANT (i)	(4,701)	(3,257)		4,462	(239)
BrT Call Center	(2,245)	(5,119)	19,635	21,880	
BrT Card	459	6,421	8,135	32,845	
iG Brasil	2,554	176	35,399	7,676	
NTPA	694		3,460		
NTIN	6		270		
	(46,664)	(52,333)	3,951,475	3,994,870	(239)

(i) As defined in Article. 12 of CVM Instruction nº 247/1996, a provision is made in the current liabilities to cover the controlled uncovered liabilities.

15. PROPERTY, PLANT AND EQUIPMENT

	COMPANY						
	Works in progress	Automatic switching equipment	Transmission equipment and Other ⁽¹⁾	Infrastructure	Buildings	Others Assets	Total
Cost of Property, plant and equipment (Gross Amount)							
Balance at January 01, 2008	256,484	4,991,975	13,276,064	3,627,061	1,004,231	1,483,655	24,639,470
Additions	995,535	2,412	226,642	8,093	1,906	34,789	1,269,377
Write-offs	(38,644)	(4,614)	(110,299)	(20,834)	(1,714)	(27,727)	(203,832)
Transfers	(663,713)	77,431	407,177	86,219	4,364	44,370	(44,152)
Balance at December 31, 2008	549,662	5,067,204	13,799,584	3,700,539	1,008,787	1,535,087	25,660,863
Additions	451,730	984	85,805	1,943	775	18,759	559,996
Corporate Restructuring (i)		309,467	1,356,648	101,683	263,905	128,685	2,160,388
Write-offs	(5,354)	(6,514)	(181,239)	(19,542)	(177)	(26,321)	(239,147)
Transfers	(790,448)	48,018	408,326	122,978	16,591	55,703	(138,832)
Balance at December 31, 2009	205,590	5,419,159	15,469,124	3,907,601	1,289,881	1,711,913	28,003,268
Accumulated Depreciation							
Balance at January 01, 2008		(4,858,151)	(11,133,301)	(2,484,735)	(550,245)	(1,202,784)	(20,229,216)
Depreciation Expenses		(62,493)	(819,750)	(224,983)	(29,385)	(110,648)	(1,247,259)
Write-offs		4,951	102,587	19,377	669	21,434	149,018
Transfers			1		(25)	(102)	(126)

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Balance at December 31, 2008	(4,915,693)	(11,850,463)	(2,690,341)	(578,986)	(1,292,100)	(21,327,583)
Depreciation Expenses	(66,509)	(797,997)	(183,147)	(27,044)	(101,656)	(1,176,353)
Corporate Restructuring (i)	(29,432)	(129,026)	(9,758)	(20,472)	(58,636)	(247,324)
Write-offs	6,268	171,186	17,235	47	22,784	217,520
Transfers	21,740	15,350	(20,442)	(849)	(8,914)	6,885
Balance at December 31, 2009	(4,983,626)	(12,590,950)	(2,886,453)	(627,304)	(1,438,522)	(22,526,855)
Net Property, plant and equipment						
Balance at January 01, 2008	256,484	133,824	2,142,763	1,142,326	453,986	280,871
Balance at December 31, 2008	549,662	151,511	1,949,121	1,010,198	429,801	4,333,280
Balance at December 31, 2009	205,590	435,533	2,878,174	1,021,148	662,577	5,476,413
Annual Rate of Depreciation (Average)	20.0%	18.4%	8.5%	4.6%	20.0%	

(1) The transmission equipment and other include transmission equipment and data communication.

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	CONSOLIDATED						Total
	Works in progress	Automatic switching equipment	Transmission equipment and Other ⁽¹⁾	Infrastructure	Buildings	Others Assets	
Cost of Property, plant and equipment (Gross Amount)							
Balance at January 01, 2008	460,353	5,156,452	14,690,865	3,893,822	1,042,997	1,746,167	26,990,656
Additions	1,586,465	2,412	286,234	9,028	10,444	65,631	1,960,214
Write-offs	(41,951)	(4,614)	(110,684)	(21,176)	(1,758)	(29,641)	(209,824)
Transfers	(994,910)	148,854	593,369	113,961	4,420	57,086	(77,220)
Balance at December 31, 2008	1,009,957	5,303,104	15,459,784	3,995,635	1,056,103	1,839,243	28,663,826
Additions	1,000,926	984	120,390	3,138	3,588	27,867	1,156,893
Corporate Restructuring (i)		309,467	1,356,648	101,683	263,905	128,685	2,160,388
Write-offs	(7,775)	(11,750)	(331,167)	(20,621)	(177)	(31,028)	(402,518)
Transfers	(1,461,106)	114,296	765,722	172,405	16,728	77,233	(314,722)
Balance at December 31, 2009	542,002	5,716,101	17,371,377	4,252,240	1,340,147	2,042,000	31,263,867
Accumulated Depreciation							
Balance at January 01, 2008		(4,929,268)	(11,880,114)	(2,582,885)	(565,291)	(1,342,664)	(21,300,222)
Depreciation Expenses		(103,591)	(1,081,424)	(251,787)	(34,184)	(147,526)	(1,618,512)
Write-offs		4,951	109,023	19,407	703	22,986	157,070
Transfers			369		(25)	(382)	(38)
Balance as of December 31, 2008		(5,027,908)	(12,852,146)	(2,815,265)	(598,797)	(1,467,586)	(22,761,702)
Depreciation Expenses		(117,261)	(1,086,011)	(213,906)	(31,070)	(144,734)	(1,592,982)
Corporate Restructuring (i)		(29,432)	(129,026)	(9,758)	(20,472)	(58,636)	(247,324)
Write-offs		10,599	270,568	17,377	47	26,242	324,833
Transfers		21,740	15,350	(20,443)	(848)	(9,086)	6,713
Balance at December 31, 2009		(5,142,262)	(13,781,265)	(3,041,995)	(651,140)	(1,653,800)	(24,270,462)
Net Property, plant and equipment							
Balance at January 01, 2008	460,353	227,184	2,810,751	1,310,937	477,706	403,503	5,690,434
Balance as of December 31, 2008	1,009,957	275,196	2,607,638	1,180,370	457,306	371,657	5,902,124
Balance as of December 31, 2009	542,002	573,839	3,590,112	1,210,245	689,007	388,200	6,993,405
Annual Rate of Depreciation (Average)		20.0%	18.4%	8.5%	4.6%	20.0%	

(1) The transmission equipment and other include transmission equipment and data communication.

(i) The corporate restructuring of the year ended on December 31, 2009 is represented, substantially, by the amount of goodwill paid on BrT Part's control acquisition, founded in fixed asset increasing, in the original amount of R\$2,105,290. The goodwill was recorded in the Company (parent company), by merger of Copart 2 and BrT Part, as disclosed in Note 1 (b), on July 31 and September 30, 2009, respectively, in the accounts representing the respective assets, net of amortization recognized in companies incorporated, in accordance with the Instruction CVM 319/1999.

Additional information

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In accordance with ANATEL's concession contracts, property, plant and equipment that belong to the Company that are considered essential to provide the services authorized in said contracts are considered revertible assets and are part of the respective concession's cost. These assets will automatically revert to Anatel upon expiration of any concession contract that is not renewed.

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As of December 31, 2009, the residual balance of these escheatable assets was R\$4,189,204 (2008 - R\$3,001,610) and comprised the assets and installations forming part of the work in progress, switching and transmission equipment and terminals for public use, equipment that is part of the external network, electrical equipment and systems and operational support equipment.

Since September 30, 2009, the Company changed the useful life of property, plant and equipment, and is in accordance with the Evaluation Report, issued by an expert company, where are evident the acquired assets fair value, and the liabilities assumed in BrT Part control acquisition, causing effects in the BrT financial statements after October 1, 2009.

In December 2009, the appraisal report on economic useful life cycle of goods of the fixed assets was approved by the Board of the Company and its subsidiaries. The result of this evaluation caused effects on Company and its subsidiaries financial statements, since January 1, 2010.

SEGMENT	ECONOMIC USEFUL CYCLE (new)
BUILDING AND IMPROVEMENTS	37 years
MACHINERY AND EQUIPMENTS:	
Switching, Transmission and Data Frame	20 years
Switching, Transmission and Data Other equipments.	10 years
Infrastructure (Electric power and Climatization) Towers	25 years
Infrastructure (Electric power and Climatization) Other equipments	20 years
Infrastructure (Other segments)	VU original
	(from 0 to 25 years)
Cable	10 years
Programming/Software/Upgrades	VU original
	(5 years)

VU Life cycle

In the year ended on December 31, 2009, financial charges and transaction costs to builds in progress were capitalized totaling R\$27,700 by the Company and R\$47,220 in consolidated statements.

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16. INTANGIBLE ASSETS

	Goodwill	Intangible assets	COMPANY Data processing systems	Others	Total
Cost of intangible assets (gross amount)					
Balance at January 01, 2008	122,974	7,984	1,699,869	109,276	1,940,103
Additions		165,044	59	1,628	166,731
Write-off			(6,182)	(32,896)	(39,078)
Transfers		(164,953)	227,547	(11,702)	50,892
Balance at December 31, 2008	122,974	8,075	1,921,293	66,306	2,118,648
Additions		6,833	1,150	1,116	9,099
Corporate Restructuring (i)	9,391		148	3,738	13,277
Write-off			(448)		(448)
Transfers		35,797	121,304	(24,138)	132,963
Balance at December 31, 2009	132,365	50,705	2,043,447	47,022	2,273,539
Accumulated amortization					
Balance at January 01, 2008	(88,402)		(1,214,829)	(52,871)	(1,356,102)
Amortization Expenses	(22,954)		(208,317)	(8,173)	(239,444)
Write-off			6,080	32,896	38,976
Transfers			(11,962)	12,087	125
Balance at December 31, 2008	(111,356)		(1,429,028)	(16,111)	(1,556,495)
Amortization Expenses			(182,661)	(5,936)	(188,597)
Corporate Restructuring(i)	(9,391)		(148)	(3,728)	(13,267)
Write-off			448		448
Transfers			(22,127)	15,243	(6,884)
Balance at December 31, 2009	(120,747)		(1,633,516)	(10,482)	(1,764,745)
Net intangible assets					
Balance at January 01, 2008	34,572	7,984	485,040	56,405	584,001
Balance at December 31, 2008	11,618	8,075	492,265	50,245	562,203
Balance at December 31, 2009	11,618	50,705	409,931	36,540	508,794
Annual Rate of Amortization (Average)			20.0%	20.0%	

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	CONSOLIDATED					
	Goodwill	Intangible assets	Data processing systems	Regulatory licenses	Others	Total
Cost of intangible assets (gross amount)						
Balance at January 01, 2008	498,813	9,565	2,174,233	387,871	106,396	3,176,878
Additions	16,254	264,861	6,654	489,985		777,754
Write-off	(19,078)		(6,182)		(76,288)	(101,548)
Transfers		(260,656)	349,893	6,148	(11,007)	84,378
Balance at December 31, 2008	495,989	13,770	2,524,598	884,004	19,101	3,937,462
Additions		6,833	2,699		1,798	11,330
Corporate Restructuring (i)	9,391		148		3,738	13,277
Write-off			(459)			(459)
Transfers	32,458	86,922	241,065	(153)	(23,947)	336,345
Balance at December 31, 2009	537,838	107,525	2,768,051	883,851	690	4,297,955
Accumulated amortization						
Balance at January 01, 2008	(335,058)		(1,428,050)	(88,407)	(88,686)	(1,940,201)
Amortization Expenses	(101,016)		(308,985)	(50,506)	(5,880)	(466,387)
Write-off	18,941		6,080		76,287	101,308
Transfers			(12,050)		12,086	36
Balance at December 31, 2008	(417,133)		(1,743,005)	(138,913)	(6,193)	(2,305,244)
Amortization Expenses			(329,029)	(58,227)	(306)	(387,562)
Corporate Restructuring (i)	(9,391)		(148)		(3,728)	(13,267)
Write-off			10			10
Transfers	(26,507)		(3,121)		10,140	(19,488)
Balance at December 31, 2009	(453,031)		(2,075,293)	(197,140)	(87)	(2,725,551)
Net intangible assets						
Balance at January 01, 2008	163,755	9,565	746,183	299,464	17,710	1,236,677
Balance at December 31, 2008	78,856	13,770	781,593	745,091	12,908	1,632,218
Balance at December 31, 2009	84,807	107,525	692,758	686,711	603	1,572,404
Annual Rate of Amortization (Average)			20.0%	6.70%	20.0%	

Goodwill

The Company and its subsidiaries have goodwill in investments acquisition, founded in the expectation of future profitability, for the businesses acquired based on 10 years estimation made by expert companies.

In September 2009, the analysis of recoverable amounts (impairment test) of goodwill recorded at investments acquisition was done, being not disclosed losses, according chart below:

	Asset balance on 09/30/2009	Goodwill allocated to CGUs	Base for recoverable amount evaluation	Value in use
Cash Generating Unit (CGU)				

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Internet provider	Region II	74,063	73,143	147,206	849,384
Multimedia	Region II (*)	229,792	7,351	237,143	
Other (*)		64,546	4,313	68,859	
Total		368,401	84,807	453,208	849,384

(*) The assessment was not performed due to the immateriality of goodwill value and absence of indicative loss of asset value.

Brasil Telecom S.A. and

Brasil Telecom S.A. and Subsidiaries

Notes to the Financial Statements (Continued)

For Years Ended December 31, 2009 and 2008

(Amounts in thousands of Brazilian reais, unless otherwise stated)

Regulatory licenses

	CONSOLIDATED		Acquisition cost
	Start	Finish	
Concession / Permit			
Radio frequencies and SMP BrT Mobile Region 2 (2G)	12/18/2002	12/17/2017	191,502
Radio frequencies and SMP BrT Mobile Region 2 (2G)	05/03/2004	12/22/2017	28,624
Radio frequencies and SMP BrT Mobile Region 2 (3G)	04/29/2008	04/30/2023	488,235
Interests capitalized to BrT Celular permits			90,633
Other Licenses			84,857
Total			883,851

Other information

The appraisal report for evaluation of economic life cycle of items on the intangible assets was approved by the Company Board of Directors and its subsidiaries in December 2009. The result of this assessment has not promoted change in life cycle of items of intangible assets.

17. LOANS AND FINANCING*(Including Debentures)*

	COMPANY		CONSOLIDATED	
	2009	Reclassified 2008	2009	Reclassified 2008
Loans	484,354	660,726	210	
Interests provisioned on loans	32,893	51,487	17	
Financing	2,943,123	3,386,888	3,484,692	3,701,110
Interest provisioned on financings	53,566	89,134	71,964	93,685
Debentures	1,080,000	1,080,000	1,080,000	1,080,000
Interest provisioned on debentures	10,586	11,906	10,586	11,906
Commercial leasing	4,132	12,698	4,132	12,698
Interest provisioned on commercial leases	423	1,731	423	1,731
Transaction costs	(10,750)	(14,671)	(11,175)	(15,152)
Total	4,598,327	5,279,899	4,640,849	4,885,978
Current	1,502,029	1,468,344	1,003,352	760,627
Noncurrent	3,096,298	3,811,555	3,637,497	