

BRASIL TELECOM SA  
Form 6-K  
March 03, 2008

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**SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

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**FORM 6-K**

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

**THROUGH March 3, 2008**

**(Commission File No. 1-15256)**

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**BRASIL TELECOM S.A.**

*(Exact name of Registrant as specified in its Charter)*

**BRAZIL TELECOM COMPANY**

*(Translation of Registrant's name into English)*

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**SIA Sul, Área de Serviços Públicos, Lote D, Bloco B  
Brasília, D.F., 71.215-000  
Federative Republic of Brazil**

*(Address of Registrant's principal executive offices)*

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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

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

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**FEDERAL PUBLIC SERVICE  
CVM - COMISSÃO DE VALORES MOBILIÁRIOS (SECURITIES COMMISSION)  
DFP.- STANDARDIZED FINANCIAL STATEMENTS  
TRADE COMPANY, INDUSTRIAL AND OTHERS**

**Corporate Law  
Reference Date - 12/31/2007**

**REGISTRATION AT THE CVM DOES NOT REQUIRE ANY EVALUATION OF THE COMPANY, BEING ITS DIRECTOR RESPONSIBLE FOR THE VERACITY OF THIS INFORMATION.**

**01.01 - IDENTIFICATION**

|                             |   |  |
|-----------------------------|---|--|
| 1 - CVM CODE<br>01131-2     | 2 - COMPANY NAME<br>BRASIL TELECOM S.A. | 3 - GENERAL TAXPAYERS REGISTER<br>76.535.764/0001-43 |
| 4 - NIRE<br>5.330.000.622-9 |   |  |

**01.02 - ADDRESS OF COMPANY S HEADQUARTERS**

|   |                            |                            |                             |            |
|---|----------------------------|----------------------------|-----------------------------|------------|
| 1 - FULL ADDRESS<br>SIA/SUL - ASP - LOTE D- BL B - 1º ANDAR |                            | 2 - DISTRICT<br>SIA        |                             |            |
| 3 - ZIP CODE<br>71215-000                                   | 4 - CITY<br>BRASILIA       |                            | 5 - STATE<br>DF             |            |
| 6 - AREA CODE<br>(DDD)<br>61                                | 7 - TELEPHONE<br>3415-1010 | 8 - TELEPHONE<br>3415-1256 | 9 - TELEPHONE<br>3 415-1119 | 10 - TELEX |
| 11 - AREA CODE<br>61  | 12 - FAX<br>3415-1593      | 13 - FAX<br>3415-1315      | 14 - FAX<br>-               |            |
| 15 - E-MAIL<br>ri@brasitelecom.com.br                       |                            |                            |                             |            |

**01.03 - INVESTORS RELATIONS OFFICER (Address for correspondence to Company)**

|   |                                      |                                      |                               |                 |
|---|--------------------------------------|--------------------------------------|-------------------------------|-----------------|
| 1 - NAME<br>PAULO NARCÉLIO SIMÕES AMARAL                    |                                      |                                      |                               |                 |
| 2 - COMPLETE ADDRESS:<br>SIA/SUL - LOTE D - BL A - 2º ANDAR |                                      |                                      | 3 - DISTRICT<br>SIA           |                 |
| 4 - ZIP CODE<br>71215-000                                   | 5 - MUNICIPALITY<br>BRASILIA         |                                      |                               | 6 - STATE<br>DF |
| 7 - AREA CODE<br>(DDD)<br>61                                | 8 - TELEPHONE<br>NUMBER<br>3415-1010 | 9 - TELEPHONE<br>NUMBER<br>3415-1140 | 10 - TELEPHONE<br>NUMBER<br>- | 11 - TELEX      |
| 12 - AREA CODE<br>(DDD)<br>61                               | 13 - FAX<br>3415-1593                | 14 - FAX<br>-                        | 15 - FAX<br>-                 |                 |
| 16 - E-MAIL<br>ri@brasitelecom.com.br                       |                                      |                                      |                               |                 |

**01.04 - REFERENCE / AUDITOR**

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| YEAR  | 1 SOCIAL YEAR START DATE | 2 SOCIAL YEAR END DATE   |
|---|--------------------------|--|
| 1 Last  | 01/01/2007               | 12/31/2007   |
| 2 Penultimate   | 01/01/2006               | 12/31/2006   |
| 3 Antepenultimate   | 01/01/2005               | 12/31/2005   |
| 4 - AUDITOR NAME/COMPANY NAME<br>Deloitte Touche Tohmatsu Auditores Independentes |                          | 5 - CVM CODE<br>00385-9  |
| 6 - NAME OF THE TECHNICAL RESPONSIBLE<br>Marco Antonio Brandão Simurro            |                          | 7 -INDIVIDUAL TAXPAYER ID (CPF) OF THE TECH.<br>RESPONSIBLE TECHNICIAN<br>755.400.708-44 |

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**01.05 - COMPOSITION OF CAPITAL STOCK**

| Number of Shares<br>(Units) | 1<br>12/31/2007 | 2<br>12/31/2006 | 3<br>12/31/2005 |
|-----------------------------|-----------------|-----------------|-----------------|
| <b>Issued Capital</b>       |                 |                 |                 |
| 1 - Common shares           | 249,597,049     | 249,597,049,542 | 249,597,049,542 |
| 2 - Preferred shares        | 311,353,240     | 311,353,240,857 | 305,701,231,289 |
| 3 - Total                   | 560,950,289     | 560,950,290,399 | 555,298,280,831 |
| <b>Treasury Shares</b>      |                 |                 |                 |
| 4 - Common shares           | 0               | 0               | 0               |
| 5 - Preferred shares        | 13,678,100      | 13,678,100,000  | 13,679,382,322  |
| 6 - Total                   | 13,678,100      | 13,678,100,000  | 13,679,382,322  |

**01.06 - COMPANY S CHARACTERISTICS**

|  |
|--|
| 1 - COMPANY TYPE<br>Trade, Industrial and Other Companies          |
| 2 - SITUATION TYPE<br>OPERATING                                    |
| 3 - SHAREHOLDING NATURE<br>NATIONAL PRIVATE                        |
| 4 - ACTIVITY CODE<br>1113 - TELECOMMUNICATIONS                     |
| 5 - MAIN ACTIVITY<br>Switched Fixed Telephone Service Exploitation |
| 6 - CONSOLIDATED TYPE<br>Total                                     |

**01.07 - SUBSIDIARIES EXCLUDED FROM THE CONSOLIDATED FINANCIAL STATEMENTS**

| 1 - ITEM | 2 - CORPORATE TAXPAYER ID (CNPJ) | 3 - COMPANY NAME |
|----------|----------------------------------|------------------|
|----------|----------------------------------|------------------|

**01.08 - CASH INCOME**

| 1 - ITEM | 2 - EVENT | 3 APPROVAL | 4 - INCOME                       | 5-PAYM. START | 6 - SHARE TYPE AND CLASS SHARE | 7 - INCOME VALUE PER SHARE |
|----------|-----------|------------|----------------------------------|---------------|--------------------------------|----------------------------|
| 01       | RD        | 01/31/2007 | Interest on Shareholder s Equity |               | ON                             | 0.3805236291               |
| 02       | RD        | 01/31/2007 | Interest on Shareholder s Equity |               | PN                             | 0.3805236291               |
| 03       | RD        | 12/28/2007 | Interest on Shareholder s Equity |               | ON                             | 0.1637028190               |
| 04       | RD        | 12/28/2007 | Interest on Shareholder s Equity |               | PN                             | 0.1637028190               |

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|    |          |  |          |  |    |              |
|----|----------|--|----------|--|----|--------------|
| 05 | PROPOSAL |  | Dividend |  | ON | 0.7437302894 |
| 06 | PROPOSAL |  | Dividend |  | PN | 0.7437302894 |

**01.09 - INVESTOR RELATIONS OFFICER**

|                        |               |
|------------------------|---------------|
| 1 - DATE<br>01/29/2008 | 2 - SIGNATURE |
|------------------------|---------------|

**02.01 - BALANCE SHEET - ASSETS (IN THOUSAND OF REAIS)**

| 1 - CODE      | 2 - DESCRIPTION                                     | 3 - 12/31/2007 | 4 - 12/31/2006 | 5 - 12/31/2005 |
|---------------|---|----------------|----------------|----------------|
| 1             | Total Assets  | 14,570,633     | 15,012,181     | 14,969,146     |
| 1.01          | Current Assets                                      | 3,623,756      | 4,794,769      | 4,552,814      |
| 1.01.01       | Cash, Bank and Temporary Cash Investments           | 635,387        | 1,832,365      | 1,479,040      |
| 1.01.01.01    | Cash and Bank                                       | 285,385        | 97,988         | 50,453         |
| 1.01.01.02    | Temporary Cash Investments                          | 350,002        | 1,734,377      | 1,428,587      |
| 1.01.02       | Credits   | 1,931,840      | 1,892,209      | 1,939,589      |
| 1.01.02.01    | Clients   | 1,931,840      | 1,892,209      | 1,939,589      |
| 1.01.02.02    | Sundry Credits                                      | 0              | 0              | 0              |
| 1.01.03       | Inventories   | 6,138          | 5,674          | 4,977          |
| 1.01.04       | Others  | 1,050,391      | 1,064,521      | 1,129,208      |
| 1.01.04.01    | Loans and Financing                                 | 1,797          | 5,534          | 3,873          |
| 1.01.04.02    | Deferred and Recoverable Taxes                      | 571,274        | 724,251        | 970,189        |
| 1.01.04.03    | Escrow Deposits                                     | 326,222        | 117,940        | 30,858         |
| 1.01.04.04    | Short Term Investments                              | 0              | 89,424         | 0              |
| 1.01.04.05    | Other Assets  | 151,098        | 127,372        | 124,288        |
| 1.02          | Non-Current Assets                                  | 10,946,877     | 10,217,412     | 10,416,332     |
| 1.02.01       | Long-Term Assets                                    | 1,879,326      | 1,186,341      | 955,527        |
| 1.02.01.01    | Sundry Credits                                      | 0              | 0              | 0              |
| 1.02.01.02    | Credits with Related Parties                        | 0              | 0              | 0              |
| 1.02.01.02.01 | From Direct and Indirect Associated Companies       | 0              | 0              | 0              |
| 1.02.01.02.02 | From Subsidiaries                                   | 0              | 0              | 0              |
| 1.02.01.02.03 | From Other Related Parties                          | 0              | 0              | 0              |
| 1.02.01.03    | Others  | 1,879,326      | 1,186,341      | 955,527        |
| 1.02.01.03.01 | Loans and Financing                                 | 6,176          | 2,852          | 5,211          |
| 1.02.01.03.02 | Deferred and Recoverable Taxes                      | 728,333        | 729,731        | 759,637        |
| 1.02.01.03.03 | Fixed-Income Securities                             | 892            | 784            | 502            |
| 1.02.01.03.04 | Escrow Deposits                                     | 1,054,992      | 419,116        | 135,205        |
| 1.02.01.03.05 | Other Assets  | 88,933         | 33,858         | 54,972         |
| 1.02.02       | Permanent Assets                                    | 9,067,551      | 9,031,071      | 9,460,805      |
| 1.02.02.01    | Investments   | 4,129,501      | 3,177,461      | 2,481,988      |
| 1.02.02.01.01 | Direct and Indirect Associated Companies            | 4              | 4              | 4              |
| 1.02.02.01.02 | Direct and Indirect Associated Companies - Goodwill | 0              | 0              | 0              |
| 1.02.02.01.03 | Subsidiaries  | 4,075,868      | 3,064,301      | 2,348,514      |
| 1.02.02.01.04 | Subsidiaries - Goodwill                             | 29,431         | 51,504         | 73,578         |
| 1.02.02.01.05 | Other Investments                                   | 24,198         | 61,652         | 59,892         |
| 1.02.02.02    | Property, Plant and Equipment                       | 4,383,480      | 5,234,996      | 6,293,386      |
| 1.02.02.03    | Intangible Assets                                   | 527,650        | 599,234        | 653,063        |
| 1.02.02.04    | Deferred Charges                                    | 26,920         | 19,380         | 32,368         |





**02.02 - BALANCE SHEET - LIABILITIES (IN THOUSAND OF REAIS)**

| 1 - CODE      | 2 - DESCRIPTION                         | 3 - 12/31/2007 | 4 - 12/31/2006 | 5 - 12/31/2005 |
|---------------|---|----------------|----------------|----------------|
| 2             | Total Liabilities                       | 14,570,633     | 15,012,181     | 14,969,146     |
| 2.01          | Current Liabilities                     | 3,688,344      | 3,960,870      | 4,607,415      |
| 2.01.01       | Loans and Financing                     | 487,345        | 1,059,738      | 880,891        |
| 2.01.02       | Debentures                              | 8,956          | 45,939         | 608,226        |
| 2.01.03       | Suppliers                               | 1,145,481      | 1,113,186      | 1,264,665      |
| 2.01.04       | Taxes, Duties and Contributions         | 685,423        | 763,993        | 892,165        |
| 2.01.04.01    | Indirect Taxes                          | 617,163        | 747,268        | 705,383        |
| 2.01.04.02    | Taxes on Income                         | 68,260         | 16,725         | 186,782        |
| 2.01.05       | Dividends                               | 764,841        | 412,875        | 376,579        |
| 2.01.06       | Provisions                              | 280,417        | 200,853        | 249,453        |
| 2.01.06.01    | Provisions for Contingencies            | 178,950        | 157,615        | 203,958        |
| 2.01.06.02    | Provisions for Pension Funds            | 101,467        | 43,238         | 45,495         |
| 2.01.07       | Debts with Related Parties              | 0              | 0              | 0              |
| 2.01.08       | Others                                  | 315,881        | 364,286        | 335,436        |
| 2.01.08.01    | Payroll and Related Accruals            | 67,739         | 64,143         | 60,324         |
| 2.01.08.02    | Consignment in Favor of Third Parties   | 123,164        | 90,634         | 137,580        |
| 2.01.08.03    | Profit Sharing                          | 67,906         | 68,530         | 54,149         |
| 2.01.08.04    | Service Exploitation Licenses.          | 0              | 67,363         | 0              |
| 2.01.08.05    | Advances from Customers                 | 2,065          | 2,320          | 1,694          |
| 2.01.08.06    | Other Liabilities                       | 55,007         | 71,296         | 81,689         |
| 2.02          | Non-Current Liabilities                 | 5,306,398      | 5,523,010      | 4,865,124      |
| 2.02.01       | Long-Term Liabilities                   | 5,306,398      | 5,523,010      | 4,865,124      |
| 2.02.01.01    | Loans and Financing                     | 2,786,779      | 2,666,359      | 2,879,653      |
| 2.02.01.02    | Debentures                              | 1,080,000      | 1,580,000      | 500,000        |
| 2.02.01.03    | Provisions                              | 1,252,450      | 1,152,329      | 1,123,317      |
| 2.02.01.03.01 | Provisions for Contingencies            | 666,172        | 538,007        | 421,695        |
| 2.02.01.03.02 | Provisions for Pension Funds            | 586,278        | 605,975        | 682,594        |
| 2.02.01.03.03 | Provisions for Losses with Subsidiaries | 0              | 8,347          | 19,028         |
| 2.02.01.04    | Debts with Related Parties              | 0              | 0              | 0              |
| 2.02.01.05    | Advance for Future Capital Increase     | 0              | 0              | 0              |
| 2.02.01.06    | Others                                  | 187,169        | 124,322        | 362,154        |
| 2.02.01.06.01 | Payroll, Social Charges and Benefits    | 0              | 0              | 0              |
| 2.02.01.06.02 | Suppliers                               | 11,234         | 6,670          | 21,319         |
| 2.02.01.06.03 | Indirect Taxes                          | 86,247         | 52,780         | 290,712        |
| 2.02.01.06.04 | Taxes on Income                         | 62,115         | 49,669         | 8,872          |
| 2.02.01.06.05 | Advances from Customers                 | 5,473          | 4,380          | 5,522          |
| 2.02.01.06.06 | Other Liabilities                       | 14,126         | 2,849          | 27,755         |
| 2.02.01.06.08 | Funds for Capitalization                | 7,974          | 7,974          | 7,974          |
| 2.02.02       | Deferred Income                         | 0              | 0              | 0              |
| 2.04          | Shareholders Equity                     | 5,575,891      | 5,528,301      | 5,496,607      |
| 2.04.01       | Paid Up Capital Stock                   | 3,470,758      | 3,470,758      | 3,435,788      |



**02.02 - BALANCE SHEET - LIABILITIES (IN THOUSAND OF REAIS)**

| 1 - CODE   | 2 - DESCRIPTION                                       | 3 -12/31/2007 | 4 -12/31/2006 | 5 -12/31/2005 |
|------------|---|---------------|---------------|---------------|
| 2.04.02    | Capital Reserves                                      | 1,327,927     | 1,327,927     | 1,362,890     |
| 2.04.02.01 | Goodwill on Share Subscription                        | 358,862       | 358,862       | 334,825       |
| 2.04.02.02 | Special of Goodwill Reserve                           | 0             | 0             | 59,007        |
| 2.04.02.03 | Investment Grants                                     | 123,558       | 123,558       | 123,551       |
| 2.04.02.04 | Interest on Construction in Progress                  | 745,756       | 745,756       | 745,756       |
| 2.04.02.05 | Special Monetary Adjustment - Law 8200/91             | 31,287        | 31,287        | 31,287        |
| 2.04.02.06 | Other Capital Reserves                                | 68,464        | 68,464        | 68,464        |
| 2.04.03    | Revaluation Reserves                                  | 0             | 0             | 0             |
| 2.04.03.01 | Owned Assets  | 0             | 0             | 0             |
| 2.04.03.02 | Subsidiaries/Direct and Indirect Associated Companies | 0             | 0             | 0             |
| 2.04.04    | Revenue Reserves                                      | 349,155       | 309,291       | 287,672       |
| 2.04.04.01 | Legal   | 349,155       | 309,291       | 287,672       |
| 2.04.04.02 | Statutory   | 0             | 0             | 0             |
| 2.04.04.03 | For Contingencies                                     | 0             | 0             | 0             |
| 2.04.04.04 | From Profits to Realize                               | 0             | 0             | 0             |
| 2.04.04.05 | Profit Retention                                      | 0             | 0             | 0             |
| 2.04.04.06 | Special Reserve for Undistributed Dividends           | 0             | 0             | 0             |
| 2.04.04.07 | Other Profit Reserves                                 | 0             | 0             | 0             |
| 2.04.05    | Retained Earnings/Accumulated Deficit                 | 428,051       | 420,325       | 410,257       |
| 2.04.06    | Advance for Future Capital Increase                   | 0             | 0             | 0             |

**03.01 - STATEMENT OF INCOME (IN THOUSAND OF REAIS)**

| 1 - CODE   | 2 - DESCRIPTION                              | 3 - 01.01.07 to<br>12.31. 07 | 4 - 01/01/2006 to<br>12.31.06 | 5 - 01.01.05 to<br>12.31.05 |
|------------|--|------------------------------|-------------------------------|-----------------------------|
| 3.01       | Gross Revenue from Sales and/or Services     | 13,572,303                   | 13,397,889                    | 13,650,394                  |
| 3.02       | Deductions from Gross Revenue                | (4,118,929)                  | (4,188,175)                   | (4,141,269)                 |
| 3.03       | Net Revenue from Sales and/or Services       | 9,453,374                    | 9,209,714                     | 9,509,125                   |
| 3.04       | Cost of Goods and/or Services Sold           | (5,292,450)                  | (5,567,118)                   | (5,706,877)                 |
| 3.05       | Gross Profit                                 | 4,160,924                    | 3,642,596                     | 3,802,248                   |
| 3.06       | Operating Expenses/Revenues                  | (3,317,653)                  | (3,252,599)                   | (4,662,620)                 |
| 3.06.01    | Selling Expenses                             | (891,082)                    | (983,416)                     | (1,222,423)                 |
| 3.06.02    | General and Administrative Expenses          | (1,138,052)                  | (1,101,951)                   | (1,056,410)                 |
| 3.06.02.01 | Management Compensation                      | (8,290)                      | (7,766)                       | (9,173)                     |
| 3.06.02.02 | Other General and Administrative Expenses    | (1,129,762)                  | (1,094,185)                   | (1,047,237)                 |
| 3.06.03    | Financial                                    | (679,861)                    | (627,005)                     | (1,158,103)                 |
| 3.06.03.01 | Financial Income                             | 285,862                      | 514,765                       | 587,307                     |
| 3.06.03.02 | Financial Expenses                           | (965,723)                    | (1,141,770)                   | (1,745,410)                 |
| 3.06.04    | Other Operating Income                       | 530,988                      | 557,146                       | 370,429                     |
| 3.06.05    | Other Operating Expenses                     | (941,446)                    | (721,509)                     | (956,273)                   |
| 3.06.06    | Equity Income                                | (198,200)                    | (375,864)                     | (639,840)                   |
| 3.07       | Operating Income                             | 843,271                      | 389,997                       | (860,372)                   |
| 3.08       | Non-Operating Income                         | (18,269)                     | (34,074)                      | (130,570)                   |
| 3.08.01    | Revenues                                     | 58,181                       | 33,699                        | 34,606                      |
| 3.08.02    | Expenses                                     | (76,450)                     | (67,773)                      | (165,176)                   |
| 3.09       | Income Before Tax and Minority Interests     | 825,002                      | 355,923                       | (990,942)                   |
| 3.10       | Provision for Income and Social Contribution | (378,115)                    | (272,432)                     | 60,771                      |
| 3.11       | Deferred Income Tax                          | 0                            | 0                             | 0                           |
| 3.12       | Statutory Interest/Contributions             | 0                            | 0                             | 0                           |
| 3.12.01    | Interests                                    | 0                            | 0                             | 0                           |
| 3.12.02    | Contributions                                | 0                            | 0                             | 0                           |
| 3.13       | Reversal of Interest on Shareholders Equity  | 350,400                      | 348,900                       | 626,500                     |
| 3.15       | Income (Loss) for the Period                 | 797,287                      | 432,391                       | (303,671)                   |
|            | OUTSTANDING SHARES AT BALANCE SHEET DATE     | 547,272,189                  | 547,272,191                   | 541,618,899                 |
|            | EARNINGS PER SHARE (REAIS)                   | 1.45684                      | 0.79000                       |                             |
|            | LOSS PER SHARE (REAIS)                       |                              |                               | (0.56000)                   |

**04.01 STATEMENTS OF CHANGES IN FINANCIAL POSITION (Reais Thousand)**

| 1 - CODE      | 2 - DESCRIPTION                                       | 3 - 01.01.07 to<br>12.31.07 | 4 - 01/01/2006 to<br>12.31.06 | 5 - 01.01.05 to<br>12.31.05 |
|---------------|---|-----------------------------|-------------------------------|-----------------------------|
| 4.01          | Sources   | 3,898,883                   | 5,387,144                     | 4,002,169                   |
| 4.01.01       | Of the Operations                                     | 3,109,936                   | 3,335,116                     | 3,289,292                   |
| 4.01.01.01    | Net Income  | 797,287                     | 432,391                       | (303,671)                   |
| 4.01.01.02    | Items not Affecting Working Capital                   | 2,312,649                   | 2,902,725                     | 3,592,963                   |
| 4.01.01.02.01 | Depreciation and Amortization                         | 1,916,609                   | 2,203,716                     | 2,375,496                   |
| 4.01.01.02.02 | Deferred Taxes  | (20,717)                    | 71,223                        | (140,589)                   |
| 4.01.01.02.03 | Equity in Subsidiaries                                | 198,200                     | 375,864                       | 639,840                     |
| 4.01.01.02.04 | Provisions for Contingencies                          | 442,429                     | 368,945                       | 410,118                     |
| 4.01.01.02.05 | Provisions for Pension Funds                          | 32,954                      | 20,014                        | 253,767                     |
| 4.01.01.02.06 | Monetary Variation and Interest on<br>Long-Term items | (219,493)                   | (172,746)                     | 31,900                      |
| 4.01.01.02.07 | Loss (Gain) on Disposal of Permanent Assets           | 16,420                      | 11,470                        | 27,270                      |
| 4.01.01.02.08 | Losses (Gains) on Investments                         | 1,980                       | 9,766                         | (5)                         |
| 4.01.01.02.09 | Write-Off of Tax Incentives                           | 0                           | 14,473                        | 0                           |
| 4.01.01.02.10 | Other (Expenses) Revenues                             | 0                           | 0                             | (4,834)                     |
| 4.01.01.02.11 | Recovery of Expenses on Pension Plans -<br>Surplus    | (55,733)                    | 0                             | 0                           |
| 4.01.02       | Of the Shareholders                                   | 0                           | 0                             | 0                           |
| 4.01.03       | From third Parties                                    | 788,947                     | 2,052,028                     | 712,877                     |
| 4.01.03.01    | Loans and Financing                                   | 600,448                     | 1,912,568                     | 507,243                     |
| 4.01.03.02    | Transfer from Long-Term to Current Assets             | 137,767                     | 114,521                       | 178,292                     |
| 4.01.03.03    | Others  | 50,732                      | 24,939                        | 27,342                      |
| 4.02          | Uses  | 4,797,370                   | 4,498,644                     | 5,051,748                   |
| 4.02.01       | Increase of Long-Term Assets                          | 647,396                     | 280,106                       | 174,818                     |
| 4.02.02       | Increase of Permanent Assets                          | 2,221,043                   | 2,196,626                     | 2,557,605                   |
| 4.02.03       | Dividends/Interest on Shareholders Equity             | 757,423                     | 410,772                       | 626,500                     |
| 4.02.04       | Transfer from Long-Term to Current<br>Liabilities     | 1,171,508                   | 1,611,140                     | 1,630,553                   |
| 4.02.06       | Acquisition of Own Shares                             | 0                           | 0                             | 62,272                      |
| 4.03          | Increase (Decrease) in Working Capital                | (898,487)                   | 888,500                       | (1,049,579)                 |
| 4.04          | Current Assets Variation                              | (1,171,013)                 | 241,955                       | (169,883)                   |
| 4.04.01       | Current Assets at the Beginning of the Period         | 4,794,769                   | 4,552,814                     | 4,722,697                   |
| 4.04.02       | Current Assets at the End of the Period               | 3,623,756                   | 4,794,769                     | 4,552,814                   |
| 4.05          | Current Liabilities Variation                         | (272,526)                   | (646,545)                     | 879,696                     |
| 4.05.01       | Current Liabilities at the Beginning of the<br>Period | 3,960,870                   | 4,607,415                     | 3,727,719                   |
| 4.05.02       | Current Liabilities at the End of the Period          | 3,688,344                   | 3,960,870                     | 4,607,415                   |

**05.01 STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FROM 01/01/2007 TO 12/31/2007**  
**(Thousand Reais)**

| 1 -<br>CODE | 2 - DESCRIPTION   | 3<br>CAPITAL | 4 CAPITAL<br>RESERVES | 5<br>REEVALUATION<br>RESERVES | 6 PROFIT<br>RESERVES | 7<br>RETAINED<br>EARNINGS | 8<br>TOTAL |
|-------------|---|--------------|-----------------------|-------------------------------|----------------------|---------------------------|------------|
| 5.01        | Initial Balance   | 3,470,758    | 1,327,927             | 0                             | 309,291              | 420,325                   | 5,528,301  |
| 5.02        | Adjustments from<br>previous years                          | 0            | 0                     | 0                             | 0                    | 0                         | 0          |
| 5.03        | Capital Stock<br>Increase/Reduction                         | 0            | 0                     | 0                             | 0                    | 0                         | 0          |
| 5.04        | Reserves<br>Realization                                     | 0            | 0                     | 0                             | 0                    | 0                         | 0          |
| 5.05        | Treasury Stock  | 0            | 0                     | 0                             | 0                    | 0                         | 0          |
| 5.06        | Net Income  | 0            | 0                     | 0                             | 0                    | 797,287                   | 797,287    |
| 5.07        | Destinations  | 0            | 0                     | 0                             | 39,864               | (797,287)                 | (757,423)  |
| 5.07.01     | Constitution of<br>Legal Reserve                            | 0            | 0                     | 0                             | 39,864               | (39,864)                  | 0          |
| 5.07.02     | Proposed<br>Dividends/Interest<br>on Shareholders<br>Equity | 0            | 0                     | 0                             | 0                    | (757,423)                 | (757,423)  |
| 5.08        | Others  | 0            | 0                     | 0                             | 0                    | 7,726                     | 7,726      |
| 5.08.01     | Donations and<br>Fiscal Incentives for<br>Investments       | 0            | 0                     | 0                             | 0                    | 0                         | 0          |
| 5.08.02     | Prescribed<br>Dividends                                     | 0            | 0                     | 0                             | 0                    | 7,726                     | 7,726      |
| 5.09        | Closing Balance   | 3,470,758    | 1,327,927             | 0                             | 349,155              | 428,051                   | 5,575,891  |

**05.02 STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FROM 01/01/06 TO 12/31/06**  
**(Thousand Reais)**

| 1 - CODE | 2 - DESCRIPTION                                    | 3 LEGAL CAPITAL | 4 CAPITAL RESERVES | 5 REEVALUATION RESERVES | 6 PROFIT RESERVES | 7 RETAINED EARNINGS | 8 TOTAL   |
|----------|--|-----------------|--------------------|-------------------------|-------------------|---------------------|-----------|
| 5.01     | Initial Balance                                    | 3,435,788       | 1,362,890          | 0                       | 287,672           | 410,257             | 5,496,607 |
| 5.02     | Adjustments from previous years                    | 0               | 0                  | 0                       | 0                 | 0                   | 0         |
| 5.03     | Capital Stock Increase/Reduction                   | 34,970          | (34,970)           | 0                       | 0                 | 0                   | 0         |
| 5.03.01  | Tax Benefit from Amort. Incorp. Goodwill           | 34,970          | (34,970)           | 0                       | 0                 | 0                   | 0         |
| 5.04     | Reserves Realization                               | 0               | 0                  | 0                       | 0                 | 0                   | 0         |
| 5.05     | Treasury Stock                                     | 0               | 0                  | 0                       | 0                 | 0                   | 0         |
| 5.06     | Net Income   | 0               | 0                  | 0                       | 0                 | 432,391             | 432,391   |
| 5.07     | Destinations                                       | 0               | 0                  | 0                       | 21,619            | (432,391)           | (410,772) |
| 5.07.01  | Constitution of Legal Reserve                      | 0               | 0                  | 0                       | 21,619            | (21,619)            | 0         |
| 5.07.02  | Proposed Dividends/Interest on Shareholders Equity | 0               | 0                  | 0                       | 0                 | (410,772)           | (410,772) |
| 5.08     | Others   | 0               | 7                  | 0                       | 0                 | 10,068              | 10,075    |
| 5.08.01  | Donations and Fiscal Incentives for Investments    | 0               | 7                  | 0                       | 0                 | 0                   | 7         |
| 5.08.02  | Prescribed Dividends                               | 0               | 0                  | 0                       | 0                 | 10,068              | 10,068    |
| 5.09     | Closing Balance                                    | 3,470,758       | 1,327,927          | 0                       | 309,291           | 420,325             | 5,528,301 |



**05.03 STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY FROM 01/01/2005 TO 12/31/2005**  
**(Thousand Reais)**

| 1 -<br>CODE | 2 - DESCRIPTION   | 3 LEGAL<br>CAPITAL | 4 CAPITAL<br>RESERVES | 5 REEVALUATION<br>RESERVES | 6 PROFIT<br>RESERVES | 7 RETAINED<br>EARNINGS | 8 TOTAL   |
|-------------|---|--------------------|-----------------------|----------------------------|----------------------|------------------------|-----------|
| 5.01        | Initial Balance   | 3,401,245          | 1,459,705             | 0                          | 287,672              | 1,332,743              | 6,481,365 |
| 5.02        | Adjustments from<br>previous years                          | 0                  | 0                     | 0                          | 0                    | 0                      | 0         |
| 5.03        | Capital Stock<br>Increase/Reduction                         | 34,543             | (34,543)              | 0                          | 0                    | 0                      | 0         |
| 5.03.01     | Tax Benefit from<br>Amort. Incorp.<br>Goodwill              | 34,543             | (34,543)              | 0                          | 0                    | 0                      | 0         |
| 5.04        | Reserves<br>Realization                                     | 0                  | 0                     | 0                          | 0                    | 0                      | 0         |
| 5.05        | Treasury Stock  | 0                  | (62,272)              | 0                          | 0                    | 0                      | (62,272)  |
| 5.06        | Net Income  | 0                  | 0                     | 0                          | 0                    | (303,671)              | (303,671) |
| 5.07        | Destinations  | 0                  | 0                     | 0                          | 0                    | (626,500)              | (626,500) |
| 5.07.01     | Proposed<br>Dividends/Interest<br>on Shareholders<br>Equity | 0                  | 0                     | 0                          | 0                    | (626,500)              | (626,500) |
| 5.08        | Others  | 0                  | 0                     | 0                          | 0                    | 7,685                  | 7,685     |
| 5.08.01     | Prescribed<br>Dividends                                     | 0                  | 0                     | 0                          | 0                    | 7,685                  | 7,685     |
| 5.09        | Closing Balance   | 3,435,788          | 1,362,890             | 0                          | 287,672              | 410,257                | 5,496,607 |

**06.01 BALANCE SHEET CONSOLIDATED ASSETS (IN THOUSAND OF REAIS)**

| 1 - CODE      | 2 - DESCRIPTION                                     | 3 - 12/31/2007 | 4 - 12/31/2006 | 5 - 12/31/2005 |
|---------------|---|----------------|----------------|----------------|
| 1             | Total Assets  | 15,575,736     | 15,997,784     | 16,107,453     |
| 1.01          | Current Assets                                      | 5,950,473      | 6,014,809      | 5,271,687      |
| 1.01.01       | Cash, Bank and Temporary Cash Investments           | 2,377,031      | 2,541,608      | 1,730,083      |
| 1.01.01.01    | Cash and Bank                                       | 314,330        | 127,160        | 63,074         |
| 1.01.01.02    | Temporary Cash Investments                          | 2,062,701      | 2,414,448      | 1,667,009      |
| 1.01.02       | Credits   | 2,189,701      | 2,127,654      | 2,152,813      |
| 1.01.02.01    | Clients   | 2,189,701      | 2,127,654      | 2,152,813      |
| 1.01.02.02    | Sundry Credits                                      | 0              | 0              | 0              |
| 1.01.03       | Inventories   | 32,711         | 64,164         | 83,035         |
| 1.01.04       | Others  | 1,351,030      | 1,281,383      | 1,305,756      |
| 1.01.04.01    | Loans and Financing                                 | 1,797          | 5,557          | 3,962          |
| 1.01.04.02    | Deferred and Recoverable Taxes                      | 790,791        | 901,173        | 1,122,548      |
| 1.01.04.03    | Escrow Deposits                                     | 329,357        | 119,058        | 31,465         |
| 1.01.04.05    | Short Term Investments                              | 0              | 89,424         | 0              |
| 1.01.04.06    | Government Securities                               | 53,556         | 0              | 0              |
| 1.01.04.07    | Other Assets  | 175,529        | 166,171        | 147,781        |
| 1.02          | Non-Current Assets                                  | 9,625,263      | 9,982,975      | 10,835,766     |
| 1.02.01       | Long-Term Assets                                    | 2,620,280      | 1,842,523      | 1,438,299      |
| 1.02.01.01    | Sundry Credits                                      | 0              | 0              | 0              |
| 1.02.01.02    | Credits with Related Parties                        | 0              | 0              | 0              |
| 1.02.01.02.01 | From Direct and Indirect Associated Companies       | 0              | 0              | 0              |
| 1.02.01.02.02 | From Subsidiaries                                   | 0              | 0              | 0              |
| 1.02.01.02.03 | From Other Related Parties                          | 0              | 0              | 0              |
| 1.02.01.03    | Others  | 2,620,280      | 1,842,523      | 1,438,299      |
| 1.02.01.03.01 | Loans and Financing                                 | 6,176          | 2,852          | 5,211          |
| 1.02.01.03.02 | Deferred and Recoverable Taxes                      | 1,452,027      | 1,369,507      | 1,225,631      |
| 1.02.01.03.03 | Fixed-Income Securities                             | 3,709          | 3,280          | 2,604          |
| 1.02.01.03.04 | Escrow Deposits                                     | 1,063,512      | 424,641        | 137,635        |
| 1.02.01.03.05 | Inventories   | 0              | 0              | 0              |
| 1.02.01.03.06 | Other Assets  | 94,856         | 42,243         | 67,218         |
| 1.02.02       | Permanent Assets                                    | 7,004,983      | 8,140,452      | 9,397,467      |
| 1.02.02.01    | Investments   | 181,053        | 303,367        | 390,463        |
| 1.02.02.01.01 | Direct and Indirect Associated Companies            | 4              | 4              | 4              |
| 1.02.02.01.02 | Direct and Indirect Associated Companies - Goodwill | 0              | 0              | 0              |
| 1.02.02.01.03 | Subsidiaries  | 0              | 0              | 0              |
| 1.02.02.01.04 | Subsidiaries - Goodwill                             | 156,835        | 241,695        | 330,551        |
| 1.02.02.01.05 | Other Investments                                   | 24,214         | 61,668         | 59,908         |
| 1.02.02.02    | Property, Plant and Equipment                       | 5,663,418      | 6,535,225      | 7,592,574      |
| 1.02.02.03    | Intangible Assets                                   | 1,049,560      | 1,163,392      | 1,219,986      |
| 1.02.02.04    | Deferred Charges                                    | 110,952        | 138,468        | 194,444        |



**06.02 - BALANCE SHEET - CONSOLIDATED LIABILITIES (IN THOUSAND OF REAIS)**

| 1 - CODE      | 2 - DESCRIPTION                         | 3 - 12/31/2007 | 4 - 12/31/2006 | 5 - 12/31/2005 |
|---------------|---|----------------|----------------|----------------|
| 2             | Total Liabilities                       | 15,575,736     | 15,997,784     | 16,107,453     |
| 2.01          | Current Liabilities                     | 4,377,469      | 4,616,403      | 5,363,295      |
| 2.01.01       | Loans and Financing                     | 487,819        | 1,063,625      | 881,158        |
| 2.01.02       | Debentures                              | 8,956          | 45,939         | 608,226        |
| 2.01.03       | Suppliers                               | 1,482,582      | 1,474,658      | 1,786,535      |
| 2.01.04       | Taxes, Duties and Contributions         | 820,844        | 888,284        | 975,654        |
| 2.01.04.01    | Indirect Taxes                          | 746,216        | 851,234        | 776,527        |
| 2.01.04.02    | Taxes on Income                         | 74,628         | 37,050         | 199,127        |
| 2.01.05       | Dividends Payable                       | 764,841        | 412,875        | 376,579        |
| 2.01.06       | Provisions                              | 298,924        | 218,828        | 265,134        |
| 2.01.06.01    | Provisions for Contingencies            | 197,457        | 175,590        | 219,639        |
| 2.01.06.02    | Provisions for Pension Funds            | 101,467        | 43,238         | 45,495         |
| 2.01.07       | Debts with Related Parties              | 0              | 0              | 0              |
| 2.01.08       | Others                                  | 513,503        | 512,194        | 470,009        |
| 2.01.08.01    | Payroll and Related Accruals            | 90,371         | 78,561         | 78,214         |
| 2.01.08.02    | Consignment in Favor of Third Parties   | 131,850        | 104,165        | 154,696        |
| 2.01.08.03    | Profit Sharing                          | 81,328         | 76,334         | 64,445         |
| 2.01.08.04    | Service Exploitation Licenses.          | 78,844         | 135,848        | 55,516         |
| 2.01.08.05    | Advances from Customers                 | 62,957         | 52,643         | 31,602         |
| 2.01.08.06    | Other Liabilities                       | 68,153         | 64,643         | 85,536         |
| 2.02          | Non-Current Liabilities                 | 5,613,866      | 5,840,690      | 5,230,899      |
| 2.02.01       | Long-Term Liabilities                   | 5,613,866      | 5,840,690      | 5,230,899      |
| 2.02.01.01    | Loans and Financing                     | 2,806,628      | 2,685,626      | 2,918,841      |
| 2.02.01.02    | Debentures                              | 1,080,000      | 1,580,000      | 500,000        |
| 2.02.01.03    | Provisions                              | 1,281,506      | 1,158,914      | 1,112,684      |
| 2.02.01.03.01 | Provisions for Contingencies            | 695,228        | 552,939        | 430,090        |
| 2.02.01.03.02 | Provisions for Pension Funds            | 586,278        | 605,975        | 682,594        |
| 2.02.01.03.03 | Provisions for Losses with Subsidiaries | 0              | 0              | 0              |
| 2.02.01.04    | Debts with Related Parties              | 0              | 0              | 0              |
| 2.02.01.05    | Advance for Future Capital Increase     | 0              | 0              | 0              |
| 2.02.01.06    | Others                                  | 445,732        | 416,150        | 699,374        |
| 2.02.01.06.01 | Payroll, Social Charges and Benefits    | 0              | 0              | 0              |
| 2.02.01.06.02 | Suppliers                               | 13,456         | 6,709          | 21,357         |
| 2.02.01.06.03 | Indirect Taxes                          | 97,683         | 55,800         | 294,070        |
| 2.02.01.06.04 | Taxes on Income                         | 62,634         | 50,186         | 9,413          |
| 2.02.01.06.05 | Service Exploitation Licenses           | 174,632        | 219,533        | 252,274        |
| 2.02.01.06.06 | Advances from Customers                 | 72,133         | 70,665         | 84,587         |
| 2.02.01.06.07 | Other Liabilities                       | 17,220         | 5,283          | 29,699         |
| 2.02.01.06.08 | Funds for Capitalization                | 7,974          | 7,974          | 7,974          |
| 2.02.02       | Deferred Income                         | 0              | 0              | 0              |
| 2.03          | Minority Interest                       | 8,510          | 12,390         | 16,652         |



**06.02 - BALANCE SHEET - CONSOLIDATED LIABILITIES (IN THOUSAND OF REAIS)**

| 1 - CODE   | 2 - DESCRIPTION                                       | 3 -12/31/2007 | 4 -12/31/2006 | 5 -12/31/2005 |
|------------|---|---------------|---------------|---------------|
| 2.04       | Shareholders Equity                                   | 5,575,891     | 5,528,301     | 5,496,607     |
| 2.04.01    | Paid Up Capital Stock                                 | 3,470,758     | 3,470,758     | 3,435,788     |
| 2.04.02    | Capital Reserves                                      | 1,327,927     | 1,327,927     | 1,362,890     |
| 2.04.02.01 | Goodwill on Share Subscription                        | 358,862       | 358,862       | 334,825       |
| 2.04.02.02 | Special of Goodwill Reserve                           | 0             | 0             | 59,007        |
| 2.04.02.03 | Investment Grants                                     | 123,558       | 123,558       | 123,551       |
| 2.04.02.04 | Interest on Construction in Progress                  | 745,756       | 745,756       | 745,756       |
| 2.04.02.05 | Special Monetary Adjustment - Law 8200/91             | 31,287        | 31,287        | 31,287        |
| 2.04.02.06 | Other Capital Reserves                                | 68,464        | 68,464        | 68,464        |
| 2.04.03    | Revaluation Reserves                                  | 0             | 0             | 0             |
| 2.04.03.01 | Owned Assets  | 0             | 0             | 0             |
| 2.04.03.02 | Subsidiaries/Direct and Indirect Associated Companies | 0             | 0             | 0             |
| 2.04.04    | Revenue Reserves                                      | 349,155       | 309,291       | 287,672       |
| 2.04.04.01 | Legal   | 349,155       | 309,291       | 287,672       |
| 2.04.04.02 | Statutory   | 0             | 0             | 0             |
| 2.04.04.03 | For Contingencies                                     | 0             | 0             | 0             |
| 2.04.04.04 | From Profits to Realize                               | 0             | 0             | 0             |
| 2.04.04.05 | Profit Retention                                      | 0             | 0             | 0             |
| 2.04.04.06 | Special Reserve for Undistributed Dividends           | 0             | 0             | 0             |
| 2.04.04.07 | Other Profit Reserves                                 | 0             | 0             | 0             |
| 2.04.05    | Retained Earnings/Accumulated Deficit                 | 428,051       | 420,325       | 410,257       |
| 2.04.06    | Advance for Future Capital Increase                   | 0             | 0             | 0             |

**07.01 - CONSOLIDATED STATEMENT OF INCOME (IN THOUSANDS OF REAIS)**

| 1 - CODE   | 2 - DESCRIPTION                              | 3 01/01/2007 to<br>12/31/2007 | 4 - 01/01/2006 to<br>12/31/2006 | 5 01/01/2005 to<br>12/31/2005 |
|------------|--|-------------------------------|---------------------------------|-------------------------------|
| 3.01       | Gross Revenue from Sales and/or Services     | 15,997,388                    | 15,111,318                      | 14,687,239                    |
| 3.02       | Deductions from Gross Revenue                | (4,938,842)                   | (4,814,659)                     | (4,548,555)                   |
| 3.03       | Net Revenue from Sales and/or Services       | 11,058,546                    | 10,296,659                      | 10,138,684                    |
| 3.04       | Cost of Goods and/or Services Sold           | (6,383,083)                   | (6,465,221)                     | (6,523,502)                   |
| 3.05       | Gross Profit                                 | 4,675,463                     | 3,831,438                       | 3,615,182                     |
| 3.06       | Operating Expenses/Revenues                  | (3,939,661)                   | (3,686,699)                     | (4,772,424)                   |
| 3.06.01    | Selling Expenses                             | (1,485,352)                   | (1,470,632)                     | (1,655,749)                   |
| 3.06.02    | General and Administrative Expenses          | (1,341,019)                   | (1,315,371)                     | (1,267,630)                   |
| 3.06.02.01 | Management Compensation                      | (9,098)                       | (7,980)                         | (11,695)                      |
| 3.06.02.02 | Other General and Administrative Expenses    | (1,331,921)                   | (1,307,391)                     | (1,255,935)                   |
| 3.06.03    | Financial                                    | (613,487)                     | (638,562)                       | (1,222,739)                   |
| 3.06.03.01 | Financial Income                             | 435,948                       | 582,875                         | 664,699                       |
| 3.06.03.02 | Financial Expenses                           | (1,049,435)                   | (1,221,437)                     | (1,887,438)                   |
| 3.06.04    | Other Operating Income                       | 558,402                       | 566,013                         | 414,662                       |
| 3.06.05    | Other Operating Expenses                     | (1,058,205)                   | (828,147)                       | (1,040,968)                   |
| 3.06.06    | Equity Income                                | 0                             | 0                               | 0                             |
| 3.07       | Operating Income                             | 735,802                       | 144,739                         | (1,157,242)                   |
| 3.08       | Non-Operating Income                         | (2,454)                       | 30,865                          | (149,024)                     |
| 3.08.01    | Revenues                                     | 115,025                       | 97,811                          | 44,962                        |
| 3.08.02    | Expenses                                     | (117,479)                     | (66,946)                        | (193,986)                     |
| 3.09       | Income Before Tax and Minority Interests     | 733,348                       | 175,604                         | (1,306,266)                   |
| 3.10       | Provision for Income and Social Contribution | (288,291)                     | (95,035)                        | 389,066                       |
| 3.11       | Deferred Income Tax                          | 0                             | 0                               | 0                             |
| 3.12       | Statutory Interest/Contributions             | 0                             | 0                               | 0                             |
| 3.12.01    | Interests                                    | 0                             | 0                               | 0                             |
| 3.12.02    | Contributions                                | 0                             | 0                               | 0                             |
| 3.13       | Reversal of Interest on Shareholders Equity  | 350,400                       | 348,900                         | 626,500                       |
| 3.14       | Minority Interest                            | 1,830                         | 2,922                           | (12,971)                      |
| 3.15       | Income (Loss) for the Period                 | 797,287                       | 432,391                         | (303,671)                     |
|            | OUTSTANDING SHARES AT BALANCE SHEET DATE     | 547,272,189                   | 547,272,191                     | 541,618,899                   |
|            | EARNINGS PER SHARE (REAIS)                   | 1.45684                       | 0.79000                         |                               |
|            | LOSS PER SHARE (REAIS)                       |                               |                                 | (0.56000)                     |

**08.01 STATEMENTS OF CHANGES IN FINANCIAL POSITION (Reais Thousand)**

| 1 - CODE      | 2 - DESCRIPTION                                    | 3 01/01/2007 to<br>12/31/2007 | 4 - 01/01/2006 to<br>12/31/2006 | 5 01/01/2005 to<br>12/31/2005 |
|---------------|--|-------------------------------|---------------------------------|-------------------------------|
| 4.01          | Sources  | 4,226,002                     | 5,334,917                       | 3,776,334                     |
| 4.01.01       | Of the Operations                                  | 3,357,836                     | 3,238,220                       | 3,092,274                     |
| 4.01.01.01    | Net Income   | 797,287                       | 432,391                         | (303,671)                     |
| 4.01.01.02    | Items not Affecting Working Capital                | 2,560,549                     | 2,805,829                       | 3,395,945                     |
| 4.01.01.02.01 | Depreciation and Amortization                      | 2,465,086                     | 2,729,643                       | 2,794,545                     |
| 4.01.01.02.02 | Deferred Taxes                                     | (141,443)                     | (120,833)                       | (191,436)                     |
| 4.01.01.02.03 | Provisions for Contingencies                       | 461,713                       | 377,258                         | 408,675                       |
| 4.01.01.02.04 | Provisions for Pension Funds                       | 32,954                        | 20,014                          | 253,767                       |
| 4.01.01.02.05 | Monetary Variation and Interest on Long-Term items | (219,674)                     | (174,731)                       | 57,719                        |
| 4.01.01.02.06 | Loss (Gain) on Disposal of Permanent Assets        | 19,476                        | (37,034)                        | 27,958                        |
| 4.01.01.02.07 | Losses (Gains) on Investments                      | 0                             | (39)                            | 44,509                        |
| 4.01.01.02.08 | Write-Off of Tax Incentives                        | 0                             | 14,473                          | 0                             |
| 4.01.01.02.09 | Particip. Minority Interests                       | (1,830)                       | (2,922)                         | 12,971                        |
| 4.01.01.02.10 | Other (Expenses) Revenues                          | 0                             | 0                               | (12,763)                      |
| 4.01.01.02.11 | Recovery of Expenses on Pension Plans - Surplus    | (55,733)                      | 0                               | 0                             |
| 4.01.02       | Of the Shareholders                                | 0                             | 0                               | 0                             |
| 4.01.03       | From Third Parties                                 | 868,166                       | 2,096,697                       | 684,060                       |
| 4.01.03.01    | Loans and Financing                                | 601,028                       | 1,915,937                       | 535,999                       |
| 4.01.03.02    | Transfer from Long-Term to Current Assets          | 208,712                       | 154,218                         | 103,153                       |
| 4.01.03.03    | Others   | 58,426                        | 26,542                          | 44,908                        |
| 4.02          | Uses   | 4,051,404                     | 3,844,903                       | 4,861,246                     |
| 4.02.01       | Increase of Long-Term Assets                       | 681,628                       | 300,359                         | 485,972                       |
| 4.02.02       | Increase of Permanent Assets                       | 1,399,795                     | 1,452,022                       | 1,977,796                     |
| 4.02.03       | Dividends/Interest on Shareholders Equity          | 757,423                       | 410,772                         | 626,500                       |
| 4.02.04       | Acquisition of Own Shares                          | 0                             | 0                               | 62,272                        |
| 4.02.05       | Transfer from Long-Term to Current Liabilities     | 1,212,558                     | 1,681,750                       | 1,708,706                     |
| 4.03          | Increase (Decrease) in Working Capital             | 174,598                       | 1,490,014                       | (1,084,912)                   |
| 4.04          | Current Assets Variation                           | (64,336)                      | 743,122                         | (417,670)                     |
| 4.04.01       | Current Assets at the Beginning of the Period      | 6,014,809                     | 5,271,687                       | 5,689,357                     |
| 4.04.02       | Current Assets at the End of the Period            | 5,950,473                     | 6,014,809                       | 5,271,687                     |
| 4.05          | Current Liabilities Variation                      | (238,934)                     | (746,892)                       | 667,242                       |
| 4.05.01       | Current Liabilities at the Beginning of the Period | 4,616,403                     | 5,363,295                       | 4,696,053                     |
| 4.05.02       | Current Liabilities at the End of the Period       | 4,377,469                     | 4,616,403                       | 5,363,295                     |



**09.01 INDEPENDENT AUDITORS REPORT**

(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 individual (Company) and consolidated balance sheets of Brasil Telecom S.A. and subsidiaries as of December 31, 2007 and 2006, and the related statements of income, changes in shareholders equity (Company), and changes in financial position for the years then ended, all expressed in Brazilian reais and 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, (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 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 subsidiaries as of December 31, 2007 and 2006, and the results of their operations, the changes in shareholders equity (Company), and the changes in their financial positions for the years then ended in conformity with Brazilian accounting practices.
4. Our audits were conducted for the purpose of forming an opinion on the basic financial statements referred to in paragraph 1 taken as a whole. The accompanying individual and consolidated statements of cash flows and value added for the years ended December 31, 2007 and 2006 are presented for purposes of additional analysis and are not a required part of the basic financial statements in conformity with Brazilian accounting practices. Such information has been subjected to the auditing procedures described in paragraph 2 and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the years ended December 31, 2007 and 2006 taken as a whole. The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

Brasília, January 29<sup>th</sup>, 2008.

DELOITTE TOUCHE TOHMATSU

Independent Auditor

CRC No. 2 SP 011609/O-8 S DF

Marco Antonio Brandão Simurro

Accountant

CRC No. 1 RJ 052000/O-0 S DF

## **10.01 MANAGEMENT REPORT**

### **MANAGEMENT REPORT**

#### **Dear shareholders:**

In compliance with legal and statutory provisions, the management of Brasil Telecom S.A. submits this Management Report, Consolidated Financial Statements, and Independent Auditors Report, for the fiscal year ending December 31, 2007.

#### **CORPORATE PROFILE**

Brasil Telecom S.A. is a telecommunications operator. Its shares are traded on Bovespa under the symbols BRTO3 and BRTO4, and on the New York Stock Exchange under the symbol BTM. It is worth highlighting that Brasil Telecom has a broad shareholder base abroad.

In 2007, Brasil Telecom S.A.'s preferred shares appreciated 68.2%, while its common shares closed the year with an appreciation of 12.3%.

**Brasil Telecom's shareholding structure is as follows:**

At the end of 2007, a change occurred in the group of controlling shareholders, with the sale of interest that Telecom Itália held in Solpart, holder of Brasil Telecom. A 38% interest was acquired by Techold.

Brasil Telecom is one of the largest companies in the Latin American telecommunications industry. It provides services in the following areas: fixed line and mobile telephony; data solutions; Internet; video; and data center – a business unit that provides IT and telecommunications infrastructure for other companies. In 2007, Brasil Telecom was the first among Brazilian telecommunications companies and second in Latin America to offer IPTV, which allows users to watch audio and video material, access web content, and play online.

In Brazil, Brasil Telecom provides telephony services to millions of Brazilians who live in Region II, which covers the states of Rio Grande do Sul, Santa Catarina, Paraná, Mato Grosso do Sul, Mato Grosso, Goiás, Tocantins, Acre, Rondônia, and the Federal District. Headquartered in Brasília (DF), and counting on approximately 17 thousand employees, the Company's client base includes 8 million fixed terminals in

service, 4 million mobile connections, 282 thousand public use terminals, and 1.6 million ADSL (broadband) connections.

Internet providers iG, iBest, and BrTurbo, which compose the Internet Group Brasil Telecom's Internet unit, have 1.4 million broadband and 4 million dial-up customers. This figure makes it the third most viewed portal in the country, with over 11.2 million unique residential visitors per month, according to the method that measures Internet access from homes in a given period.

Brasil Telecom Cabos Submarinos (Globenet) owns 22 thousand kilometers of undersea cables connecting Brazil with Venezuela, and Bermuda with North America, with landing points in Rio de Janeiro, Fortaleza, Caracas, Miami, New York, and Bermuda. This network strengthens the group's leading position in the data communication market. The subsidiary Brasil Telecom Comunicação Multimídia operates, in addition to other sites, in the three main cities outside the concession region: São Paulo, Rio de Janeiro, and Belo Horizonte, with a focus on corporate and business markets. Both companies offer complete nationwide and worldwide solutions, including Cyber Data Centers.

This diversified portfolio makes the operator the first Brazilian telecommunications company capable of meeting market demands in an integrated manner, through converging services.

## **CORPORATE GOVERNANCE**

The adoption of good governance practices is deemed as essential by Brasil Telecom to increasing its credibility, consolidating its corporate image, and adding value. In 2007, Brasil Telecom invested in establishing a new governance standard, supported by four basic principles: clear role delegation and definition; equality in the treatment of shareholders; transparency; and accountability. The goal is make Brasil Telecom a governance benchmark. Among the initiatives adopted, we highlight the following:

- Amendment to the Bylaws: among other features, the establishment of the model of deliberative management for Executive Officers;
- The creation of Technical and Consulting advisory committees and an assessment of the Board of Directors performance;
- The implementation of the risk management model; and
- A revision of policies for the disclosure and use of information, and the trading of the Company's securities.

Governance at Brasil Telecom is structured as follows:

### **Board of Directors**

In 2007, Board of Directors activities became regulated by an internal control system, providing a clear definition of its duties and responsibilities, as well as solutions for situations involving conflict of interest. Two technical and consulting committees were established to advise the Board of Directors: (i) the Remuneration and People Development Committee, which analysis matters related to development, compensation, and general human resources policies; and (ii) the Committee of Risks and Processes, which assesses matters related to internal and external auditing and monitors the systems of control and risk management.

The Board of Directors has also decided to perform annual assessments of its performance, and of its members performance. The first assessment took place in the first half of 2007.

### **Executive Officers**

Brasil Telecom's executive officers are responsible for implementing business strategies defined by the Board of Directors and by the Company's operating and financial performance.

With the amendment to the Bylaws, the number of Executive Officers pursuant to the Bylaws increased from four to six, who now make decisions in a deliberative manner, at weekly meetings. This model increases diversity from the point of view of discussions, reduces the risk level, and improves transparency in the Company's decision-making process. Another important creation was the position of Vice President of Governance and New Businesses.



**Advisory Committees**

In 2007, Brasil Telecom continued its process of improving the efficiency of the Company's management. Among the instruments supporting the decision-making process are the committees. In addition to the Investments and Purchases and Ethics Committees, two new committees were established in 2007: Business Sustainability and Corporate Risk Management.

**Shareholders Compensation Policy**

In accordance with the provisions set forth in Law 6,404/76 and in the Bylaws, Brasil Telecom shareholders are paid dividends and interest on equity of at least 25% of adjusted net income.

Preferred shares are entitled pre-emptive rights in receiving minimum, non-cumulative dividends, and the greater of the following: six percent (6%) per year, calculated over the resulting amount from the division of the capital stock by the total shares of the Company; or three percent (3%) per year, calculated over the resulting amount from the division of the net equity value by the total number of the Company's shares.

Dividends are paid primarily to preferred shares, up to the preemptive limit. Next, they are paid to common shareholders up to the limit of preferred shares, the balance of which is divided by all shares, in equal conditions. Dividends provisioned by the Company integrate the proposal of the allocation of results to be submitted to approval by the General Shareholders Meeting.

**Dividends and Interest on Equity (JSCP)**

| Year | Type      | Credits in book | Shareholding basis | Gross amount (R\$/ shares) | Net amount (R\$/ shares) |
|------|-----------|-----------------|--------------------|----------------------------|--------------------------|
| 2007 | JSCP      | 245,000,000.00  | 02/09/2007         | *0.447674858               | *0.380523629             |
| 2007 | JSCP      | 105,400,000.00  | 12/26/2007         | 0.192591552                | 0.163702819              |
| 2007 | Dividends | 407,022,903.51  | OGM date           | 0.743730289                | 0.743730289              |

\* (R\$/lot of 1,000 shares)

**ECONOMIC SCENARIO**

The Brazilian economy performed well throughout 2007, with surprising results from the main economic indicators. Increased purchasing power and greater access to financing have been guaranteeing sound results for internal consumption. 2007 GDP grew approximately 4.8%, against 3.6% in 2006.

It is, therefore, an important moment for the national economy, which responded to a combination of macroeconomic stability, maturation of institutional reforms, and a positive external scenario. A country in steady expansion was demonstrated. All of this is a legacy of accomplishments and progress, marked by important reforms, which dated back decades but produced clearer results this year.

The inflation rate at the end of 2007 was close to 4% per year, following a 13-year cycle of low rates and smaller volatility as compared to previous periods. A generation of Brazilians has emerged that, for the first time, had never known price instability and will certainly be intolerant to dramatic change. This new scenario is reflected in interest rates, which continued a declining trend and brought Brazilian actual interest rates to record low levels.

Another change is being felt in the exchange market. The Real appreciated throughout the year, and the Brazilian currency is seeking a new balance at approximately R\$1.70 to one USD. This is a reflex of the strong commercial balances and monetary inflows that suggest the emergence of a new Brazil, which is the target for foreign investment. The actual economy, connected to the productive sector, also responded to stability and microeconomic reforms. The credit market had been the major driver of domestic consumption. Although still smaller when compared to other economies, the greater access to credit and the subsequent growth in the balances of bank



loans reflected gains in the well-being of Brazilians. In addition, an active labor market, with growing income and occupation, combined with lower unemployment rates, led to a greatly expanded consumer market in 2007. In this context, the answer from the productive sector, which also includes higher investment levels, points to greater future growth potential.

Finally, growth was also a surprise, exceeding the expected 3.5% and reaching year-end 2007 with nearly 5% GDP expansion. On the supply side, industry and services presented growth above expectation; whereas and on the demand side, the major drivers were family consumption and investment.

Projections for 2008, despite the volatility from the external market particularly from the American economy, are of an economy growing at rates close to 4.5%, with inflation in line with targets and the maintenance of a heated demand scenario. All these factors are essential to guaranteeing that 2007 will not have been a mere exception, and that these surprising results will continue in 2008.

## **BUSINESS STRATEGY**

### **Telecom Industry**

The telecommunications industry is an important instrument in promoting economic and social development in a given country. A modern and efficient telecommunications platform increases economic productivity more than any other form of infrastructure.

In Brazil, the restructuring of the telecommunications industry, which took place in the mid-1990s, enabled the universalization of the commuted fixed line telephone service, thus increasing its geographical scope, as well as penetration levels, within all household incomes, particularly classes C, D, and E. As for mobile telephony, Brazil underwent an aggressive expansion evidence of the success of the adopted model. Telecommunications companies have performed their greatest investment plan in history in expansion, modernization, and service quality improvement. Between 2001 and 2006<sup>1</sup>, for example, the penetration of fixed line and mobile telephony, as a percentage of homes, increased from 58.9% to 74.5%. Thirty-four thousand locations in Brazil currently have telephone services.

In 2007, wealth generated by the industry represented around 6.5%<sup>2</sup> of Brazil's GDP. The volume of taxes collected represents nearly 40.3% of the net operating revenue of telecom companies one of the largest tax burdens in the world. R\$11.9 billion<sup>3</sup> were invested in 2007, employing over 312 thousand people. Following a development cycle in Brazil in which the universalization of fixed line services was the main driver, telecommunications operators are currently focused on providing greater value-added services. This is the case with broadband, which will be the main supporting base for a broad range of content-related services, such as IPTV.

As a result of this development, Brazil has also enjoyed a significant expansion of the Internet. The computer-per-household ratio increased from just 12.6% in 2001 to 22.1% in 2006<sup>4</sup>. In addition, the number of computers connected to the Internet in the same period increased from 8.6% to 16.9%. According to expert studies, Brazil has the third largest Internet market in the Americas, behind only the United States and Canada.

In the last few years, the General Telecommunications Law (LGT) and industry regulations enabled the expansion of the telecommunications industry in Brazil and the diversification of services provided by operators in the Country. However, for a new development cycle to occur, the industry expects an updated regulatory framework, since Brazil cannot be prevented from fully exploring the advantages of technological convergence as a consequence of the model becoming outdated.

With the existence of an up-to-date and predictable regulatory framework that stimulates competition and new investments, the industry tends to respond to challenges proposed by the country as occurred with the universalization of services (fixed line and mobile) during the period immediately preceding privatization.

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<sup>1</sup> Latest data disclosed by IBGE (PNAD)

<sup>2</sup> Gross Operating Revenue. Sources: TELEBRASIL, BACEN, Análise Brasil Telecom

<sup>3</sup> Source: ABEPREST (Associação Brasileira de Empresas de Soluções de Telecomunicações e Infomática) <sup>4</sup> Latest data disclosed by IBGE (PNAD)





## Regulatory Environment

By 2007, the General Telecommunications Law had been in existence for ten years. During this period, its main accomplishments besides structuring the privatization process were: the reorganization of public- and private-regime services; the universalization of fixed line services; the promotion of increased mobile service; and the definition of basic competition principles.

However, it is apparent that the current regulatory framework is becoming inadequate in dealing with the current industry situation. Means of communication are changing and multiplying, provoking important changes in the business models used by the industry as a whole. Convergence is already the reality in the world's main markets, where telecom operators offer the so-called Triple (or Quadruple) Play package: a bundled offer of fixed and mobile services, data, and video. The regulatory framework has to be updated, focusing on the promotion of fair competition in the converging market, network expansion for content distribution, incentives to innovation, diversification of offers, and new investments, creating the conditions for digital inclusion in Brazil.

As for regulation, the National Agency for Telecommunications (ANATEL), a regulatory body, has introduced or updated the Regulations for the Remuneration of Public Switched Telephone Networks (PSTN), Portability Regulations, and the Regulations of Personal Mobile Services (SMP), as well as making available the Public Consulting to the Cost of Capital Rule (WACC).

With regard to radiofrequencies grants, ANATEL undertook the following initiatives, among others:

- *Bidding for 3.5 and 10.5 GHz (WiMAX)*: this bidding, which started in 2006, was suspended with the request of the Brazilian Court of Auditors (TCU), since the minimum prices required revision. There are also discussions involving the possibility of concessionaires taking part in their operating areas;
- *Bidding for leftovers of the Personal Mobile Service (SMP) Radiofrequency Spectrum*;
- *3G bidding (Third Generation of Mobile Telephony)*: The publication was submitted to public consultation and approved by Anatel, and bidding took place between December 18 and 20, 2007. The bidding results were granted on December 31, 2007; and
- The Federal Government, by means of Decree 6,155, revised the General Target Plan for the Universalization of the PSTN under Public Regime. The revision established new installation terms for Telecommunication Services Centers (PSTs) and Cooperative Service Units (UACs) located in rural areas. Remaining active are agreements with the Federal Government and ANATEL aimed at the optional replacement of PST goals for the transmission infrastructure to offer broadband services in cities that do not currently have these services.

In the second quarter, Brazil Telecom executed the Term for Universalization Obligations using resources from the Fund for the Universalization of Telecommunication Services (FUST) related to the Project of Servicing Institutions for the Aid of Impaired People, according to the previously established goals in the Universalization Target Plan. This was the first project to be financed by FUST since its inception.

Another important event was the approval by ANATEL of Numeric Portability in fixed line and mobile telephony. In order to make this change feasible, several initiatives were adopted, including the creation of an Executive Group to Implement Portability (GIP), and the selection of a Management Entity (EA), which will be responsible for operating this service. Brasil Telecom has been taking part actively in GIP, contributing to its adequate implementation in the Company and in the industry.



## Universalization Targets

| Indicators  | JAN     | FEB     | MAR     | APR     | MAY     | JUN     | JUL     | AUG     | SEP     | OCT     | NOV     | D  |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|---------|----|
| Lines installed (thousand lines)  | 10,404  | 10,392  | 10,388  | 10,387  | 10,384  | 10,375  | 10,362  | 10,365  | 10,368  | 10,366  | 10,376  | 10 |
| Locations with more than 300 inhabitants not served by PSTN with individual lines   | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |    |
| Requests of installation of individual lines, fulfilled in more than 1 week (target: 1 week)  | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |    |
| Requests of installation of individual lines made by regular education and health institutions, fulfilled in more than one (1) week (target: 1 week)  | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |    |
| Requests of installation of individual lines made by speech or hearing impaired individuals, fulfilled in more than 1 week (target: 1 week)   | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |    |
| Public telephones (TUPs) in service   | 276,802 | 276,455 | 275,484 | 275,384 | 275,374 | 276,046 | 277,920 | 281,553 | 281,979 | 281,935 | 281,925 | 28 |
| Localities, covered by PSTN with individual lines, which do not meet the distribution of public telephones per one thousand inhabitants, territorially distributed in a uniform manner (target: 3 pay phones per group of one thousand inhabitants) | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |    |
|   | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       | 0       |    |

|   |   |   |   |   |   |   |   |   |   |   |   |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Localities, covered by PSTN with individual lines, with an availability of access to public telephone with a distance greater than the target (target: less than 300 meters)  |   |   |   |   |   |   |   |   |   |   |   |
| Localities that do not meet the percentage of public telephones available 24 hours a day for long-distance calls with capacity of originating and receiving local and domestic long-distance calls (target: 50% of public telephones) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Localities that do not meet the percentage of public telephones available 24 hours a day for additional international long-distance calls (target: 25% of public telephones)  | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Requests of public telephones in regular education and health institutions fulfilled in more than 1 week (target: 1 week)   | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Requests of public telephones made by speech or hearing impaired individuals, and those who use wheelchairs fulfilled in more than 1 week (target: 1 week)  | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

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|  |      |      |      |      |      |      |      |      |      |      |      |      |      |
|--|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Localities with more than 100 inhabitants, without PSTN, without at least one public telephone (target: larger than 100 inhabitants)   | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    |
| Public telephones density per one thousand inhabitants (target: 6.0)   | 7.41 | 7.27 | 7.24 | 7.24 | 7.24 | 7.26 | 7.31 | 7.41 | 7.42 | 7.42 | 7.42 | 7.41 | 7.41 |
| Locations with PSTN that do not meet the percentage of 2% of public telephones adapted for speech and hearing impaired individuals and for those who use wheelchair  | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    |
| Localities served only by collective accesses, without at least one public telephone available 24 hours a day with capacity of originating and receiving local, domestic long-distance and international calls | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    | 0    |

**Quality Targets**

In 2007, Brasil Telecom achieved and exceeded 339 of the 372 quality indicators set by the General Target Plan for Quality (Plano Geral de Metas de Qualidade - PGMQ) as shown in the table.

**Quality Targets**

| <b>Service Quality Targets</b>  | <b>JAN</b> | <b>FEB</b> | <b>MAR</b> | <b>APR</b> | <b>MAY</b> | <b>JUN</b> | <b>JUL</b> | <b>AUG</b> | <b>SEP</b> | <b>OCT</b> | <b>NOV</b> | <b>DEC</b> |
|---|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
| Rate of completed originated local calls (target of 70%) Morning  | 71.89      | 71.40      | 70.87      | 71.65      | 71.94      | 71.52      | 72.45      | 71.79      | 71.59      | 71.63      | 71.45      | 71.82      |
| Rate of completed originated local calls (target of 70%) Night  | 71.422     | 71.05      | 71.16      | 72.05      | 72.95      | 71.82      | 72.07      | 72.33      | 71.87      | 71.67      | 71.16      | 71.00      |
| Rate of originated local calls not completed due to congestion (target of 4%) Morning                               | 0.91       | 0.69       | 0.65       | 1.00       | 0.84       | 0.65       | 0.67       | 0.53       | 0.61       | 0.62       | 0.67       | 0.57       |
| Rate of originated local calls not completed due to congestion (target of 4%) Night                                 | 0.84       | 0.70       | 0.58       | 0.70       | 0.61       | 0.60       | 0.58       | 0.49       | 0.50       | 0.45       | 0.61       | 0.52       |
| Rate of calls destined to the operator's Attendance Center which result in completed call (target of 98%) - Morning | 99.53      | 99.22      | 99.17      | 97.72      | 99.58      | 99.60      | 99.57      | 99.66      | 99.73      | 99.70      | 99.73      | 99.46      |
| Rate of calls destined to the operator's Attendance Center which result in completed call (target of 98%) - Night   | 99.47      | 99.36      | 99.24      | 99.52      | 99.64      | 99.78      | 99.53      | 99.69      | 99.72      | 99.75      | 99.70      | 99.62      |
| <b>Domestic Long Distance Service Quality Targets - CSP 14</b>  |            |            |            |            |            |            |            |            |            |            |            |            |
| Rate of completed originated DLD calls consolidated value (target of 70%) Morning                                   | 72.60      | 72.49      | 72.80      | 72.54      | 73.16      | 72.56      | 73.56      | 73.06      | 73.09      | 72.68      | 72.74      | 73.13      |
| Rate of completed originated DLD calls consolidated value (target of 70%) Night                                     | 71.35      | 71.42      | 72.14      | 73.53      | 74.15      | 73.13      | 73.48      | 73.05      | 73.03      | 72.76      | 72.45      | 71.90      |
| Rate of originated DLD calls not completed due to congestion consolidated value (target of 4%) Morning              | 1.17       | 1.04       | 0.88       | 0.96       | 0.82       | 0.92       | 1.01       | 0.75       | 0.84       | 0.78       | 0.95       | 0.86       |

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|   |        |        |        |        |        |        |        |        |        |        |        |        |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Rate of originated DLD calls not completed due to congestion consolidated value (target of 4%)<br>Night                                   | 2.13   | 1.06   | 0.97   | 0.81   | 0.89   | 0.84   | 0.93   | 0.76   | 0.64   | 0.62   | 0.96   | 0.79   |
| <b>Fulfillment of repair requests Targets</b>   |        |        |        |        |        |        |        |        |        |        |        |        |
| Rate of repair requests per 100 PSTN accesses (target of 1.5%) - Full   | 1.27   | 1.19   | 1.31   | 1.16   | 1.26   | 1.12   | 1.19   | 1.18   | 1.15   | 1.29   | 1.29   | 1.22   |
| Rate of fulfillment of repair requests made by residential users within 24 hours (target of 98%)  | 99.64  | 99.65  | 99.40  | 99.64  | 99.59  | 99.51  | 99.52  | 99.61  | 99.51  | 99.33  | 99.44  | 99.48  |
| Rate of fulfillment of repair requests made by non-residential users within 8 hours (target of 98%)                                       | 99.52  | 99.44  | 99.40  | 99.47  | 99.47  | 99.19  | 99.44  | 99.33  | 99.32  | 99.28  | 99.22  | 99.20  |
| Rate of fulfillment of repair requests made by users that are providers of public interest services within 2 hours (target of 98%)        | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| <b>Fulfillment of requests for address change Targets</b>   |        |        |        |        |        |        |        |        |        |        |        |        |
| Rate of fulfillment of requests for address change made by residential users within 3 business days (target of 98%)                       | 99.58  | 99.59  | 99.71  | 99.88  | 99.80  | 99.86  | 99.84  | 99.83  | 99.68  | 99.78  | 99.38  | 99.56  |
| Rate of fulfillment of requests for address change made by non-residential users within 24 hours (target of 98%)                          | 99.47  | 99.29  | 99.28  | 99.67  | 99.59  | 99.47  | 99.66  | 99.60  | 99.57  | 99.42  | 99.39  | 99.47  |
| Rate of fulfillment of requests for address change made by users that are providers of public use services within 6 hours (target of 98%) | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |



| <b>Telephone Assistance provide to the user Targets</b>                                 |       |       |       |       |       |       |       |       |       |       |       |       |
|---|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Rate of telephone assistance to the PSTN user within 10 seconds (target of 95%) Morning | 96.84 | 99.93 | 99.88 | 99.43 | 98.35 | 99.63 | 99.42 | 99.42 | 99.30 | 99.27 | 99.45 | 99.34 |
| Rate of telephone assistance to the PSTN user within 10 seconds (target of 95%) Night   | 99.81 | 99.93 | 99.84 | 99.34 | 99.47 | 99.42 | 99.36 | 99.36 | 98.23 | 97.56 | 98.86 | 99.35 |
| <b>Quality of Public Telephones (TUPs) Targets</b>                                      |       |       |       |       |       |       |       |       |       |       |       |       |

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|  |       |       |       |       |       |       |       |       |       |       |       |       |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Number of public telephones repair requests per 100 public telephones in service (target of 8%)  | 6.72  | 6.52  | 6.29  | 5.90  | 6.30  | 4.67  | 5.63  | 4.74  | 4.63  | 5.06  | 5.19  | 4.92  |
| Rate of fulfillment of public telephones repair requests within 8 hours (target of 98%)  | 99.82 | 99.66 | 99.74 | 99.68 | 99.77 | 99.66 | 99.80 | 99.67 | 99.83 | 99.74 | 99.71 | 99.69 |
| Rate of fulfillment of repair requests of public telephones installed in regions not characterized as remote or of border within 8 hours, detected by supervision system (target of 98%) | 99.84 | 99.72 | 99.71 | 99.77 | 99.82 | 99.74 | 99.71 | 99.23 | 99.63 | 99.38 | 99.39 | 99.64 |
| <b>User s access code information Targets</b>  |       |       |       |       |       |       |       |       |       |       |       |       |
| Rate of information of the user s access code provided within 30 seconds (target of 98%)   | 98.32 | 98.30 | 98.32 | 98.49 | 98.54 | 98.52 | 98.45 | 98.38 | 98.31 | 98.11 | 98.11 | 98.06 |
| <b>Reply to user s mail Targets</b>  |       |       |       |       |       |       |       |       |       |       |       |       |
| Rate of reply to user s mail within 10 days (target of 100%)   | 90.94 | 91.50 | 96.72 | 97.13 | 97.21 | 96.09 | 95.70 | 91.22 | 91.46 | 93.20 | 91.99 | 87.87 |
| <b>Personal assistance to the user Targets</b>   |       |       |       |       |       |       |       |       |       |       |       |       |
| Rate of personal assistance to the user within 10 minutes (target of 95%)  | 98.48 | 97.47 | 98.25 | 97.19 | 97.59 | 96.84 | 96.66 | 96.98 | 97.99 | 97.64 | 98.24 | 98.32 |
| <b>Billing Targets</b>   |       |       |       |       |       |       |       |       |       |       |       |       |
| Number of bills with error complaints, in the local mode, for every 1,000 bills issued (target of 2%)  | 2.89  | 2.97  | 3.19  | 3.18  | 3.37  | 4.11  | 4.19  | 4.87  | 4.30  | 4.71  | 4.21  | 3.99  |
| Number of bills with error complaints, in the Domestic Long-Distance mode, for every 1,000 bills issued (target of 2%)   | 1.83  | 1.67  | 1.84  | 1.93  | 2.13  | 2.97  | 3.99  | 3.21  | 4.08  | 4.23  | 4.29  | 4.28  |

|   |        |        |        |        |        |        |        |        |        |        |        |        |
|---|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Rate of challenged bills with credit returned to the user, referring to the local mode (target of 98%)                  | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| Rate of challenged bills with credit returned to the user, referring to the Domestic Long-Distance mode (target of 98%) | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

|  |        |        |        |        |        |        |        |        |        |        |        |        |
|--|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Rate of collection document delivery to the subscriber with 5 days antecedece of the expiration date (target 100%) | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |
| <b>Network s Modernization Targets</b>   |        |        |        |        |        |        |        |        |        |        |        |        |
| Local network digitalization rate (target of 95%)  | 99.99  | 99.99  | 99.99  | 99.99  | 99.99  | 99.99  | 99.99  | 99.99  | 99.99  | 99.99  | 99.99  | 99.99  |
| <b>Total number of accomplished targets (target of 31)</b>   | 29     | 29     | 29     | 28     | 28     | 28     | 28     | 28     | 28     | 28     | 28     | 28     |

### Strategic Guidelines

Long-term scenario analyses clearly show that the main drivers of change in the industry for years to come will be: fixed-mobile replacement; growth and consolidation of broadband as the main access in customers' homes; growing demand for electronic content, leveraged by digital TV; and the breaking of barriers that used to separate various sectors, leading to converging operators (multiservice providers). It is worth mentioning the role of new technologies as well, which will contribute to removing nearly all the barriers that prevent broader competition.

### Strategic Priorities

**Meet customer needs by means of convergent and integrated services.** In compliance with customer needs, Brasil Telecom offers integrated service packages: Triple Play and Quadruple Play. The company offers a broad portfolio of services, including fixed and mobile services, video, broadband Internet, solutions for corporate data communication (including Cyber Data Center), and Internet service.

**Provide high-quality service.** Armed with the knowledge that customers are the main source of income, we will seek means of meeting and exceeding customer expectations, both in the services offered and in managing customer relationships with the Company.

**Expand the mobile service, ensuring profitability.** Although Brasil Telecom was the fourth player to enter the mobile telephony in its region, its operations have been very successful. Profitability is ensured by national synergy, reductions in the subsidies of handsets, and the offering of fixed-mobile services customized to meet customers' needs. The intranet traffic incentive reduces interconnection costs. With 3G technology, innovative applications will enable an increase in the share of these new services in Brasil Telecom's revenues.

**Be an interactive media provider, promoting unique experiences in the IP environment.** In order to attain this goal, Internet Group Brasil Telecom's Internet business unit, which includes the activities of Internet providers iG, iBest, and BrTurbo follows a strict strategy of unifying its management, combining platforms and services, diversifying content (games, music, videos, etc.), and investing in interactivity projects and convergence with the IP environment. The goal is to become the leading brand in Internet media.

**Focus and strengthen customer relationships.** Customer relationships have been developed based on the customer experience chain concept, which continuously manages and assesses all eventual points of contact between the customer and Brasil Telecom. Intelligent market segmentation ensures that every customer segment gets adequate and specialized service to meet its needs. Monthly surveys are carried out with the purpose of continuously assessing the efficiency of the process and levels of customer satisfaction, and of ensuring continuous relationship enhancement.

**Offer unique new services, taking advantage of the opportunity to use emerging technologies.** Brasil Telecom is the only Brazilian operator to take part in important international groups for technological definition, such as FMCA and TISPAN. Brasil Telecom is one of the founding members of FMCA (Fixed-Mobile Convergence Alliance), a world reference group for fixed-mobile converging services. TISPAN (Telecommunications & Internet Converged Services & Protocols for Advanced Networks) is the main global entity for the standardization of fixed line architecture technological evolution.

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## **A NEW COMPANY FOR A NEW KIND OF CUSTOMER**

2007 entered Brasil Telecom's history books as the Year of the Customer. In a much-commented decision, Brasil Telecom's management resolved to make customers the center of its decisions. Operating in a market as competitive as telephony, the management decided to make Brasil Telecom unique in the quality of services provided, becoming a benchmark in the industry. The goal is to acquire and retain customers, establishing long-lasting relationships as a result. With this in mind, the entire company mobilized around the Ryan Project, whose name clearly defines its challenge: to recover our customers, offering services that meet and exceed their needs.

In order to accomplish this mission, Brasil Telecom sought out for the necessary abilities and resources. Work began with an external diagnosis, which pointed out weaknesses and room for improvement. From there, sixty initiatives were defined, including personnel training and reaction improvement; the revision of internal processes, and the development of new products in line with customer expectations. In summary, it is a revolution in the Company's culture.

Project Ryan has as its premise the effective participation of the Company's higher management in matters related to customer service quality. The project is led by the Executive Committee, with the participation of all areas involved in the customer relations front, and integrates the group of strategic projects prioritized and systematically monitored by the Company's CEO.

### **BrT Call Center and excellence in service**

One of the most important outcomes of this venture was the decision made by Brasil Telecom's management to establish a new company to take over its entire service operation. With the creation of the subsidiary, called Brasil Telecom Call Center, the Company will manage all customer relation processes. Behind this decision is the view that, in order to have excellence in service, people in contact with customers must have Brasil Telecom's philosophy in mind.

To support this movement, Brasil Telecom invested close to R\$50 million in service infrastructure and technologies, with a highlight on the completion of the Goiânia call center, one of the most modern in Brazil, with 14 thousand sq. m. and an installed capacity of 2,100 call attendants.

Brasil Telecom also maintains call centers in the cities of Florianópolis (SC), Campo Grande (MS), and Curitiba (PR), with a total capacity of 5,400 attendants, offering customers various service channels: information services 102; post-sales for fixed lines; mobile and broadband services; sales and credit recovery services; physical service in stores; and an Ombudsman's office, in addition to the electronic channels Fale Conosco (Talk to Us), Chat, and Website, available as an option to Internet users.

Brasil Telecom also invested in the development and training of its customer service personnel, using the nationally-recognized tools of e-learning.

### **OUR PEOPLE**

Brasil Telecom has built its people management process on the principle that employees are its most valuable asset. Well-prepared and committed professionals are decisive in obtaining results. However, in order to attract and retain these talents, one must invest in formation, develop their potentialities, and recognize their achievements.

An example of the degree to which Brasil Telecom trusts its staff was the decision to provide customer service internally. This initiative resulted in a significant increase in the number of employees, closing 2007 at 16 thousand people. The strategy is in line with the Company's intense pursuit of excellence in consumer relations. The success of the task depends on a team that is well-versed in the company's values and goal, which are based on transparency and respect for customers.

**Employee Profile**

Brasil Telecom closed the year with 16,769 employees. Of the total number of employees, it is worth highlighting that 10,866 became employees of the company after the call center operation was moved internally.

**Number of Employees per Company**

| <b>Company</b>                        | <b>2007</b>   | <b>2006</b>  | <b>Variation</b> |
|---------------------------------------|---------------|--------------|------------------|
| Brasil Telecom S.A.                   | 4,819         | 4,742        | 1.6%             |
| Brasil Telecom Móvel                  | 616           | 636          | -3.1%            |
| Internet Group                        | 345           | 344          | 0.3%             |
| Globenet                              | 30            | 25           | 20.0%            |
| Brasil Telecom Comunicação Multimídia | 91            | 86           | 5.8%             |
| Vant                                  | 2             | 2            | -                |
| Brasil Telecom Call Center            | 10,866        | 0            | 100.0%           |
| <b>Total</b>                          | <b>16,769</b> | <b>5,835</b> | <b>187.4%</b>    |

**Number of Employees per Position**

| <b>Position</b>            | <b>2007</b>   | <b>2006</b>  | <b>Variation</b> |
|----------------------------|---------------|--------------|------------------|
| Sales                      | 2,095         | 2,069        | 1.3%             |
| Customer Relations         | 10,860        | 104          | N.A.             |
| Network                    | 2,036         | 1,978        | 2.9%             |
| Expansion                  | 479           | 479          | -                |
| Operation                  | 1,557         | 1,499        | 3.9%             |
| Information Technology     | 304           | 358          | -15.1%           |
| General and Administration | 1,309         | 1,208        | 8.4%             |
| Authorized Agents          | 165           | 118          | 39.8%            |
| <b>Total</b>               | <b>16,769</b> | <b>5,835</b> | <b>187.4%</b>    |

**Length of Service Distribution**

| <b>Length of Service</b> | <b>2007</b> | <b>%</b> | <b>2006</b> | <b>%</b> | <b>Variation</b> |
|--------------------------|-------------|----------|-------------|----------|------------------|
| Up to 2 years            | 12,855      | 76.7%    | 2,282       | 39.1%    | 463.3%           |
| 3 - 5 years              | 1,190       | 7.1%     | 901         | 15.4%    | 32.0%            |
| 6 - 10 years             | 970         | 5.8%     | 971         | 16.6%    | -0.1%            |
| 11 - 15 years            | 493         | 2.9%     | 371         | 6.4%     | 32.9%            |





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|               |               |               |              |               |          |
|---------------|---------------|---------------|--------------|---------------|----------|
| 16 - 20 years | 282           | 1.7%          | 371          | 6.4%          | -24.0%   |
| 21 - 25 years | 319           | 1.9%          | 315          | 5.4%          | 1.3%     |
| 26 - 30 years | 490           | 2.9%          | 510          | 8.7%          | -4.0%    |
| Over 31 years | 170           | 1.0%          | 114          | 2.0%          | 49.1%    |
| <b>Total</b>  | <b>16,769</b> | <b>100.0%</b> | <b>5,835</b> | <b>100.0%</b> | <b>-</b> |
| Average       | 3 years       |               | 9 years      |               | -        |

Companies providing services to Brasil Telecom employed 32,713 people at the end of 2007 in: the maintenance and operation of internal and external facilities, housekeeping, security, corporate security, and information systems maintenance.

### Attraction and Retention of High-Performance Professionals

#### Attraction Programs

The Internship Program is still the main point of entry for young people beginning a career. In 2007, 221 university students were interns in the Company.

Another important investment aimed at attracting professionals was the re-opening of Brasil Telecom's Trainee Program. Seventeen young professionals were hired to work at the Headquarters beginning in 2008, following a thorough selection process among approximately one thousand candidates.

We chose professionals with traits that value, particularly, the spirit of serving with excellence. Throughout 2008, the new graduates will undergo a consistent development program involving job rotation (working in various areas), monitoring by tutors and mentors; and training programs focused on management in partnership with an institution renowned locally and internationally.

Brasil Telecom's goal is also to attract professionals with international experience. To this end, since 2002 it has invested in the Summer Program, which has already brought together ten Brazilian professionals who attended an MBA course in first-tier overseas universities (the best according to Business Week ranking) to work on the Company's strategic projects during their summer vacations. The retention ratio of these professionals in leadership positions is fifty per cent upon course completion.

#### Retention Programs

Brasil Telecom considers the effective management of high-performance professionals a strategic and competitive advantage, and uses this strategy to retain them as Company employees. In this context, in 2007 the BrT Potentials Management program was created, which consists of initiatives divided into three pillars. These initiatives are implemented soon after the unique professionals are identified.

- i) **Development:** The preparation of an individualized program to leverage and supply the professional's potential, either through training programs, or by allocating these executives to challenging projects;
- ii) **Acknowledgement:** The adoption of unique acknowledgement practices, emphasizing the value of meritocracy by paying variable remuneration and awarding superior performance; and
- iii) **Relationship:** The definition of mechanisms that narrow the distance between the high-performance professional and the various levels of the organization, expanding his or her relationship network and access to strategic information. In addition, Brasil Telecom encourages the participation of all of its employees in the internal career change program, for it believes that a consistent offering of opportunities motivates and retains aspiring professionals.

## Education and Development

Brasil Telecom's education process aims to promote the necessary abilities to reach results, enabling employees to perform their tasks equipped with full technical knowledge. To this end, Brasil Telecom makes use of the following education and development channels:

- **E-learning Portal:** 400 online courses are available at the portal for professional self-development, including content related to products, services, systems, processes, and procedures, in addition to an integration program for new employees.
- **BrTV:** corporate channel that broadcasts institutional, technical, and behavior-related content to Brasil Telecom employees.
- **Virtual Classroom:** allows for the simultaneous tutoring of students remotely connected to a virtual instructor.

The Company also invests in the technical education of its employees, offering, since 2005, **the Professional Masters Degree Program** with emphasis on telecommunications in partnership with Brasília University. This master's degree, which is fully customized to meet Brasil Telecom's needs, aims to qualify our professionals in technological trends in years to come. The major benefit of the master's degree is the generation and later implementation of cutting-edge projects in the areas of Engineering and Systems, which drive our business.

Despite all the investments in training our employees, Brasil Telecom believes that leadership is the main motivator for team development. Therefore, it invests in programs that offer unique training for its managers, with a special highlight on the Management Development Program. This program is targeted at strengthening the Company's values, and accelerates the development of managerial abilities, thus ensuring the acquisition and enhancement of the abilities necessary to achieve strategic goals. In 2007, 400 formal leaders completed the first step of the Program, which consisted of building Brasil Telecom's management model in a shared manner. This model guides all the development activities of the Company's managers, and is based in a number of leadership abilities deemed as essential to place the Company at the market's forefront.

## Acknowledgement

At Brasil Telecom, superior-performance employees are rewarded financial incentives and corporate awards.

## Awards Program

Since 2000, the People in the Spotlight Program has acknowledged employees, who, individually or in a team, implemented projects that made a difference both through their innovative and creative characteristics and through the results achieved. Categories and awards are reviewed for each cycle, ensuring that they remain in line with the Company's strategy. Acknowledgement is made in an official ceremony with the attendance of the CEO and executive officers.

Implemented in 2002, the Sales Charge Program has been exceeding expectations; therefore, it is reissued every year with a different theme. The 2007 appeal carried the title: Negócios da China ( Bargain Deal ), and will award winning employees with trips to China for the Beijing Olympic games. The program, whose purpose is to promote sales, presents monthly awards to the best in each branch, in addition to awarding all the salespeople who have met their proposed challenges.

## Financial Incentives

The purpose of the Bonus Program is to acknowledge all executives for achieving the strategic goals set forth for the year. The program is reviewed and approved annually, and is based on market surveys, guidance by the Board of Directors, and Brasil Telecom's strategic positioning. It is targeted at managers and is a result of the unfolding of Brasil Telecom's targets. The bonus is given as a means of guiding the perception and activities of managers, as well as rewarding them for achieving the goals defined by the Company. With the same philosophy in mind, Brasil Telecom acknowledges other employees (not managers) by means of the PSP: Profit Sharing Program.



Brasil Telecom also uses a stock option program as a financial acknowledgement tool. This program aims to converge the long-term interests and targets of the Company and its executives; to retain strategic employees; and to provide guidance for a long-lasting business vision. To this end, the Company currently maintains two programs:

- i) The **2000 Program** granted stock options for the Company's preferred shares, in 2002, 2003, and 2004, to a group of senior executives, 21 of whom are still with the Company. Executives are already entitled to exercise all options granted thereto, with the exception of the last lot, which may be exercised as of January 2008.
- ii) The **2007 Program** granted stock options for a basket of Company-preferred and common shares to a group of 65 senior executives. The options have a grace period of one year, and only 25% of the options may be exercised each year.

## OPERATING PERFORMANCE

Serving an extensive customer base with distinct needs such as residential subscribers and corporate customers will always be challenging. Over the past years, Brasil Telecom has stood out for its capacity to innovate its supply, and was the first to launch products such as: IPTV (transmission of movies on-demand using the broadband platform); the nico (a mobile phone that transmits signals to the fixed line network while in the residential environment, thus reducing costs for the subscriber); and the Pula-Pula (free minutes in function of the volume of incoming calls), among others.

In 2007, over 885 thousand customers were added to mobile operations and 250 thousand to the broadband service, totaling jointly with fixed line operations a customer base of over 13 million customers: a growth of 5.7% year-on-year.

### Fixed line

In 2007, competition increased from both paid-TV companies and mobile operators that had positioned themselves in the market with alternative plans and solutions for traditional fixed line telephony.

We also observed a continuous reduction in the penetration of fixed lines, a consequence of fixed-mobile migration. This change was accelerated by a reduction in the price-per-minute charged by mobile operators, associated with a strong presence of mobile operators in mass media.

At the end of 2007, Brasil Telecom's terminal network was composed of 10.4 million installed lines, 8 million of which were in service, as follows:

| NETWORK                                      | Indicators Fixed line network |        |           |
|--|-------------------------------|--------|-----------|
|  | 2007                          | 2006   | Variation |
| Lines Installed (in thousands)               | 10,376                        | 10,423 | -0.4%     |
| Lines in Service LES (in thousands)          | 8,034                         | 8,418  | -4.6%     |
| Average Lines in Service LMES (in thousands) | 8,049                         | 8,520  | -5.5%     |
| LES/100 Inhabitants                          | 18.2                          | 19.4   | -6.0%     |
| TUP/1,000 Inhabitants                        | 6.4                           | 6.4    | -         |
| TUP/100 Installed Lines                      | 2.7                           | 2.7    | -         |
| Utilization Rate                             | 77.4%                         | 80.8%  | -3.3 p.p. |
| Digitalization Rate                          | 100%                          | 100%   | -         |

Given this scenario, Brasil Telecom focused its activities on the maintenance and profitability of its terminal base, as well as on the expansion of products and alternative plans offered.

Among the alternative plans offered, the highlight is the *Conta Completa* (Full Bill) plan, which leveraged sales of alternative plans with participations above 60% in the 2007 sales mix. This plan allows customers to choose the amount of minutes according to their usage profile, for each type of call: local fixed line, to mobile phones, and long-distance calls.

In the economic plans segment, the *Controle Total* (Total Control) plan was created, a 100% prepaid plan with monthly billing and minutes that may be used both in local fixed-mobile calls within Brasil Telecom's network and between fixed line telephones of any operator. In addition, there is the possibility of topping up via the *Cartão único* (Single Card) in the amounts of R\$15, R\$20, R\$30, and R\$60.

In addition, plans have been created to assist customer retention, with the new offers called *Brasil Total* and *Brasil Total Negócios* (Brazil Total Business), with packages that include local fixed lines, long-distance, intelligent services, mobile telephony, and broadband.

In compliance with ANATEL's Resolution 423, Brasil Telecom successfully concluded, on July 31, 2007, the complex implementation of the conversion in billing, from pulses to minutes, for local calls between fixed lines. This change in billing enabled the Company to offer its customers an easier way to monitor and control their expenses, and to make better use of the advantages of alternative minutes consumption plans.

Proceeding with the strategies of promoting the adoption of alternative plans, and approaching the market in an increasingly segmented manner, at the end of 2007 Brasil Telecom had 3.5 million lines in alternative local fixed line plans, representing 44.1% of lines in service, as follows:

#### **Alternative Local Fixed Line Plans**

Brasil Telecom maintained its leading position in the long-distance market, and recorded an average market share of 90.0% in the intra-regional segment and 84.80% in the inter-regional segment. The Company closed the year with a 64.0% market share in the inter-regional segment and 38.6% in the international segment.

The highlights in long-distance plans are: 14 Simples (Simple 14), with 30 minutes for domestic long-distance calls; 14 Meu Perfil (14 My Profile), with different tariffs for in-state calls; and 14 Minhas Cidades (14 My Cities), with discounted tariffs for three cities chosen by the customer.

### **Tariffs**

With regard to 2007 tariffs, ANATEL authorized Brasil Telecom to adjust tariff items in the Basic Plans of Local and Domestic Long-Distance (DLD) Services, pursuant to the Concession Agreements. Average adjustments authorized for the local and DLD services amounted to 2.14%. The Local Network Use Tariff (TU-RL) was adjusted by 2.14% and the Interurban Network Use Tariff (TU-RIU) was reduced by 0.13%. Basic PSTN Plans, Local and DLD, for calls involving mobile phones, VC-1, VC-2, and VC-3 were adjusted by 3.29%, as of July 20, 2007.

### **Mobile Telephony**

By the time it completed three years of operation, Brasil Telecom Móvel had reached over four million subscribers. Although Brasil Telecom Móvel was the fourth-largest operator providing service in the region with the greatest penetration rates in Brazil Region II the Company's goal has always been to be the leading integrated operator offering all telecom solutions to the customers in its operation area. The total number of connections grew 36%, whereas the Brazilian market grew, on average, 21%.

During 2007, Brasil Telecom implemented coverage to 54 new locations, and now serves a total of 873 locations, or 87% of Region II's population, representing an increase of 6.6% year-on-year. In addition, several expansions have been performed to previously-served locations.

In the Northern and Mid-Western states (Area 7), Brasil Telecom Móvel occupies third position in market share in six states: the Federal District, Goiás, Mato Grosso, Tocantins, Acre, and Rondônia. In other states, the Company holds fourth place.

In 2007, the number of gross additions to Brasil Telecom Móvel reached 2.6 million connections, due mainly to the quality of services provided and to Brasil Telecom's vocation for innovative solutions. The following offers were launched in this period: Fale de Graça no Orelhão (Talk for Free from Public Phones), Fale de Graça à Noite (Talk for Free at Night), and Fale de Graça aos Domingos (Talk for Free on Sundays), through which Brasil Telecom Móvel's customers may place free calls to Brasil Telecom's fixed and mobile terminals. The inclusion of the lines in service of Brasil Telecom Fixa as possible destinations for these calls increased the number of possible connections from around 4.3 million (total BrT Móvel customers) to approximately 12.3 million (total mobile and fixed line customers).

Aiming to increase revenues from mobile data communication, new functionalities were created by means of Internet services and content, such as Orkut (social networking), Glu (games), Som Livre (music), and Discovery.

The Company also executed partnership agreements with content companies, such as Dada.net, Blinko, Spin My Mobile, Flycell, Ligaki, Memo, Sony Pictures, Neo Network, and Móvel Streams, in addition to making the e-mail package Escritório Móvel (Mobile Office) available through Nokia's Intellisync solution. Several offers and initiatives have been made to services and content already available to customers. The initiatives generated discounts for multimedia messages and prizes resulting from cultural contests, such as the m-Encontra service promotion, in which customers could win cruises to the Brazilian Northeast.

By the end of 2007, Brasil Telecom counted on 3,017 points of sale, distributed among 28 own stores, 35 kiosks, 683 authorized agents, and 2,271 resellers in the main retailer chains, as well as 76 top-up distributors, serving approximately 120 thousand active points of sale.

### **Tariffs**

The tariff adjustment contributed to the increase in Brasil Telecom Móvel's revenues. In 2007, postpaid plans were adjusted 5.7%, without, however, affecting their competitiveness.

## Evolution of Mobile Accesses

### Data Communication

Brasil Telecom added 250.1 thousand broadband (ADSL) connections to its network, totaling 1,567.8 thousand connections by the end of the year: a growth of 19% year-on-year. The 19.5% penetration rate of these connections over fixed lines in service, the greatest among fixed line concessionaires in the country, is a strategic support for the offering of new services and applications.

Continuous growth in broadband Internet services was maintained throughout the year, supported by the expansion of the Turbo portfolio (commercial name of ADSL) with the launching of three new standard connection speeds: 2MB, 4MB, and 8MB, as well as higher speeds on-demand, based on ADSL 2+ technology, and through the offer of quadruple play packages in partnership with Sky. These speeds aim to meet the demand for new tools and audio and video content, typical of Web 2.0 available to users. More than half of the 1,565 locations served with broadband already possess ADSL 2+ technology, and will provide customers with access to new services, such as IPTV.

### **ADSL Connections**

Brasil Telecom has also expanded its range of options for dial-up access to the Internet, which is the entrance portal to broadband service. In 2007, the Company created plans that enabled dial-up access to the Internet with fixed monthly payments, such as Internet Toda Hora (Internet All the Time) and PC Conectado (Connected PC). The latter is an alternative commuted fixed line plan that supports the Federal Government's Projeto Cidadão Conectado: Computador Para Todos Connected Citizen project: Computers for Everyone, to promote the digital inclusion of lower-income households. The plan offers, in addition to voice services another service that is specific to dial-up access to the Internet at very low prices, allowing users to expand their habit of accessing the Internet beyond reduced-tariff hours. In addition, in 2007 Brasil Telecom offered its customers mobile broadband access with the 2G EDGE technology. Next year, this service will be offered in 3G (1.8 GHz and 2.1GHz). Fiber optic solutions for broadband Internet access, FTTH and FTTB (Fiber to the Home and Fiber to the Building), have been installed in Brasília and Porto Alegre. As a supplement to the fixed system (mainly ADSL), wireless high-speed Internet access systems (WiMAX) were installed in Curitiba, Porto Alegre, and São Paulo.

### **Converging Products**

Convergence has come into demand from a wide variety of consumers. In view of this, Brasil Telecom has been investing the development of converging solutions for fixed and mobile; and broadband and video services. This year, we signed a partnership with Sky, which allowed the Company to offer packages including Digital Paid-TV.



**Telefone Único:** An innovative solution in Brazil and in the world that uses CTP (Cordless Telephony Profile) technology, allowing for fixed and mobile voice services to be used in the same mobile handset. With the product, Brasil Telecom builds loyalty with customers in the fixed telephony base; increases its market share in mobile telephony, offering new value-added services; promotes the sale of postpaid plans; and maximizes the efficiency of the fixed line and mobile networks.

**Cartão Único:** This card enables customers, through the acquisition of top-ups (R\$15, R\$20, R\$30, and R\$60), to recharge in all prepaid services, fixed terminals (AICE, Total Control, and Ligmix), and mobile terminals of Brasil Telecom.

**PABX Virtual nico:** PABX Virtual nico is a converging solution to meet corporate needs. With it, the customer no longer has acquisition, operation and maintenance costs over PABX equipment, since the entire infrastructure is housed by Brasil Telecom. With this, the Company was the first operator to converge fixed and mobile lines in branches.

**Quadruple Play Sky Partnership:** In this commercial partnership with SKY, Brasil Telecom offers packages including fixed line and mobile services, broadband, and Digital Paid-TV. This offer consolidated throughout 2007 as a competitive advantage against other Triple Play offers by the competition. The package accounts for approximately 10% of all Brasil Telecom broadband sales.

### **Internet Providers**

The relevance of the Internet in Brazil is represented by the increase in single visitors and connection times. With approximately 21.4 million Internet users, we are the leading country in time spent online. According to Ibope/NetRatings, residential Internet users spend an average of 23 hours online per month. In response to this scenario, advertising investment on the Internet is expected to grow 30% in 2007, according to estimates by the Inter-Meios project.

With an eye on market changes, Internet Group, Brasil Telecom's business unit, intends to become the leading brand in interactive media. The goal is to reach this target through investments in interactivity from the extension of the current products and services platform.

Internet Group, which includes the activities of Internet providers iG, iBest, and BrTurbo, is the largest Internet provider in Brazil, with 4 million users of free dial-up connections; and the second largest broadband Internet provider in the Brazilian market, with 1.34 million paying subscribers at the end of 2007. Traffic generated by connected customers reached 44.6 billion minutes in 2007. iBest and iG accounted for 66.8% of the minutes of Region II in the first eleven months of 2007, positioning Internet Group as market leader in the region. As for broadband, the group grew by 27% in number of subscribers year-on-year. Of all broadband customers in Region II, 69% are estimated to be customers of iG or BrTurbo, positioning the company as the region's market leader.

The paying customer base of Internet Group's value-added services grew 134% between 2006 and 2007, reaching 750 thousand customers. This increase was led by products aimed at residential consumers, among them Protégé (antivirus), Resolve (24/7 technical support by phone), and Educa (content product targeted at family education). According to Ibope/NetRatings, in December, 2007, Internet Group ranked third place among its main national competitors, with over 11.2 million single residential visitors, representing an annual growth of 43%. 2007 was a year marked by the launching of the new portal and new channels, such as Celebriidades (Celebrities), Tecnologia (Technology), Eu na Web (Me on the Web), and others.

For iG, the Internet user plays the main role, and this is why the portal launched, in early 2006, the campaign *O mundo é de quem faz* (The world belongs to those who make it), introducing the concept of leadership by the masses. *Minha Notícia* (My News), created in June of that year, was the first Internet space in Brazil created for so-called Citizen- or Participative Journalism, which is considered a global trend, and places the portal ahead of other Brazilian Internet portals. In line with this proposal, iG makes several tools available to Internet users, such as blogs and *MinhaTviG*, which allows users to create, edit, and distribute content.

The portal focusing on the continuous innovation of products and services created in 2007, for the first time on the Internet, the position of ombudsman; it launched the Essay Manual of the online newspaper, which pursues greater transparency in the processes and standards used to verify, edit, and publish news; and established partnerships with Google and Kaizen Games. The unique partnership in the Brazilian market with Google enables iG to offer its subscribers and users cutting-edge products and services, such as e-mail and a search engine. As for e-mail, the Google partnership extended Gmail to 7.8 million iG e-mail accounts. For its part, the association with Kaizen Games enabled iG to bring the virtual world of Second Life to Brazil. Second Life, which already has 11.9 million residents worldwide and 644 thousand participants in Brazil, expands the concept of a game to the parallel virtual universe, promoting the creation of communities.

iG's successful results come not only from internal efforts in developing content, technological platforms, products, and services, but also from the continuous focus in meeting the needs of subscribers and Internet users.

## **VIDEON: THE FUTURE ON YOUR TV**

Brasil Telecom works to enhance the experience of customers throughout their entire relationship with the Company: from the advertising campaign; through all the stages of obtaining the service, using the service, and billing; to loyalty building.

It was through thinking of its customers' comfort and reassuring its commitment to offering innovative services as a converging operator that Brasil Telecom launched, in 2007, the first Internet Protocol Television (IPTV) service. Named Videon, the product distributed, through the Company's ADSL 2+ broadband infrastructure, audiovisual content over Internet Protocol.

The service is initially being offered in Brasília, but it will be expanded to the main capitals and cities in the region where Brasil Telecom operates in 2008.

Videon is a cutting-edge product that revolutionizes the way audiences watch TV. It offers a library of audiovisual content, composed of unique content such as movies, documentaries, concerts, children's shows, and cultural shows. With similar functions to a DVD device, the service offers approximately 500 hours of programming, which may be enjoyed at any time, regardless of the programming schedule.

The Company has signed partnerships with international providers, among them MGM, Disney, Universal, DLA, Playboy, Turner, and Viacom (Nicklodeon and VH1), in addition to agreements with Brazilian producers such as TV Cultura, Lumière, SESC TV, the Ministry of Education, and TV Escola. There are other ongoing negotiations aimed at further improving content offered and increasing the range of options to customers.

In addition to local movie rental, Brasil Telecom also provides Videon customers with the so-called Subscription Video on Demand (SVoD), which is the rental of specific content, grouped by theme or TV series, such as educational programming, children's shows and documentaries.

The IPTV offer has only been possible because Brasil Telecom possesses the most complete high-speed network among all fixed line and mobile operators in Brazil. With Videon, the Company reached a new technological level. The greatest beneficiary is the customer, who can, according to his or her profile, design a programming schedule and use an even wider range of services.

Current legislation forbids the Company from offering regular paid-TV channels to its concession area. Pending a change in this law, however, Brasil Telecom is prepared to expand its service.

## **ECONOMIC AND FINANCIAL PERFORMANCE**

### **Revenue**

Brasil Telecom's gross revenue totaled R\$15,997.4 million in 2007, an increase of 5.9% year-on-year. The increase in participation of data communication services and mobile telephony show the success of the Company's revenue diversification strategy.

### **Gross Revenue Breakdown (R\$ million)**

Fixed line Average Revenue per User (ARPU) excluding data communication totaled R\$79 in 2007, up 11% from 2006, as a result of the Company's strategy to restrain fixed line revenue erosion. Including data communication, ARPU recorded in 2007 totaled R\$98.5, showing continuous growth in ADSL penetration.

## **Revenue from Data Communication and Mobile Telephony**

Gross revenue from data communication and other services of the main activity reached R\$2,769.2 million, an increase of 22.3% year-on-year. This increase is due mainly to the larger ADSL customer base, which posted a growth of 19%.

ADSL recorded an ARPU of R\$71.7 in 2007, an increase of 6.9% year-on-year, as a result of its strategy to prioritize the sale of the products with the highest profitability and fastest connection speeds.

Consolidated gross revenue from services with mobile telephony was up 41.9% from 2006. The increase results from the full bill , and especially from the growth in the mobile base.

The full bill model, implemented by ANATEL in early 2006 to regulate interconnections between mobile operators, determines that all calls should be charged. Previously, calls were only charged when the difference between operators outgoing and incoming traffic was greater than 55%.

Total ARPU for mobile telephony continues to be one of the greatest in the country, at R\$34.2 in 2007. Postpaid ARPU was R\$52.6, and prepaid ARPU amounted to R\$28.5. The improved profitability was also the result of commercial policies where the main advantage offered to Brasil Telecom's customers were discounts in minutes for intranet calls, while outgoing calls to other operators were charged at competitive rates.

## **Operating Costs and Expenses**

In 2007, operating costs and expenses totaled R\$7,244.3 million, an increase of 6.7% when compared to the R\$6,791.5 million recorded in 2006, due primarily to increases in interconnection expenses (which followed the revenue growth), provisions and losses, and other commercial expenses.

## **Operating Costs and Expenses**

(Excluding Depreciation and Amortization)

In 2007, personnel costs and expenses amounted to R\$644.3 million, a drop of 2.7% year-on-year. By the end of 2007, 16,769 people were employed at Brasil Telecom, 5,287 of whom were employees in the fixed telephony, data, and Internet providers segment; 616 at Brasil Telecom Móvel; and 10,866 became employees of the Company in December, when customer services became an internal area.

Costs and expenses with outsourced services, excluding interconnection, advertising, and marketing, totaled R\$2,262.1 million in 2007, nearly stable as compared to the previous year's figures, reflecting the Company's strategy to control outsourcing expenses. It is worth mentioning the bid opened by Brasil Telecom to choose a single partner for the maintenance of the fixed line, mobile, and data communication networks. This model, the only one in the world on such a scale, will be implemented in early 2008, and aims to explore the scale effects in the operations of the supplier, and, subsequently, to reduce network maintenance costs.

Interconnection costs totaled R\$2,318.9 million at the end of 2007, an increase of 9.6%, due to growth in the customer base of mobile operators, and to the integral impact of full bill, partially offset by the 20% reduction in TU-RL, as of January 1, 2007, and by the increase in Brasil Telecom Móvel's market share.

Advertising and marketing expenses totaled R\$164.4 million in 2007, an increase of 10.3% year-on-year, reflecting the focus on advertising expenses for the acquisition of mobile customers. Despite the increase in this item, mobile SAC showed strict control over expenses with subsidies and commissions.

Costs and expenses with materials and goods totaled R\$380.2 million in 2007, a reduction of 7.7% year-on-year, reflecting smaller expenses with the Cost of Goods Sold, despite an increase in mobile handset sales.

Losses and provisions for losses with accounts receivable (PCCR) over gross revenue, at the end of 2007, stood at 2.2%, and totaled R\$348 million, with a reduction of 9.5%, due to stricter criteria for loan granting and greater billing efficiency.

In 2007, provisions for labor, tax, and civil liabilities amounted to R\$649.7 million, an increase of R\$162.5 million year-on-year, due primarily to indexation and to the increase in the risk of losses for labor, civil, and tax claims. Depreciation and amortization costs totaled R\$2,465.0 million in 2007, 9.4% below 2006, due to the increase in fully depreciated assets.

Other operating costs and expenses amounted to R\$476.8 million in 2007, up 33.7% from 2006. This increase resulted from 2006 non-recurrent expenses, such as R\$58.4 million related to state and federal tax recovery, and R\$53.1 million in agreements executed with other telephony operators for litigation assignment.

#### **EBITDA**

Brasil Telecom's consolidated EBITDA totaled R\$3,814.2 million at the end of 2007 (composed of operating profit R\$735.8 million, plus expenses with depreciation and amortization R\$2,464.9 million, and financial expenses, net R\$613.5 million). The consolidated EBITDA margin stood at 34.5% in the period, against 34% in 2006.

#### **EBITDA (R\$ million) and EBITDA Margin (%)**

It is worth mentioning that in 2007, mobile operation started generating positive EBITDA for Grupo Brasil Telecom. Mobile EBITDA increased from negative R\$14.3 million in 2006 (negative 11.4% margin) to R\$53.9 million in 2007 (3.1% margin).

The R\$53.9 million of mobile EBITDA (negative R\$142.3 million in 2006) is composed of operating losses R\$271.4 million (R\$511.7 million in 2006), plus expenses with depreciation and amortization R\$385.9 million (R\$335 million in 2006), less financial expenses, net R\$60.6 million (R\$34.4 million of financial expenses, net, added in 2006).

**BrT Móvel s EBITDA evolution (R\$ million)**

**Net Income**

Brasil Telecom recorded a net income of R\$797.3 million in 2007, equivalent to R\$1.4568 per share. Net income per ADR in 2007 amounted to US\$10.9974.

**Indebtedness**

At the end of 2007, Brasil Telecom s consolidated gross debt totaled R\$4,383.4 million, 88.7% of which was allocated to the long-term.

On April 17, 2007, Brasil Telecom S.A. exercised its option of advance redemption set forth in the Deed of the 4th Issue of Debentures, the 3rd Public Issue, as informed to debenture holders on March 28, 2007. A total of R\$521.1 million were disbursed to pay for the redemption of all debentures.

Brasil Telecom closed 2007 with a balance of cash and other investments in public and fixed income securities in the amount of R\$2,430.6 million, against cash and investments in the amount of R\$2,631 million at the end of 2006.

Consolidated net debt reached R\$1,952.8 million, accounting for 51.2% of EBITDA.

In 2007, debt pegged to exchange rate variation, not taking into account hedge adjustments, totaled R\$731.6 million, R\$395 million of which was in USD, R\$94.7 million in the BNDES currency basket, and R\$241.9 million in Yen. In 2007, Brasil Telecom was hedged against 80.6% of the debt pegged to exchange rate variation, resulting in a total exposition of only 3.6% of the total debt.

**CAPEX**

In 2007, Brasil Telecom s CAPEX totaled R\$1,398.8 million, R\$1,120.0 million of which were invested in fixed line services (including voice, data, information technology, and regulation), and R\$278.8 million in mobile telephony.

When compared to 2006, investments posted a reduction of 3.6%, due mainly to the effects of exchange rate variations, reductions in regulatory investments, and a continuous renegotiation with suppliers.

**CAPITAL MARKETS**

Once again, Bovespa showed positive performance in 2007, with an appreciation of 43.6% year-on-year, resulting from economic growth, political stability, an improvement in foreign investors' opinions about Brazil, and the faith of the market in the economic policy of Brazil's government.

At the end of 2007, Brasil Telecom S.A.'s market value, calculated at the weighted average of the prices of common and preferred shares, totaled R\$13,444.7 million, an appreciation of 30.7% year-on-year.

**Share Performance**

|                              | Period  | Performanc |       |
|------------------------------|---------|------------|-------|
|                              | end     | 12         | 24    |
|                              | 12/31/0 |            |       |
| Common Shares (BRTO3) (in    | 31.10   | 12.3       | 78.7  |
| Preferred Shares (BRTO4) (in | 18.25   | 68.2       | 83.4  |
| ADR (BTM) (in                | 53.99   | 79.7       | 102.2 |
| IBOVESPA                     | 63,886  | 43.6       | 91.0  |
| ITEL                         | 1,223   | 16.1       | 28.5  |
| IGC                          | 6,801   | 31.5       | 85.9  |
| Dow Jones                    | 13,265  | 6.4%       | 23.8  |
| Market Value                 | 13,444. | 30.7       | 80.7  |

The Extraordinary General Meeting held on April 27, 2007 approved the reverse split of the shares of Brasil Telecom S.A. and of Brasil Telecom Participações S.A., and, subsequently, the number of shares reduced by three digits.

| Dec/07                       | Share              |               | Preferred          |               | Total              |               |
|------------------------------|--------------------|---------------|--------------------|---------------|--------------------|---------------|
|                              | Common             | %             |                    | %             |                    | %             |
| Brasil Telecom               | 247,317,180        | 99.1%         | 120,911,021        | 38.8%         | 368,228,201        | 65.6%         |
| Free Float in ADR            | -                  | 0.0%          | 29,622,297         | 9.5%          | 29,622,297         | 5.3%          |
| Treasury                     | -                  | 0.0%          | 13,678,100         | 4.4%          | 13,678,100         | 2.4%          |
| Free Float at Bovespa/Others | 2,279,869          | 0.9%          | 147,141,822        | 47.3%         | 149,421,691        | 26.6%         |
| <b>Total</b>                 | <b>249,597,049</b> | <b>100.0%</b> | <b>311,353,240</b> | <b>100.0%</b> | <b>560,950,289</b> | <b>100.0%</b> |

**MANAGEMENT OF CORPORATE RISKS**

It is Brasil Telecom's opinion that risk management is an essential part of good corporate governance practices. The goal is to preserve business integrity, as well as the integrity of material and financial assets. The Governance Model for the Management of Corporate Risks is based on the following pillars:



## **Risk Factors Monitoring**

### **Strategic Risk**

The trend of partial substitution of fixed line traffic to mobile telephony is currently being studied by Brasil Telecom. In order to mitigate this risk, the Company has defined the development of new paths for growth as one of the pillars for its business strategy, having as its main initiative the acceleration of revenue growth both in mobile telephony and data transmission.

### **Financial and Market Risk**

Brasil Telecom's loan and financing operations are subject to market risks, among which are the variation in interest rates, inflation, and the exchange rate, which are constantly monitored by the Company.

In order to mitigate exchange rate risk, Brasil Telecom has contracted hedge operations from financial institutions, with 3.6% of all indebtedness exposed to exchange rate variation.

With regard to financial investments, Brasil Telecom tends to be conservative in its investment choices. Investments are maintained in financial investment funds (FIFs), and investments in own portfolio in private securities (CDBs) issued by first-tier financial institutions, federal notes, sovereign notes issued by governments with excellent credit risk and overnight operations, backed by notes issued by financial institutions abroad, with low credit risk. Portfolios of FIFs are composed mainly of federal notes and CDBs issued by first-tier financial institutions. Exposure to market risk is monitored daily through the VaR (Value at Risk) method, which quantifies the risk of loss in these investments.

### **Operational Risk**

Brasil Telecom takes out specific insurance policies such as Operational Risk and Business Interruption Insurance to protect its assets. The Operational Risk Insurance covers all property against physical damage caused by fire, lightning, explosion, wind storms, robbery, flooding, and inundation. In order to ensure full replacement of its assets, the Company updates, on a monthly basis, the value and quantity of lines installed per branch. The Business Interruption Policy covers damages resulting from the interruption or disturbance of working capital caused by any physical damage to property.

The civil liability of managers, board members, and executive Officers of Brasil Telecom is ensured by D&O policy (Directors and Officers), contracted by Brasil Telecom Participações S.A., which pays damages to third parties up to the maximum limit ensured in the presence of evidence of management default.

### **Regulatory Risks**

Brasil Telecom operates according to concession contracts and licensing agreements signed with the National Telecommunications Agency (ANATEL) and under the industry's general and specific legal and regulatory provisions. Any change in the established rules may affect the business. For this reason, the Company monitors the development of regulations and the industry overall, acting proactively to minimize regulatory risk.

Systematic Supervision of the Supplementary Pension Plan Foundations

Brasil Telecom has systematically supervised the Supplementary Pension Plan Foundations that it sponsors. In addition to ensuring legal compliance, this initiative contributes to the implementation of better governance practices in these Foundations. A Supervision Committee has been created, which is composed of Board members representing Grupo Brasil Telecom, promoting the exchange and transfer of knowledge between the Foundations and the Sponsor Company.

## **Audit**

### **Internal Audit**

#### **Control Environment Assessment**

Brasil Telecom's Internal Auditing has a preventive focus, and thus aims to predict occurrences and alert the management. Assessments and reports on processes, as well as the risk management of the organization, recommending improvements in the adequacy and efficacy of the risk management model, are periodically developed. Assessment procedures comply with standards of COSO, COBIT, Audit Standards of PCAOB, and The Institute of Internal Auditors. Control Self Assessment is one of the mechanisms used to make it easier for processes with longer Audit cycles to be covered within the year, so as to facilitate the monitoring of the risks involved.

In this environment of thorough assessment and monitoring of processes, risks, and controls, it was possible to obtain a SOX Certification for the 2006 financial statements, disclosed in 2007.

#### **Independence, Regulation, and Relationships**

The independence of the Internal Audit is set forth in the Bylaws of the Company, which hierarchically connects the area to the Board of Directors. The goals, independence, purpose, scope, responsibilities, authority, results presentation, rules of the Internal Audit, and main procedures of the activity are provided for in the Regulation of the Internal Audit Activity (Charter), in compliance with the rules and standards of The Institute of Internal Auditors. With regard to the relationship structure, recommendations made by the Internal Audit are directly monitored. In the internal environment, a previous discussion with the managers of processes is part of the process, and mitigating initiatives are informed to the Board of Executive Officers, to the Committee of Processes and Risks, to the Fiscal Council, and to the Board of Directors.

#### **Independent Auditors**

Under the terms of Ruling CVM no. 381/03, Brasil Telecom S.A. regularly submits the fees and types of services to be provided by independent auditors to approval by the Company's Board of Directors, considering the Fiscal Council's opinion.

The policy for hiring services fulfills the principles that safeguard the independence of the auditor, according to international criteria, which are as follows: the auditor must not audit his own work nor carry out managerial responsibilities for his client nor promote the interests of his client.

During the year of 2007, Deloitte Touche Tohmatsu Independent Auditors was hired for jobs other than those directly related to the auditing of financial statements. The total fee for these services was 5% below the fees related to the independent auditors' services.

## **SOCIAL AND ENVIRONMENTAL RESPONSIBILITY**

Concerned with the development of communities living in the regions where it operates, Brasil Telecom contributes significantly to the improvement in these locations by means of initiatives targeted at promoting

sports, culture, environmental preservation, social and digital inclusion, the defense of minority rights, and education projects. Brasil Telecom is responsible for maintaining 48 cultural projects and 20 social initiatives. In 2007, the operator improved ongoing programs and launched the basis for an ambitious project, Oficina Digital (Digital Workshop).

### **Priority for Education**

Brasil Telecom has developed a widely-praised initiative which will contribute to improve the quality of Brazilian public schools. The Education Program, which will be officially launched in 2008, will install Model Digital Workshops in 500 schools.

The basic principle behind Brasil Telecom's Education and Digital Inclusion Program is to use technology as a means to leverage the development of education. It will contribute largely to improving life in these communities, promoting economic and social progress. It will operate in a supplementary manner, with a view to maximize government initiatives.

The program is structured based on existing experience, and takes advantage of the best practices known, and eliminating most recurrent problems, based on projects developed by the company in Goiás and the Federal District. Also regarding education, the Company has supported the Bolsa-Escola Cidadã (Citizen Scholarship) project, developed in the states of Goiás, Acre and Mato Grosso by the NGO Missão Criança, which is dedicated to defending human rights. The program includes monthly financial assistance to mothers of children in needy communities. Besides the donation, the purpose is to contribute to ending child labor and reducing truancy. In 2007, 1,971 children from 616 families benefited from these initiatives.

Another important project is developed in the main cities of Santa Catarina: Digital Inclusion, promoted by the Institute Santa Catarinense Sustentável (ICADS) (Sustainable Santa Catarina Institute), which qualifies participants to use information and communication technologies. The initiative also maintains training groups for 1,260 youth and adults, developing networks and communication and citizenship tools that can be used by the population at large. Brasil Telecom also supports Esporte Clube Cidadão (Citizen Sport Club), an initiative developed in Bairro Restinga, in Porto Alegre, with youth and children at social risk. Its goal is to teach practices that generate reflection over certain ethical aspects of one's personal and professional life.

The Company works jointly with Junior Achievement, a traditional organization of technical education in economics and business. The project serves 19 thousand students; 600 of whom have participation maintained with the support of Brasil Telecom. In 2007, the institution created the Ética na Escola (Ethics at School) program, focusing on discussion between young participants regarding ethics in society. Projeto Ética, managed by voluntary workers trained by the Junior Achievement, targeted 45 thousand students.

### **Cultural Projects**

Cultural initiatives are also among the activities sponsored by the operator. Last year, Brasil Telecom supported 48 cultural projects, involving several forms of artistic expression, such as theater, dance, cinema, literature, and music. One of these was called Tocando em Frente, and promotes music workshops for low-income youth between 16 and 22 years, in of the Federal District.

Another initiative is the Projeto Batucadeiros, targeted at needy youth and adolescents between 5 and 21 years, residents in the city of Recanto das Emas (DF). The activities involve music and computer classes.

### **Sports Projects**

Brasil Telecom maintained a substantial presence in the Brazilian sports scene in 2007. In addition to sponsoring individual athletes, the Company restructured its main project, Equipe Brasil Telecom de Vôlei (Brasil Telecom Volleyball Team). This way, Brasil Telecom fulfills its role in emphasizing the Company's work in the sport through the recognition of new talent.

The team that previously played in the Federal District currently represents the city of Brusque (SC) in the Superliga Feminina, and counts on athletes such as Érika Coimbra, from the Brazilian National Team, and Radamés Lattari, technical consultant for the team and former coach of the Brazilian National Men's Team. Brasil Telecom also sponsors the men's volleyball team of Faculdades Integradas (UPIS), in Brasília, runner up in the 2007 National League.

Sports incentives earned Brasil Telecom's sports project two medals at the Pan American Games. In Rio 2007, the Brazilian 4 x 100 m relay team, composed of two athletes sponsored by the Company, Vicente Lenílson and Rafael Ribeiro, won the gold medal. Lucimara Silvestre, another Company-sponsored athlete, won the bronze medal in the heptathlon. These athletes are part of Brasil Telecom's Athletics Team, coached by Jayme Netto, in Presidente Prudente (SP).

Robert Scheidt and Luciano Burti are also athletes sponsored by Brasil Telecom. Scheidt, the sailor, won the silver medal at the 2007 Pan American Games, in addition to being an eight time champion of the Laser Class, and runner up of the Star Class. Burti, for his part, is a Stock Car pilot, having raced in Formula 1 at Ferrari, Jaguar, and Prost Grand Prix.

The Company's sponsorship is not restricted to athletes and teams; it also involves sports events. In 2007, the company sponsored the 2007 Brasil Telecom Ironman, for the fifth consecutive year; Brasil Telecom 70.3 Ironman; and Copa do Brasil de Volley, held in October in Brusque, with the participation of Brazil's main men's and women's volleyball teams.

### **Global Compact and Millennium Goals**

Brasil Telecom sees the United Nations as a major ally in sustainability initiatives. By means of entering the UN Global Compact, the Company voluntarily assumed the challenge of spreading the ten principles related to labor rights, environment protection, fighting corruption, and human rights. Human rights have been highlighted through several policies, aiming at the creation of an environment that is favorable to professional and personal development, eliminating all forms of discrimination. Sustainable practices and attitudes were also developed monthly by employees who make up the Business Voluntary Program. Guided by the Millennium Development Goals, a program established by the member countries of the United Nations, the involvement of our employees in social initiatives reinforces the internal social mutual responsibility culture of Brasil Telecom.

### **SUSTAINABILITY AS VALUE**

Throughout 2007, Brasil Telecom developed initiatives aiming to incorporate sustainability and responsible management concepts into its business values and business strategy. In addition to its strong commitment to supporting community projects in the culture, sports, education, and environmental areas, we also have a long-lasting vision that will infiltrate the entire organization, influencing business decisions as well.

Sustainability at Brasil Telecom is a result of the adoption of values and practices that express Brasil Telecom's commitment to its shareholders and customers, to the environmental quality of the systems surrounding the Company, and to social equality in the communities inhabiting in the region where it operates.

As a result of the incorporation of these concepts into the Company's management values and principles, Brasil Telecom has called upon its executives to organize a Sustainability Committee, and to perform a diagnosis on Corporate Sustainability and Responsibility. The action plan under preparation will be implemented in the years to come, starting in 2008.

### **Acknowledgments**

Brasil Telecom S.A.'s Management thanks its shareholders, customers and suppliers, and financial institutions, for their cooperation and trust. In particular, it thanks its employees for their dedication and effort, without which the Company would not be able to present these results.

**The Management**

## 11.01 NOTES TO THE FINANCIAL STATEMENTS

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

### NOTES TO THE FINANCIAL STATEMENTS

**FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006**

**(In thousands of Brazilian reais R\$)**

#### 1. OPERATIONS

BRASIL TELECOM S.A. (the "Company") is a concessionaire of the STFC (Switched Fixed Telephone Service) and operates in Region II of the General Concession Plan, covering the Brazilian states of Acre, Rondônia, Mato Grosso, Mato Grosso do Sul, Tocantins, Goiás, Paraná, Santa Catarina and Rio Grande do Sul, in addition to the Federal District. In this area, the Company renders, since July 1998, the STFC in the modalities of local and intraregional long distance.

Because of the early compliance of the universal service obligations set forth by the General Universal Service Goals Plan ("PGMU"), required for December 31, 2003, the Company obtained from the ANATEL (National Telecommunications Agency), on January 19, 2004, licenses to exploit STFC services in the following service modalities: (i) Local and Domestic Long Distance calls in Regions I and III, and Sectors 20, 22 and 25 of Region II of the PGO (General Concession Plan); and (ii) International Long Distance calls in Regions I, II and III of PGO. As a result of these authorizations, the Company began to exploit the Domestic and International Long Distance services in all Regions starting January 22, 2004. For Local Service in the new regions and PGO sectors, the service offering started on January 19, 2005.

The Company businesses, as well as the services rendered and the fees charged are regulated by ANATEL.

The concession agreements in effect under the local and long distance services modalities, came into effect on January 1, 2006 and are effective until December 31, 2025. Additional information about these agreements is mentioned in note 5.i.

Information related to the quality and universal service goals of the Switched Fixed Telephone Service are available to interested parties on ANATEL's homepage, on the website *www.anatel.gov.br*.

The Company is controlled by Brasil Telecom Participações S.A. ("BTP"), which was established on May 22, 1998 as a result of privatization of the Telebrás System.

The Company is registered at the Brazilian Securities Commission (CVM) and at the U.S. Securities and Exchange Commission (SEC). Its shares are traded on the São Paulo Stock Exchange (BOVESPA), where it also integrates Level 1 of Corporate Governance, and trades its American Depositary Receipts (ADRs) on the New York Stock Exchange (NYSE).

## Subsidiaries

On August 1, 2006, the Company's Board of Directors approved the corporate restructuring of its subsidiaries. This restructuring, whose purpose is to optimize the controlling structure through company downsizing, concentration of similar activities, simplification of intercompany shareholdings, started in the second half of 2006. The changes made in 2007 are mentioned in the comments on the companies below, when applicable. The corporate changes made in 2006 and 2007, carried out at book value, did not have material impacts on the costs structure.

**14 Brasil Telecom Celular S.A. ("BrT Celular"):** a wholly-owned subsidiary which is operating since the fourth quarter of 2004 to provide Personal Mobile Services (SMP), with authorization to serve Region II of the PGO.

**BrT Serviços de Internet S.A. ( BrTI ):** a wholly-owned subsidiary whose main product is providing broadband internet services. It also provides a series of value-added services both residential and corporate customers, including wireless internet access.

In turn, BrTI holds the control of the following companies:

*(i) iBest companies*

iBest concentrates its operations in providing dialup Internet access, selling advertising space in its portal and value-added services, and one of its main services is its internet connection accelerator. iBest activities are fully represented by Freelance S.A., established in Brazil. It also includes iBest Holding Corporation, established in the Cayman Islands, which has no operations and holds no investments in other companies.

*(ii) iG companies*

iG operates as an internet service provider of both dialup and broadband access. It also provides value-added services focused on the residential and corporate markets. In addition, iG also sells advertising space in its portal.

BrTI's control over the iG Companies is attributed to its 88.81% share in the capital stock of Internet Group (Cayman) Limited ( iG Cayman ), established in the Cayman Islands.

iG Cayman is a holding company which, in its turn, holds the control of Internet Group do Brasil Ltda. ( iG Brasil ) and Central de Serviços Internet Ltda. ( CSI ), both established in Brazil.

Agência O Jornal da Internet Ltda. ("Jornal Internet")

BrTI holds 30 percent interest in the capital stock of Jornal Internet, which is engaged in the on-line sale of goods and services, issue of daily newspapers or magazines, and gathering, generating and disclosing news on selected events. Seventy percent of the capital stock of Jornal Internet is held by Caio Túlio Vieira Costa, executive vice president of the Company's subsidiaries related to internet businesses.

**Brasil Telecom Cabos Submarinos Ltda. ("BrT CS"):** company that was a subsidiary of BrTI up to January 2, 2007. On this date BrTI reduced the portion of its capital held by the Company, using the investment held in

BrT CS, in the amount of R\$132,678 to settle part of de reduction. Thus, the Company is now the parent of BrT CS, holding practically all of the latter s capital. BrTI still holds a share of the capital of BrT CS, corresponding to an interest lower than 0.01% .

BrT CS and its subsidiaries operate through a system of submarine optic fiber cables, with connection points in the United States, Bermuda, Venezuela and Brazil, allowing data traffic through integrated service packages, offered to local and international corporate clients.

BrT CS holds 100% of the capital of Brasil Telecom Subsea Cable Systems (Bermuda) Ltd. ( BrT SCS Bermuda ), which, in turn holds the total shares of Brasil Telecom of America Inc. ( BrT of America ) and Brasil Telecom de Venezuela, S.A. ( BrT Venezuela ).

**d) Brasil Telecom Comunicação Multimídia Ltda. ("BrT Multimídia"):** until April 10, 2007 the Company held 100% of MTH Ventures do Brasil Ltda. ( MTH ), a holding company that controlled the capital of Brasil Telecom Comunicação Multimídia Ltda, and the Company and BrTI holding the remaining ownership interest. The Extraordinary General Meeting held on this date decided for the merger of MTH into the Company, and the merger valuation report, at book value, was as follows:

**Assets**

|                   |            |
|-------------------|------------|
| Current assets    | R\$37      |
| Noncurrent assets |            |
| Permanent assets  |            |
| Investments       | R\$141,019 |

**Total assets** **R\$141,056**

**Liabilities and shareholders equity**

|                     |            |
|---------------------|------------|
| Shareholders equity | R\$141,056 |
|---------------------|------------|

**Total liabilities and shareholders equity** **R\$141,056**

Currently the Company holds 89.8% of BrT Multimídia s capital, and the remaining 10.2% capital is held by BrTI.

BrT Multimídia is a service provider of a private telecommunications network through local optical fiber digital networks in São Paulo, Rio de Janeiro and Belo Horizonte, and a long distance network connecting these major metropolitan business centers. It operates nationwide through commercial agreements with other telecommunication companies to offer services to other regions in Brazil. It also has web solution centers in São Paulo, Brasília, Curitiba, Porto Alegre, Rio de Janeiro e Fortaleza, which offer co-location and hosting, and other value added services.

**Vant Telecomunicações S.A. ("VANT"):** it is a company whose total capital stock is practically held by the Company. BrTI holds only one share in VANT s capital, representing less than 0.01% interest.

VANT is engaged in rendering multimedia communication services, acquisition and onerous assignment of capabilities and other means, operating in the main Brazilian state capitals.

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



Previously named Santa Bárbara dos Pinhais S.A., BrT Call Center, changed together with the of its corporate name, as decided in the shareholders meeting held on August 21, 2007, its corporate purpose to be engaged in providing call center services to third parties, including customer service, outbound and inbound telemarketing, training, support, consulting services and related activities, etc. Its operations started in November 2007 with rendering call center services to Brasil Telecom S.A. and its subsidiaries that demand this type of service. Previously, the call center services were outsourced.

### **Change in the Management**

During the third quarter of 2005, there were changes in the management of Brasil Telecom Participações S.A. and the Company. The process for replacing the former management, related to the former manager Opportunity, was litigious, as disclosed in various material events issued by the Companies during 2005 and several lawsuits still in progress, filed by the former manager, aiming at retaking the Companies management.

### **Agreements of April 28, 2005 under the Previous Management**

On April 28, 2005, still under previous management, Brasil Telecom Participações S.A. and Brasil Telecom S.A. entered into various agreements involving the Opportunity Group and Telecom Italia ( April 28 Agreements ).

Among such agreements, Brasil Telecom S.A. and its subsidiary 14 Brasil Telecom Celular S.A. entered into with TIM International N.V. ( TIMI ) and TIM Brasil Serviços e Participações S.A. ( TIMB ) an agreement named Merger Agreement and a Protocol related thereto.

As disclosed in material events issued, the merger was forbidden by injunctions issued by the Brazilian and U.S. courts. It was also the subject-matter of a discussion under arbitration involving the controlling shareholders.

The current management of Brasil Telecom Participações S.A. and of the Company understood that the Merger Agreement, the related Protocol, and other April 28 agreements, which included the withdrawal and termination of lawsuits involving the Companies, were entered into with conflict of interests, breaching the Law and the Bylaws of the Companies, and also, are contrary to shareholders agreements and do not have the required corporate approvals. In addition, the current management deemed that such agreements were contrary to the best interests of the Companies, especially regarding their mobile telephony business.

As regards the Merger Agreement above, the Company and its subsidiary BrT Celular started on March 15, 2006 an arbitration proceeding against TIMI and TIMB to annul it. The Company released a material event on this matter on March 16, 2006.

TIMI and TIMB sent to the Company and BrT Celular a letter dated May 2, 2006, unilaterally terminating said Merger Agreement, setting a reserve for the alleged right to indemnity for damage, which was being discussed in said arbitration proceeding. According to analyses of the Company's legal advisors, the risk of losses referring to the supposed right to indemnification has been considered remote and its amount were not possible to be measured. Also in May 2006, TIMI filed with ANATEL and CADE, petitions requesting to file the operation related to the Merger Agreement due to lack of grounds.

On July 18, 2007, Brasil Telecom Participações S.A. and Brasil Telecom S.A., jointly with 14 Brasil Telecom Celular S.A., Zain Participações S.A., Invitel S.A., Solpart Participações S.A. ( Solpart ), Techold Participações S.A. ( Techold ), Caixa de Previdência dos Funcionários do Banco do Brasil Previ ( Previ ), Petros Fundação Petrobras de Seguridade Social, Fundação dos Economiários Federais Funcef, Investidores Institucionais Fundo de Investimento em Ações, Fundação 14 de Previdência Privada, Fundação Vale do Rio Doce de Seguridade Social Valia, Citigroup Venture Capital International Brazil, L.P., Citigroup Venture Capital International Brazil, Ltd., International Equity Investments Inc., Citibank, N.A., Priv Fundo de Investimento em Ações, Tele Fundo de Investimento em Ações, Angra Partners Consultoria Empresarial e Participações Ltda., on the one hand, and Telecom Italia S.p.A., Brasilco S.R.L., Credit Suisse Securities (Europe) Limited, TIMB and TIMI (Telecom Itália Companies), on the other hand, signed a Mutual Release Agreement, by means of which the signatory parties undertake, provided that they are granted prior authorization of the proper corporate bodies and upon the effective acquisition by Previ, Petros and Funcef, or by Techold, as the case may be, of the entire shareholding represented by shares issued by Solpart held by Brasilco ( Brasilco Shares ) to waive pleadings and dismiss ongoing disputes at the Judiciary Branch and at international Arbitration Courts, involving the Companies and its shareholders, direct or indirect, on the one hand, and Telecom Italia Companies, on the other hand.

The Mutual Release Agreement terminates, among others, the potential demands involving the Companies and their subsidiaries and the companies, and the Telecom Itália Group companies, including the termination of arbitrations mentioned in the Note issued by the Companies on March 16, 2006.

The actual acquisition of Brasilco Shares, which under regulations in effect is subject to approval of the ANATEL (National Telecommunications Agency) and other conditions, would permit to terminate the existing administrative proceedings regarding the overlapping of telephony licenses (STFC, SMP, LDN and LDI) among Brasil Telecom Group companies and Telecom Italia Group companies and, thus, permanently removing the possibility of material adverse impact on the businesses and interests of the Brasil Telecom Group companies.

The National Telecommunications Agency ANATEL granted its prior consent, through Act 68899, of December 3, 2007, published on December 5, 2007, to the acquisition, by Techold, of the entire ownership interest held by Brasilco S.r.l. ( Brasilco ) in the capital of Solpart ( Brasilco Shares ). Therefore, the last condition precedent set forth in the Share Purchase Agreement and Letter Agreement entered into on July 18, 2007 was fulfilled and the transaction was completed.

On December 5, 2007, Brasilco transferred Brasilco Shares to Techold through annotation and signature of the Solpart Share Transfer Book and the related Registered Shares Registry Book, after the payment by Techold of the total amount of US\$515 million provided for by the Share Purchase Agreement and Letter Agreement. Due to such transfer, Techold has become the holder of approximately 99.98% of the voting and total capital of Solpart.

With the effective transfer of Brasilco Shares to Techold, the Mutual Release Agreement entered into on July 18 became effective, terminating definitely the litigation among the signatory parties thereto, including the Companies, Brasilco, Telecom Itália S.p.A., and their subsidiaries and the other parties mentioned at the Material Event published on July 18, 2007.

## **2. PRESENTATION OF FINANCIAL STATEMENTS**

### **Preparation Criteria**

The financial statements have been prepared in accordance with Brazilian accounting practices as set forth by Corporate Law, Brazilian Securities Commission (CVM) standards, and the standards applicable to telephony service concessionaires.

As the Company is a SEC registrant, it is subject to SEC's standards and it must prepare financial statements and other information using criteria that comply with this agency's requirements. To comply with these requirements and aiming at meeting the market's information requirements, the Company adopts as a principle the disclosure of information in both markets in their respective languages.

The notes to the financial statements are presented in thousands of reais, unless otherwise indicated. According to each situation, they present information related to the Company and the consolidated statements, identified as COMPANY and CONSOLIDATED, respectively. When the information is common to both situations, it is identified as COMPANY AND CONSOLIDATED.

The amounts of escrow deposits tied to the Accrued liabilities for contingencies are presented as a deduction from the recognized liabilities.

Accounting estimates were based on objective and subjective factors and Management's judgment for determining the adequate amount to be recorded in the financial statements. Significant items subject to these estimates and assumptions are the net book value of property, plant and equipment, the allowance for doubtful accounts, inventories, deferred income and social contribution taxes, the reserve for contingencies, measurement of financial instruments, and assets and liabilities related to benefits to employees. Actual results could differ from those estimates. The Company's management reviews these estimates at least quarterly.

### **Consolidated financial statements**

The consolidation was prepared in accordance with CVM Instruction No. 247/96 and includes the Company and companies listed in note 1.

Some of the main consolidation procedures are:

- Elimination of intercompany balances and revenue and expenses.
- Elimination of intercompany investment account balances and related shareholdings, reserves and retained earnings; and.
- Segregation of the portions of shareholders' equity and income belonging to minority shareholders, indicated in specific items.

### **Supplemental information**

The Company also submits the following statements as supplemental information:

#### Statements of Cash Flows

These statements have been prepared in accordance with the Accounting Standard and Procedure 20 (NPC 20) issued by the Brazilian Institute of Independent Auditors (IBRACON). For a better presentation and

maintenance of comparability with FY 2007, reclassifications regarding FY 2006 have been made, basically related to escrow deposits, which started to be presented under investment activities. In order to form such balances, the escrow deposits tied to contingencies were reclassified note 7, indirect taxes note 32 and accounts payable and accrued expenses.

#### Statements of Value Added

Prepared in accordance with the Brazilian Accounting Standard 3.7 (NBC T 3.7), approved by Federal Accounting Council Resolution No. 1010/05.

#### **Segment Reporting**

The Company is presenting, as supplement to note 41, the report by business segment. A segment is an identifiable component of a company, engaged in providing services (business segment) or supplying products and providing services which are subject to different risks and consideration.

### **3. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES**

The criteria mentioned below refer to significant accounting practices adopted by the Company and its subsidiaries that are reflected in the consolidated financial statements.

**a. Cash, banks and temporary cash investments:** Cash investments are temporary high-liquidity investments, with immediate maturity. They are stated at cost, plus income earned through the balance sheet date and do not exceed their fair value. Shares in fixed-income investment funds are stated at cost plus income earned through the balance sheet date.

**b. Trade accounts receivable:** Receivables from users of telecommunications services are recorded at the amount of the tariff or service on the date the service is provided. Accounts receivable from services include credits for services rendered and not billed until the balance sheet date. Receivables resulting from sales of cell phones and accessories are recorded at the amount of sales made when the goods are delivered and accepted by customers. The criterion adopted for recognizing the allowance for doubtful accounts takes into account the calculation of the actual percentage of losses incurred on each maturity of receivables. Future losses on the current receivables balance are estimated based on these loss percentages, which include accounts falling due and also the portion of unbilled services, thus forming the amount that could become a future loss, which is recognized as an allowance.

**c. Material inventories:** Stated at the average acquisition cost, which does not exceed replacement cost. Inventories are segregated into plant expansion and plant maintenance, and, as regards the consolidated financial statements, inventories of goods for resale, consisting mainly of cell phones, accessories and electronic cards. The plant expansion inventories are classified into property, plant and equipment (construction in progress), and maintenance inventories are classified into current and long-term assets, in accordance with the period in which they will be used, and the resale inventories are classified into current assets. Obsolete inventories are recorded as provisions for losses. As regards cell phones and accessories, the subsidiary BrT Celular records adjustments, in those cases where purchases were made at higher prices, conforming them to their realization value.

**d. Investments:** Investments in subsidiaries are accounted for under the equity method. Goodwill is calculated based on based on estimated future results and its amortization is based on the expected realization amount and period, not exceeding ten years. Other investments are stated at acquisition cost, less a provision for losses, when applicable. Investments resulting from income tax incentives are recognized on the date of investment, and result in shares of companies with tax incentives or investment funds. During the period between the investment date and receiving of shares or fund shares, they are recognized in long-term assets. These investments are periodically measured and the result of the comparison between their original and market costs, when lower, is recognized in provisions for probable losses.

**e. Property, plant and equipment:** Stated at acquisition and/or construction cost, less accumulated depreciation. Financial charges related to obligations from assets and construction in progress financing are capitalized.

Expenses incurred are capitalized when they represent improvements (increase in installed capacity or useful life). Maintenance and repair expenses are recorded in the statement of income, on the accrual basis.

Depreciation is calculated under the straight-line method. Depreciation rates used are based on expected useful lives of the assets and in accordance with the standards of the Public Telecommunications Service. The main rates used are stated in note 27.

**f. Intangible assets:** Refer mainly to licenses and software and regulatory licenses. The amortization of software licenses is calculated under the straight-line method over a five-year period, while regulatory licenses are amortized according to the terms determined by the regulatory agency. When benefits are not expected from a license or right related such asset, the asset is written off against the nonoperating income.

**g. Deferred charges:** Refer mainly to implementation and reorganization expenses. Amortization is calculated under the straight-line method over a period of 5 years. When benefits are not expected from such asset, the asset is written off against the nonoperating income.

**h. Income and social contribution taxes:** Income and social contribution taxes are accounted for on an accrual basis. These taxes levied on temporary differences and tax loss carryforwards are recorded under assets or liabilities, as applicable, according to the assumption of future realization or payment, within the criteria set forth by CVM Instruction No. 371/02.

**i. Loans and financing:** Restated based on monetary and exchange variations, plus interest incurred through the balance sheet dates. The same adjustment is applied to the guarantee contracts to hedge the debt.

**j. Provision for contingencies:** The reserve for contingency are recognized based on an assessment of their risks and are quantified based on economic grounds and legal opinions on the lawsuits and other events known on the balance sheet date, according to the criteria of CVM Deliberation No. 489/05. The basis and nature of the reserve for contingencies are described in note 7.

**k. Revenue recognition:** 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. Revenue from sales of payphone cards [Public Use Telephony (TUP)], cell phones and accessories is recognized when delivered and accepted by customers. For prepaid services linked to mobile telephony, revenue is recognized in accordance with services utilization. Revenue is not recognized when there is significant uncertainty as to its realization.

**l. Expense recognition:** Expenses are recognized on an accrual basis, considering their relation with revenue realization. Expenses related to future periods are deferred.

**m. Financial income (expenses), net:** Financial income is recognized on an accrual basis and comprises interest earned on overdue bills settled after maturity, gains on cash investments and hedges. Financial expenses comprise interest incurred and other charges on loans, financing, hedging and other financial transactions.

Interest on Shareholders' Equity, when credited, is included in financial expenses, and for financial statements presentation purposes, the amounts are reversed against income for the year and reclassified as a deduction from retained earnings, in the shareholders' equity.

**n. Employee benefits:** Private pension plans and other retirement benefits sponsored by the Company and its subsidiaries for their employees are managed by three foundations. Contributions are determined on an actuarial basis, when applicable, and accounted for on an accrual basis. As of December 31, 2001, the Company recorded the existing actuarial deficit against shareholders' equity, excluding the corresponding tax effects. Starting 2002, as new actuarial evaluations show the need for adjustments to the provision, they are recognized in the statement of income. Additional information on pension plans is described in note 6.

**o. Profit sharing:** The provision for employee and management profit sharing is recognized on an accrual basis, and is accounted as an operating expense. The calculation of the amount, which is paid in the year subsequent to the year the provision is recognized, is based on the goals program established with the labor union through the collective bargaining agreement, in accordance with Law No. 10101/00 and the Company's bylaws.

**p. Earnings per share:** Calculated based on the number of shares outstanding at the balance sheet date. Outstanding shares are represented by the totality of shares issued less treasury shares.

#### 4. RELATED-PARTY TRANSACTIONS

Related-party transactions refer to transactions with Brasil Telecom Participações S.A., the Company's parent company, and with the subsidiaries mentioned in note 1.

Intercompany transactions are carried out under regular market prices and conditions. The main transactions are:

##### **Brasil Telecom Participações S.A.**

Guarantees and sureties: (i) The parent company pledges sureties as guarantee of loans and financing owed by the Company to the lending financial institutions. In 2007, the Company recorded expenses related to the guarantee benefit, in favor of the parent company amounting to R\$ 3,401 (R\$ 3,562 in 2006); and (ii) the parent company pledges surety to the Company related to the contracting of insurance policies, guarantee of contractual obligations (GOC), which amounted to R\$97,457 (R\$155,294 in 2006). In 2007, the Company recorded as consideration for such surety an operating expense of R\$117 (R\$214 in 2006).

##### **BrTI**

Advances for future capital increase: the existing amount as advances for future capital increase granted is R\$6,696 (R\$6,695 as of December 31, 2006).

Amounts receivable, revenues and expenses: resulting from transactions related to the utilization of facilities, logistics support and telecommunications services. The balance receivable is R\$23,633 (R\$2,662 receivable as of December 31, 2006). The amounts accounted for against income in 2007 represented R\$38,062 of operating income (R\$24,280 in 2006) and R\$38 of operating expenses (R\$17,746 in 2006).

##### **BrT Celular**

Amounts payable, revenues and expenses: resulting from transactions related to the utilization of facilities, logistics support and telecommunications services. The balance payable is R\$16,833 (R\$20,087 payable as of December 31, 2006). The amounts accounted for against income in 2007 represented R\$223,124 of operating income (R\$196,550 in 2006) and R\$439,684 of operating expenses (R\$373,339 in 2006).

##### **VANT**

Amounts receivable, revenues and expenses: resulting from transactions related to telecommunications services. The balance receivable is R\$1,820 (R\$1,355 receivable as of December 31, 2006) and the amounts accounted for against income in 2007 represented R\$2,555 of operating income (R\$5,056 for 2006) and R\$922 of operating expenses (R\$2,032 for 2006).

##### **BrT SCS Bermuda**

Amounts receivable and revenues: resulting from transactions related to telecommunications services. The balance receivable is R\$130 (R\$316 receivable as of December 31, 2006). The amounts accounted for against income in 2007 represented R\$189 of operating income (R\$163 in 2006).

**BrT of America**

Amounts payable, revenues and expenses: resulting from transactions related to telecommunications services, the balance payable is R\$2,753 (R\$1,343 payable as of December 31, 2006). The amounts accounted for against income in 2007 represented R\$86 of operating income (R\$87 in 2006) and R\$7,331 of operating expenses (R\$7,202 in 2006).

**BrT CS**

Amounts payable and expenses: resulting from transactions related to telecommunications services, the balance payable is R\$4,241 (R\$3,480 payable as of December 31, 2006). The amounts accounted for against income in 2007 represented R\$11 of operating income and R\$43,803 of operating expenses (R\$31,761 in 2006).

**Freelance S.A.**

Amounts payable, receivable, revenues and expenses: resulting from transactions related to telecommunications services. The balance payable is R\$5,689 (R\$1,622 receivable as of December 31, 2006). The amounts accounted for against income in 2007 represented R\$5,311 of operating income (R\$3,974 in 2006) and R\$23,770 of operating expenses (R\$13,450 in 2006).

**iG Brasil**

Amounts receivable, revenues and expenses: resulting from transactions related to telecommunications services. The balance receivable is R\$6,971 (R\$1,579 receivable as of December 31, 2006). The amounts accounted for against income in 2007 represented R\$10,539 of operating income (R\$1,824 for 2006) and R\$6,729 of operating expenses (R\$3,601 for 2006).

**BrT Multimídia**

Amounts payable, revenues and expenses: resulting from transactions related to telecommunications services. The balance payable is R\$6,341 (R\$5,434 payable as of December 31, 2006). The amounts accounted for against income in 2007 represented R\$331 of operating income (R\$739 for 2006) and R\$24,655 of operating expenses (R\$23,603 for 2006).

Advances for future capital increase: the existing amount as advances for future capital increase granted is R\$27,130 (R\$23,000 as of December 31, 2006).

**BrT Call Center**

Amounts payable, revenues and expenses: resulting from transactions related to telecommunications services. The amount payable is R\$16,447. The amounts accounted for against income in 2007 represented R\$779 of operating income and R\$17,305 of operating expenses.

Advances for future capital increase: the existing amount as advances for future capital increase granted is R\$14,820.



## **5. FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES (FINANCIAL INSTRUMENTS) AND RISK ANALYSIS**

The Company and its subsidiaries evaluated its assets and liabilities at their book value as compared to market or realizable values (fair value), based on information available and evaluation methodologies applicable to each case. The interpretation of market data regarding the choice of methodologies requires considerable judgment and determination of estimates to obtain an amount considered appropriate for each case. Accordingly, the estimates presented may not necessarily indicate the amounts that can be obtained in the current market. The use of different assumptions for calculation of market value or fair value may have material effect on the obtained amounts. The selection of assets and liabilities presented in this note was based on their materiality. Instruments whose amounts approximate their fair values, for example, cash, bank and temporary cash investments, accounts receivable, assets and liabilities of taxes, pension funds, etc., and whose risk assessment is immaterial, are not mentioned.

According to their nature, financial instruments may involve known or unknown risks and the Company's judgment is important for the risk assessment. Thus, there may exist risks with guarantees or without guarantees depending on circumstantial or legal aspects. Some of the main market risk factors affecting the Company's business are as follows:

### **a. Credit risk**

Most of the services provided by the Company are related to the Concession Agreement, and a significant portion of these services is subject to the determination of tariffs by the regulatory agency. The credit policy, in turn, in case of telecommunications public services, is subject to legal standards established by the concession grantor. The risk exists because the Company may incur in losses arising from the difficulty in receiving amounts billed to its customers. The Company's default for 2007 was 1.96% (2.41% in 2006), taking into account total losses on accounts receivable in relation to gross revenue. In Consolidated it was 2.18% (2.54% in 2006). The Company constantly monitors the level of its accounts receivable through internal controls, thus limiting the risk of default, and cuts off access to the service (outbound phone traffic) if the bill is overdue for more than thirty days. Exceptions are made for telephone services, which should be maintained for national security or defense reasons.

The Company operates in co-billing related to long distance calls with the use of its CSP (Operator Selection Code) originated by subscribers of other fixed and mobile telephony operators. Co-billing receivables are managed by these operators, based on the operational agreements entered into with them and according to the rules set forth by ANATEL. The blocking rules set forth by the regulatory agency are the same for the fixed and mobile telephony companies, which are co-billing suppliers. The Company controls separately this type of receivables and maintains an allowance for losses that may occur, due to risks of not receiving such amounts.

As regards mobile telephony, the credit risk in cell phones sales and services provide under the post-paid category is minimized by a credit pre-analysis. Also regarding post-paid services, whose customer base at the end of the year was 20.1% of the total portfolio (29.4% as of December 31, 2006), accounts receivable are also monitored in order to limit the default rate and service is blocked (outbound phone traffic) when the bill is overdue for more than 15 days.

**b. Exchange rate risk**Liabilities

The Company has loans and financing contracted in foreign currency. The risk associated with these liabilities arises from the possibility that exchange rate changes may increase the balance of these liabilities. Consolidated loans subject to this risk represent approximately 16.0% (17.0% as of December 31, 2006) of total liabilities of consolidated loans and financing, less the foreign exchange hedge transactions contracted. In order to minimize this kind of risk, the Company has been entering into exchange hedge contracts with financial institutions. Of the debt installment consolidated in foreign currency, 92.6% (61.6% as of December 31, 2006) is hedged with exchange rate swap and dollar options transactions and foreign currency-denominated cash investments. The unrealized positive or adverse effects in hedge transactions, using exchange rate swaps and dollar options, are recorded in the statement of income as earnings or losses, according to the status of each instrument.

Net exposure to exchange rate risk prevailing at balance sheet date, at carrying and fair values, was as follows:

|                     | <b>COMPANY</b>        |                   |                       |                   |
|---------------------|-----------------------|-------------------|-----------------------|-------------------|
|                     | <b>2007</b>           |                   | <b>2006</b>           |                   |
|                     | <b>Carrying value</b> | <b>Fair value</b> | <b>Carrying value</b> | <b>Fair value</b> |
| <b>Liabilities</b>  |                       |                   |                       |                   |
| Loans and financing | 636,912               | 655,533           | 836,721               | 877,347           |
| Hedge contracts     | 398,112               | 397,832           | 398,518               | 395,612           |
| <b>Total</b>        | <b>1,035,024</b>      | <b>1,053,365</b>  | <b>1,235,239</b>      | <b>1,272,959</b>  |
| Current assets      | 213,050               | 213,528           | 200,368               | 201,482           |
| Long term           | 821,974               | 839,837           | 1,034,871             | 1,071,477         |

|                     | <b>CONSOLIDATED</b>   |                   |                       |                   |
|---------------------|-----------------------|-------------------|-----------------------|-------------------|
|                     | <b>2007</b>           |                   | <b>2006</b>           |                   |
|                     | <b>Carrying value</b> | <b>Fair value</b> | <b>Carrying value</b> | <b>Fair value</b> |
| <b>Liabilities</b>  |                       |                   |                       |                   |
| Loans and financing | 636,912               | 655,533           | 840,177               | 880,803           |
| Hedge contracts     | 398,112               | 397,832           | 398,518               | 395,612           |
| <b>Total</b>        | <b>1,035,024</b>      | <b>1,053,365</b>  | <b>1,238,695</b>      | <b>1,276,415</b>  |
| Current assets      | 213,050               | 213,528           | 203,824               | 204,938           |
| Long term           | 821,974               | 839,837           | 1,034,871             | 1,071,477         |

The method used for calculating the fair value of swap instruments was future cash flows associated to each instrument contracted, discounted at market rates prevailing at balance sheet date. For securities tradable in organized markets, the fair value is equivalent to the value of the last closing quotation available at balance sheet date multiplied by the number of outstanding securities. For contracts in which the current contracting terms and conditions are similar to those in which they have been originated, or that do not present parameters for quotation or contracting, fair values are equal to carrying values.

In the case of US dollar options, the fair value adopted for accounting recognition has been calculated based on the Black&Scholes model adapted by Garman Kohlhagen to consider specific features of exchange options. Such transactions, which have been contracted with maturity up to February, 2009, recorded, at the balance sheet date, a net loss of R\$2,465 represented by R\$761 for call options and R\$1,704 for put options.

### c. Interest rate risk

#### Assets

The Company has a loan granted to the phone directory company bearing interest indexed to the IGP-DI (general price index – domestic supply), as well as loans resulting from the sale of property, plant and equipment to other telephony companies, bearing interest indexed to the IPA-OG (wholesales price index – general supply)/Industrial Products of Column 27 (FGV). The Company also has CDBs (bank certificates of deposit) with Banco de Brasília S.A. related to the guarantee to credit benefit granted by the Federal District Government under a program called PRO-DF (Economic and Sustained Development Support Program of the Federal District), which bear interest equivalent to 94% and 95% of the SELIC rate (Central Bank overnight rate).

These assets are represented in the balance sheet as follows:

|  | COMPANY                  |              | CONSOLIDATED             |               |
|--|--------------------------|--------------|--------------------------|---------------|
|  | Carrying and fair values |              | Carrying and fair values |               |
|  | 2007                     | 2006         | 2007                     | 2006          |
| <b>Assets</b>                            |                          |              |                          |               |
| <b>Loans, tied to:</b>                   |                          |              |                          |               |
| IGP-DI                                   | 7,778                    | 8,045        | 7,778                    | 8,068         |
| IPA-OG Column 27 (FGV)                   | 195                      | 341          | 195                      | 341           |
| <b>Fixed-income securities, tied to:</b> |                          |              |                          |               |
| SELIC rate                               | 892                      | 784          | 3,709                    | 3,280         |
| <b>Total</b>                             | <b>8,865</b>             | <b>9,170</b> | <b>11,682</b>            | <b>11,689</b> |
| Current                                  | 1,797                    | 5,534        | 1,797                    | 5,557         |
| Long term                                | 7,068                    | 3,636        | 9,885                    | 6,132         |

#### Liabilities

The Company has loans and financing contracted in Brazilian currency subordinated to interest rates indexed to following indices: TJLP (long-term interest rate), UMBNDES (National Bank for Economic and Social Development monetary unit), CDI (Interbank Deposit Rate), and IGP-DI. The risk inherent to these liabilities arises from possible fluctuations in these rates. The market rates are continuously monitored to assess the need to contract instruments to hedge against the fluctuations in these rates.

In addition to loans and financing, the Company issued public debentures, nonconvertible into or exchangeable for shares. This liability has been contracted at an interest rate tied to CDI and the risk on this liability arises from possible rate increases.

These liabilities are represented in the balance sheet as follows:

|                                   | COMPANY          |                  | 2006             |                  |
|-----------------------------------|------------------|------------------|------------------|------------------|
|                                   | 2007             |                  | 2006             |                  |
|                                   | Carrying value   | Fair value       | Carrying value   | Fair value       |
| <b>Liabilities</b>                |                  |                  |                  |                  |
| Loans indexed to TJLP             | 2,112,204        | 2,123,308        | 2,240,615        | 2,261,198        |
| Debentures - CDI                  | 1,088,956        | 1,088,956        | 1,625,939        | 1,628,510        |
| Loans indexed to UMBNDES          | 94,713           | 94,713           | 185,881          | 185,990          |
| Hedge on Loans indexed to UMBNDES | -                | -                | 22,087           | 21,197           |
| Loans indexed to IGP/DI           | 6,276            | 6,276            | 5,803            | 5,803            |
| Other loans                       | 25,907           | 25,907           | 36,472           | 36,472           |
| <b>Total</b>                      | <b>3,328,056</b> | <b>3,339,160</b> | <b>4,116,797</b> | <b>4,139,170</b> |
| Current                           | 283,251          | 286,789          | 905,309          | 913,456          |
| Long term                         | 3,044,805        | 3,052,371        | 3,211,488        | 3,225,714        |

|                                   | CONSOLIDATED     |                  | 2006             |                  |
|-----------------------------------|------------------|------------------|------------------|------------------|
|                                   | 2007             |                  | 2006             |                  |
|                                   | Carrying value   | Fair value       | Carrying value   | Fair value       |
| <b>Liabilities</b>                |                  |                  |                  |                  |
| Loans indexed to TJLP             | 2,112,204        | 2,123,308        | 2,240,615        | 2,261,198        |
| Debentures - CDI                  | 1,088,956        | 1,088,956        | 1,625,939        | 1,628,510        |
| Loans indexed to UMBNDES          | 94,713           | 94,713           | 185,881          | 185,990          |
| Hedge on Loans indexed to UMBNDES | -                | -                | 22,087           | 21,197           |
| Loans indexed to IGP/DI           | 26,599           | 26,599           | 25,501           | 25,501           |
| Other loans                       | 25,907           | 25,907           | 36,472           | 36,472           |
| <b>Total</b>                      | <b>3,348,379</b> | <b>3,359,483</b> | <b>4,136,495</b> | <b>4,158,868</b> |
| Current                           | 283,725          | 287,264          | 905,740          | 913,887          |
| Long term                         | 3,064,654        | 3,072,219        | 3,230,755        | 3,244,981        |

The method used for calculating the fair value of swap instruments was future cash flows associated to each instrument contracted, discounted at market rates prevailing at balance sheet date. For securities tradable in organized markets, the fair value is equivalent to the value of the last closing quotation available at balance sheet date multiplied by the number of outstanding securities. For contracts in which the current contracting terms and conditions are similar to those in which they have been originated, or that do not present parameters for quotation or contracting, fair values are equal to carrying values.

**d. Risk of failure to tie loans and financing monetary adjustment indexes to accounts receivable**

Loan and financing rates contracted by the Company are not tied to receivables. Thus, there is a risk because the adjustments of telephone tariffs do not necessarily follow increases in local interest rates, which affect the Company's debts.

**e. Contingencies**

Contingencies are assessed according to probable, possible or remote loss. Contingencies considered as of probable risk are recorded in liabilities. Details on these risks are shown in note 7.

**f. Investment-related risks**

The Company has investments measured under the equity method of accounting and the acquisition cost. The Company recognizes provisions for losses when the expected future cash flows from an investment create prospects of losses.

The investments measured under the equity method are represented by limited liability or private companies, for which there is no market value.

Investments measured at cost are immaterial in relation to total assets. The risks associated to them would not produce significant impacts for the Company in case of losses on these investments.

**g. Cash investment risks**

Temporary cash equivalents in local currency are made in financial investment funds (FIFs) and investments in its own portfolio of private securities (floating rate bank certificates of deposit) issued by prime financial institutions. The FIFs portfolios consist mainly of federal-government securities (floating, fixed, and foreign exchange rate securities) and CDBs issued by prime financial institutions (floating rate securities). Funds may carry out non-leveraged derivative transactions to hedge their portfolios and complying with the goals established in their corresponding investment policies. The exposure to market risks is monitored on a daily basis based on the VaR (Value at Risk) methodology, which qualifies the loss risk on these investments.

Foreign currency-denominated temporary cash investments are represented by overnight operations backed by securities issued by foreign financial institutions, with low credit risk.

BrT Celular holds short-term investments in federal government securities to ensure its participation in bids conducted by ANATEL. These investments are represented by LTN (National Treasury Bills), bearing fixed interest rate. The Company has contracted hedge transactions under the exchange rate swap modality to hedge against these securities market rates fluctuations, the yield of which is tied to the percentage variation of CDI.

Investments in CDBs and overnight transactions are subject to the credit risk of financial institutions, and foreign currency-denominated investments are subject to the exchange rate risk.

The balances of cash investments and short-term investments government securities are shown in notes 17 and 18, respectively.

#### **h. Risk of Early Maturity of Loans and Financing**

Liabilities derived from financing mentioned in note 35, related to BNDES agreements, public debentures and most referring to financial institutions, have covenants that prescribe the early maturity of obligations or retention of amounts pegged to debt portions in the cases where certain levels for certain indicators, such as indebtedness ratios and leverage (financial covenants), are not met.

For the financing agreements maintained with BNDES, the Company must comply with a set of financial ratios and in the event of noncompliance with some of these ratios, the Bank is allowed to request the temporary blocking of values deposited in collection accounts tied to the agreements.

All indicators set forth in agreements are being complied with and thus no sanctions or penalties set forth in the agreement clauses entered into are being enforced upon the Company.

#### **i. Regulatory risk**

##### Concession agreements

Brasil Telecom S.A. entered into with ANATEL local and domestic long distance concession agreements, effective for the period January 1, 2006 - December 31, 2025. These new concession agreements, which provide for reviews on a five-year basis, in general have a higher intervention level in the management of the business and several provisions defending consumer's interests, as noticed by the regulatory agency. The main highlights are:

- The burden of the concession defined as 2% of revenue net of taxes, calculated every two years, started in 2006, and the initial payment was made on April 30, 2007. This will occur successively until concession termination. This calculation method, as regards its accrual, corresponds to 1% for each financial year;

- The definition of new universal service goals, particularly AICE (Special Class Individual Access) with mandatory and progressive offer and the PSTs (Telecommunications Service Centers), fully defrayed by the Concessionaire;
- Possibility of the Regulatory Agency imposing alternative mandatory offer plans;
- Introduction of Regulatory Agency's right to be involved in and change agreements of the concessionaire with third parties;
- Inclusion of the parent company's, subsidiary's, affiliated companies' and third parties' assets, indispensable to the concession, as returnable assets;
- Creation of the users' council in each concession;

Interconnection tariffs are defined as a percentage public local and domestic long distance tariff until the effective implementation of cost model by service/modality, scheduled for 2008, as defined in the Regulation for Separation and Accounting Allocation Regulations (Resolution No. 396/05).

The amendment to the tariff method applicable to the STFC Basic Plan in the Modality Local Service Provided under Public Concession (PBS) – Conversion from Pulses to Minutes, and the implementation of the PASOO (Alternative Mandatory Offer Service Plan) was completed in all areas of operations of the Company on July 31, 2007, in accordance with the regulatory requirements defined by ANATEL in Rules No. 423/05, 432/06 and 450/06. This change permits customers to select one of two mandatory service offer plans (PBS and PASOO), as well as exercising the right to request the detailing on their local calls in the telephone bills.

Bill No. 103/2007 and Bill No. 1.481/2007, in progress as priority bills, to amend Law No. 9394/96 and Law No. 9998/00, provide for the access to digital information networks in educational institutions and permit the use of funds raised by the FUST (Telecommunications Universal Service Fund) by all the telecommunication operators, or even on a decentralized basis, under agreements of the federal government with the States. On the date of the preparation of these financial statements is not possible to assess the future impacts of these Bills under discussion on the Company's results.

The Executive Board of ANATEL approved on December 21, 2007, the Draft Decree for amending the PGMU (General Plan of Universal Goals Service for the Switched Fixed Telephone Service), and the Draft Amendment to the Concession Agreements. The amendment aims at deploying a support network infrastructure for the Switched Fixed Telephone Service for use of the general public (STFC), for broadband connection via high-speed IP protocol in the cities where such infrastructure is not yet available, taking into account the effectiveness of government policies on the needs of the Brazilian society. It aims at replacing the current universal service goals related to the deployment of PSTs (Telecommunications Services Centers) by backhaul. The replacement of PGMU obligations has been sent to the Ministry of Communications, which will prepare the presidential draft decree to be sent to the President of the Republic. The draft decree prescribes that 20% of the cities will be served by June 2008, 40% by December 2008, 80% by December, 2009, with full service provided by December 2010. On the date of the preparation of these financial statements is not possible to assess the future impacts of the intended replacement of universal service goals, still in progress, on the results of the Company.

Third-generation personal mobile services (3G) licenses

In the bidding process organized by ANATEL for the licenses to exploit Personal Mobile Service (SMP) concurrently with the radiofrequency licenses, 14 Brasil Telecom Celular S.A. won the auction conducted in the second half of December 2007 for the acquisition of licenses to operate in subbands that will allow this to offer products related to third generation mobile services network (3G) in its services area. The amount paid for these licenses, effective for a period of fifteen years, extendable once for an equal period, was R\$488,235. The execution of the License Terms is scheduled for February 2008, pursuant to the regulatory procedures of ANATEL. The new and the existing will SMP licenses be unified within a maximum period of eighteen months as of the publication of the extract of the Radiofrequency Use License Agreement in the Federal Official Gazette, and the distinction of the radiofrequency blocks will be maintained according to the respective original agreements and their effective periods.

The deployment of the new 3G network will allow offering SMP customers data communication services at speeds higher than those made available by the current network 2.5G in addition to the mobile voice services. Additionally, the 3G network will operate complementarily to the 2.5G network, allowing the extension and update of BrT Celular's coverage network and meeting the growth of the customer base.

## **6. EMPLOYEE BENEFITS**

The benefits described herein are offered to employees of the Company and its direct or indirect subsidiaries, except for BrT Call Center, as regards supplementary pension plans. These companies can be better jointly referred to as

Brasil Telecom Companies and also as Sponsor or Sponsors for purposes of the supplementary pension plan mentioned in this note.

### **a. Supplementary pension plan**

The Company sponsors supplementary pension plans related to retirement for its employees and assisted participants, and, in the case of the latter, medical assistance in some cases. These plans are managed by the following foundations: (i) Fundação 14 de Previdência Privada ( Fundação 14 ); (ii) Fundação BrTPREV ( FBrTPREV ) former CRT, a company merged by the Company on December 28, 2000; and (iii) Fundação SISTEL de Seguridade Social ( SISTEL ), originated from certain companies of the former Telebrás System.

Bylaws establish the approval of the supplementary pension plan policy, and the joint liability attributed to the defined benefit plans is ruled by the agreements entered into with the foundations, with the agreement of the SPC (Secretariat for Pension Plans), as regards the specific plans.

The sponsored plans are valued by independent actuaries at the balance sheet date. As regards the defined benefit plans described in this note, immediate recognition of the actuarial gains and losses is adopted, and therefore the full liabilities are recognized for the plans presenting a deficit. This measure has been applied since the 2001 fiscal year, when the regulations of CVM Resolution No. 371/00 were adopted. In cases that show a positive actuarial situation, assets are recorded in case of express authorization for offsetting with future employer contributions.



The characteristics of the sponsored supplementary pension plans are as follows:

#### **FUNDAÇÃO 14**

Fundação 14 de Previdência Privada was created in 2004 and since March 10, 2005 has been in charge of managing and operating the TCSPREV pension plan. On that date, it entered into a management agreement with SISTEL so that the latter provides management and operating services to the TCSPREV and PAMEC-BrT plans until September 30, 2006. Starting this date, Fundação 14 took over the management and operation services of its plans. As of October 31, 2007, Fundação 14 ceased to manage the assistance plan PAMEC-BrT because it is an entity engaged in the management of private pension plans. In November, 2007, the assets and liabilities of PAMEC-BrT were transferred to the Company which, in addition to sponsoring the plan, started to manage it.

#### **Plans**

##### TCSPREV (Defined Contribution, Settled Benefit and Defined Benefit)

This defined contribution and settled benefit plan was introduced on February 28, 2000. On December 31, 2001, all pension plans sponsored by the Company together with SISTEL were merged, and the SPC exceptionally and provisionally approved the document sent to that Agency, due to the need for adjustments to the regulations. Thus, TCSPREV consists of defined contribution groups with settled and defined benefits. The plans added to the TCSPREV were the PBS-TCS, PBT-BrT, BrT Management Agreement, and the Unusual Contractual Relationship Instrument, and the terms and conditions set out in the original plans were maintained. In March 2003, this plan was no longer offered to the sponsors' new hires. However, this plan started to be offered starting March 2005 to the defined contribution group. TCSPREV currently serves nearly 66.9% of the staff.

Contributions to this plan, by group of participants, are established based on actuarial studies prepared by independent actuaries according to regulations in force in Brazil, using the capitalization system to determine the costs. Currently, contributions are made by the participants and the sponsor only for the internal groups PBS-TCS (defined benefit) and TCSPREV (defined contribution). In the TCSPREV group, the contributions are credited in individual accounts of each participant, equally by employee and sponsor, and the basic contribution percentages vary between 3% and 8% of the participant's salary, according to participant's age and limited to R\$20,070.00 for 2007. Participants have the option to make additional contributions to the plan but without parity of the Company. In the PBS-TCS group, the sponsor's contribution corresponds to 12% of the participants' payroll, while the employees' contribution varies according to the age, time of service and salary. An entry fee may also be payable depending on the age a participant joined the plan. The sponsors are responsible for defraying all administrative expenses and fund risk benefits.

## **FUNDAÇÃO SISTEL DE SEGURIDADE SOCIAL**

The supplementary pension plan PBS-A, which remains under SISTEL's management, comes from the period before the Telebrás Spin-off and serves participants who had the status of beneficiaries in January 2000. SISTEL also manages the PAMA/PAMA-PCE pension plan, formed by participants assisted by the PBS-A Plan, the PBS's plans segregated by sponsor in January 2000 and PBS-TCS Internal Group, merged into the TCSPREV plan in December 2001.

### **Plans**

#### PBS-A (Defined Benefit)

Maintained jointly with other sponsors associated to the provision of telecommunications services and intended for participants that had the status of beneficiaries on January 31, 2000.

Contributions to the PBS-A are contingent to the determination of an accumulated deficit. As of December 31, 2007, actuarial appraisal date, the plan presented a surplus.

#### PAMA - Retirees Health Care Plan/PCE - Special Coverage Plan (Defined Contribution)

Maintained jointly with other sponsors subject to the provision of telecommunications services and destined for participants that had the status of beneficiaries on January 31, 2000, for the beneficiaries of the PBS-TCS Group, merged on December 31, 2001 into TCSPREV (plan currently managed by Fundação 14) and for the participants of PBS's defined benefit plans sponsored by other companies, together with SISTEL and other foundations. According to a legal and actuarial appraisal, the Sponsor's responsibility is exclusively limited to future contributions. In March-July 2004 and December 2005-April 2006, there was an incentive to the migration of PAMA pensioners for the new coverage conditions (PCE). Participants who opted for the migration began to contribute to PAMA/PCE.

The contributions to this plan correspond to 1.5% of payroll of active participants subject to PBS plans, segregated and sponsored by the several sponsoring company. In the case of Brasil Telecom, the PBS-TCS was merged into the TCSPREV plan on December 31, 2001, and began to constitute an internal group of the plan. Pensioners who migrated to the PAMA/PCE also made contributions.

## **FUNDAÇÃO BrTPREV**

It is the manager originated from the plans sponsored by former CRT, company merged into the Company at the end of 2000. The main purpose of the Company sponsoring FBrTPREV is to maintain the pensions supplementary to the benefits survival pensions and other benefits provided by the official social security system to participants.

## Plans

### BrTPREV

Defined contribution and settled benefits plan, launched in October 2002, intended to grant pension plan benefits supplementary to those of the official social security benefits and that initially served only employees of the Rio Grande do Sul Branch. This pension plan started to be offered to new employees of the Company and its subsidiaries in March 2003-February 2005, when its offering was suspended. BrTPREV currently serves nearly 23.6% of the staff.

Contributions to this plan are determined based on actuarial studies prepared by independent actuaries according to the regulations in force in Brazil, using the capitalization system to determine funding. Contributions are credited in individual accounts of each participant, equally by employee and sponsor, and the basic contribution percentages vary between 3% and 8% of the participant's salary, according to participant's age and limited to R\$20,761.00 for 2007. Participants have the option to make additional contributions to the plan but without parity of the Company. The Company is responsible for defraying all administrative expenses and fund risk benefits.

### Fundador - Brasil Telecom and Alternativo - Brasil Telecom

Defined benefits plans intended to provide pension benefits supplementary in addition to the benefits of official social security, closed to the entry of new participants. These plans currently serve approximately 0.15% of the staff.

The regular contribution by the sponsor is equal to the regular contribution of the participant, the rates of which vary according to age, time of service and salary. In the Alternativo Plan - Brasil Telecom, the contributions are limited to three times the ceiling benefit of INSS and the participant also pays an entry fee depending on the age he or she joins the plan.

## **ASSISTANCE PLAN ADMINISTERED BY THE COMPANY**

### PAMEC-BrT Health Care Plan for Supplementary Pension Beneficiaries (Defined Benefit)

Intended to provide health care to retirees and pensioners linked to the PBT-BrT Group, pension plan administered by Fundação 14.

The contributions for PAMEC-BrT were fully paid in July 1998, through a single payment. However, as that plan is now managed by the Company after the transfer of management by Fundação 14 in November 2007, there are no assets recognized to cover current expenses, and the actuarial obligation is fully recognized in the Company's liabilities.

### **Status of sponsored plans, reassessed at balance sheet date**

The data below refers to the sponsored pension plans that hold obligations of defined benefit:

|  | FBrTPREV BrTPREV,        |      | Fundação 14 - |      |
|--|--------------------------|------|---------------|------|
|  | Alternativo and Fundador |      | TCSPREV       |      |
|  | 2007                     | 2006 | 2007          | 2006 |

| <b>RECONCILIATION OF ASSETS AND LIABILITIES</b>         |                  |                  |                  |                  |
|---|------------------|------------------|------------------|------------------|
| Actuarial obligations with benefits granted             | 1,377,917        | 1,320,851        | 248,428          | 227,007          |
| Actuarial obligations with benefits to be granted       | 121,125          | 84,750           | 216,011          | 193,199          |
| <b>(=) Total present value of actuarial obligations</b> | <b>1,499,042</b> | <b>1,405,601</b> | <b>464,439</b>   | <b>420,206</b>   |
| <b>Fair value of plan assets</b>                        | <b>(813,374)</b> | <b>(757,034)</b> | <b>(791,362)</b> | <b>(717,764)</b> |
| <b>(=) Net actuarial liability (asset)</b>              | <b>685,668</b>   | <b>648,567</b>   | <b>(326,923)</b> | <b>(297,558)</b> |

| <b>CHANGE IN NET ACTUARIAL LIABILITY (ASSET)</b>                  |                  |                  |                  |                  |
|---|------------------|------------------|------------------|------------------|
| <b>Present value of actuarial obligation at beginning of year</b> | <b>1,405,601</b> | <b>1,362,809</b> | <b>420,206</b>   | <b>337,173</b>   |
| Cost of interest  | 152,349          | 147,861          | 46,226           | 37,097           |
| Cost of current service   | 5,017            | 8,030            | 3,424            | 5,285            |
| Paid benefits, net  | (113,102)        | (106,759)        | (19,887)         | (18,072)         |
| Actuarial gains (losses) on the actuarial obligation              | 49,177           | (6,340)          | 14,470           | 58,723           |
| <b>Present value of actuarial obligation at end of year</b>       | <b>1,499,042</b> | <b>1,405,601</b> | <b>464,439</b>   | <b>420,206</b>   |
| <b>Fair value of plan assets at beginning of year</b>             | <b>757,034</b>   | <b>634,894</b>   | <b>717,764</b>   | <b>645,051</b>   |
| Return on plan assets   | 53,544           | 101,017          | 92,228           | 89,457           |
| Regular contributions received by the plan                        | 3,081            | 4,614            | 1,257            | 1,328            |
| Sponsor   | 3,081            | 4,505            | 772              | 893              |
| Participants  | -                | 109              | 485              | 435              |
| Contributions for amortization received from the sponsor          | 112,817          | 123,268          | -                | -                |
| Payment of benefits   | (113,102)        | (106,759)        | (19,887)         | (18,072)         |
| <b>Fair value of plan assets at end of year</b>                   | <b>813,374</b>   | <b>757,034</b>   | <b>791,362</b>   | <b>717,764</b>   |
| <b>(=) Net actuarial liability (asset) <sup>(1)</sup></b>         | <b>685,668</b>   | <b>648,567</b>   | <b>(326,923)</b> | <b>(297,558)</b> |

(1) Due to the approvals from the Board of Fundação 14 on December 18, 2007, which decided for the allocation of surpluses to a reserve for contingencies, a special reserve in favor of participants, beneficiaries and the sponsor, and sponsor's contributions surplus, the Company recognized assets amounting to R\$81,209 to be offset against future employer's contributions. Accordingly, Fundação 14 also made amendments to the Regulations of the TCSPREV Plan, which were filed with the SPC on October 24, 2007. At the balance sheet data, the balance of this asset was R\$74,476, consisting of R\$18,743 and R\$55,733 recorded in current and long-term assets, respectively.

|  | FBrTPREV BrTPREV,        |      | Fundação 14 - |      |
|--|--------------------------|------|---------------|------|
|  | Alternativo and Fundador |      | TCSPREV       |      |
|  | 2007                     | 2006 | 2007          | 2006 |

| <b>EXPENSE RECOGNIZED IN THE STATEMENT OF INCOME OF BRASIL TELECOM</b> |                |               |              |              |
|--|----------------|---------------|--------------|--------------|
| Cost of current service  | 5,017          | 8,030         | 3,424        | 5,285        |
| Participants' contributions  | -              | (109)         | (485)        | (435)        |
| Cost of interest   | 152,349        | 147,861       | -            | -            |
| Return on plan assets  | (53,544)       | (101,017)     | -            | -            |
| Recognized actuarial losses (gains)                                    | 49,177         | (6,340)       | -            | -            |
| <b>Total recognized expense</b>  | <b>152,999</b> | <b>48,425</b> | <b>2,939</b> | <b>4,850</b> |

|  | <b>FBrTPREV BrTPREV,</b>        |             | <b>Fundação 14 -</b> |             |
|--|---------------------------------|-------------|----------------------|-------------|
|  | <b>Alternativo and Fundador</b> |             | <b>TCSPREV</b>       |             |
|  | <b>2007</b>                     | <b>2006</b> | <b>2007</b>          | <b>2006</b> |

**SIGNIFICANT ACTUARIAL ASSUMPTIONS**

|   |                   |   |                   |   |
|---|-------------------|---|-------------------|---|
| Actuarial obligation discount rate (6% + Inflation) | 10.77%            | 11.30%  | 11.30%            | 11.30%  |
| Estimated inflation rate                            | 4.50%             | 5.00%   | 5.00%             | 5.00%   |
| Estimated salary increase rate                      | 2%                | 2%  | 2%                | 2%  |
| Estimated rate of nominal benefit increase          | 4.50%             | 5.00%   | 5.00%             | 5.00%   |
| Expected total rate of return on plan assets        | 10.70%            | 13.22%  | 12.86%            | 12.86%  |
| General mortality biometric table                   | UP94              | UP94 + 1  | UP94              | UP94 + 1  |
| Disability biometric table                          | Mercer Disability | Álvaro Vindas, -20% up to 40; and +30% over 40. | Mercer Disability | Álvaro Vindas, -20% up to 40; and +30% over 40. |
| Disabled mortality biometric table                  | IAPB-57           |   | IAPB-57           |   |
| Turnover rate                                       | Null              |   | Null              |   |

**ADDITIONAL INFORMATION 2007**

- a) Plans assets and liabilities are stated as of December 31, 2007.  
b) The registry data used is from August 31, 2007, projected for December 31, 2007.

|  | <b>SISTEL - PBS-A</b> |             | <b>PAMEC</b> |             |
|--|-----------------------|-------------|--------------|-------------|
|  | <b>2007</b>           | <b>2006</b> | <b>2007</b>  | <b>2006</b> |

**RECONCILIATION OF ASSETS AND LIABILITIES**

|   |                    |                  |              |              |
|---|--------------------|------------------|--------------|--------------|
| Actuarial obligations with benefits granted             | 604,572            | 580,506          | 2,077        | 1,471        |
| Actuarial obligations with benefits to be granted       | -                  | -                | -            | 58           |
| <b>(=) Total present value of actuarial obligations</b> | <b>604,572</b>     | <b>580,506</b>   | <b>2,077</b> | <b>1,529</b> |
| <b>Fair value of plan assets</b>                        | <b>(1,006,475)</b> | <b>(895,205)</b> | <b>-</b>     | <b>(883)</b> |
| <b>(=) Net actuarial liability (asset)</b>              | <b>(401,903)</b>   | <b>(314,699)</b> | <b>2,077</b> | <b>646</b>   |

**CHANGE IN NET ACTUARIAL LIABILITY (ASSET)**

|   |                |                |              |              |
|---|----------------|----------------|--------------|--------------|
| <b>Present value of actuarial obligation at end of year</b> | <b>580,506</b> | <b>570,260</b> | <b>1,529</b> | <b>1,099</b> |
| Cost of interest  | 62,984         | 61,684         | 170          | 122          |
| Cost of current service                                     | -              | -              | 7            | 5            |
| Paid benefits, net  | (50,072)       | (49,096)       | (52)         | (19)         |
| Actuarial gains (losses) on the actuarial obligation        | 11,154         | (2,342)        | 423          | 322          |
| <b>Present value of actuarial obligation at end of year</b> | <b>604,572</b> | <b>580,506</b> | <b>2,077</b> | <b>1,529</b> |

|   |                  |                  |              |            |
|---|------------------|------------------|--------------|------------|
| <b>Fair value of plan assets at beginning of year</b> | <b>895,205</b>   | <b>738,735</b>   | <b>883</b>   | <b>925</b> |
| Return (loss) on plan assets                          | 161,342          | 205,566          | 36           | (23)       |
| Payment of benefits                                   | (50,072)         | (49,096)         | (52)         | (19)       |
| Plan assets transferred to the Sponsor                | -                | -                | (867)        | -          |
| <b>Fair value of plan assets at end of year</b>       | <b>1,006,475</b> | <b>895,205</b>   | <b>-</b>     | <b>883</b> |
| <b>(=) Net actuarial liability (asset) (1)</b>        | <b>(401,903)</b> | <b>(314,699)</b> | <b>2,077</b> | <b>646</b> |

(1) In the case of the net actuarial assets of the PBS-A Plan there is no accounting recognition at the Sponsor.

|  | SISTEL - PBS-A |      | PAMEC |      |
|--|----------------|------|-------|------|
|  | 2007           | 2006 | 2007  | 2006 |

| <b>EXPENSE RECOGNIZED IN THE STATEMENT OF INCOME OF BRASIL TELECOM</b> |   |   |            |            |
|--|---|---|------------|------------|
| Cost of current service  | - | - | 7          | 5          |
| Cost of interest   | - | - | 170        | 122        |
| Return (loss) on plan assets   | - | - | (36)       | 23         |
| Recognized actuarial losses (gains)                                    | - | - | 423        | 322        |
| <b>Total recognized expense</b>  | - | - | <b>564</b> | <b>472</b> |

| <b>SIGNIFICANT ACTUARIAL ASSUMPTIONS</b>            |        |          |  |                   |
|---|--------|----------|--|-------------------|
| Actuarial obligation discount rate (6% + Inflation) | 10.77% | 11.30%   | 10.77%   | 11.30%            |
| Estimated inflation rate                            | 4.50%  | 5.00%    | 4.50%  | 5.00%             |
| Estimated rate of nominal benefit increase          | 4.50%  | 5.00%    | 4.50%  | 5.00%             |
| Expected total rate of return on plan assets        | 10.82% | 13.18%   | N/A  | 13,75%            |
| General mortality biometric table                   | UP94   | UP94 + 1 | UP94   | UP94 + 1          |
| Disability biometric table                          | N/A    |          | N/A  | Mercer Disability |
| Initial age of benefits                             | N/A    |          | 2007: N/A<br>2006: 5% at the age of 52; 3% at each subsequent year; 100% at the eligibility for retirement |                   |

N/A = Not applicable

| <b>ADDITIONAL INFORMATION 2007</b>  |
|---|
| a) Plans assets and liabilities are stated as of December 31, 2007.   |
| b) The registry used for PBS-A and PAMEC are from September 30, 2007 and August 31, 2007, respectively, both projected for December 31, 2007. |

#### **b. Stock options plan for management and employees**

The Extraordinary Shareholders' Meeting held on November 6, 2007, approved a new general plan for granting stock options to officers and employees of the Company and its subsidiaries; the plans described were in effect at the balance sheet date, in accordance to the respective approval dates.

#### **Plan Approved on April 28, 2000**

The rights vested through stock options agreements while this previously approved plan was effective remain valid and effective according to the respective terms agreed. The plan is divided into two separate programs:

#### Program A

This program prescribed that stock options were granted as the performance goals of the Company, established by the Board of Directors for a five-year period, were attained. No option was granted for this program.





Program B

The exercise price is established by the managing committee based on the market price of one thousand shares on option granting date and will be monetarily adjusted based on the IGP-M variation between the agreement execution date and payment date.

The stock options are vested as follows:

| Granting   |          |                  |                   | Adjusted exercise price (In Brazilian reais) | Options (in shares) |        |
|------------|----------|------------------|-------------------|--|---------------------|--------|
| Grant date | Lot      | Exercise as from | Exercise deadline |  |                     |        |
| 1st        | 12/20/02 | 33%              | 01/01/04          | 12/31/08                                     | 15.69               | 9,345  |
|            |          | 33%              | 01/01/05          | 12/31/08                                     | 15.69               | 9,345  |
|            |          | 34%              | 01/01/06          | 12/31/08                                     | 15.69               | 9,346  |
| 2nd        | 12/19/03 | 33%              | 12/19/05          | 12/31/10                                     | 15.89               | 15,060 |
|            |          | 33%              | 12/19/06          | 12/31/10                                     | 15.89               | 15,060 |
|            |          | 34%              | 12/19/07          | 12/31/10                                     | 15.89               | 15,060 |
| 3rd        | 12/22/04 | 33%              | 12/22/05          | 12/31/11                                     | 17.30               | 61,213 |
|            |          | 33%              | 12/22/06          | 12/31/11                                     | 17.30               | 61,213 |
|            |          | 34%              | 12/22/07          | 12/31/11                                     | 17.30               | 61,213 |

These vesting periods can be anticipated as a result of special events or conditions established in the option granting agreement. Since December, 2004 until the balance sheet date, no options were granted for Program B.

The information on the general stock options plan is summarized below:

|                              | 2007                     |                              | 2006                     |                              |
|------------------------------|--------------------------|------------------------------|--------------------------|------------------------------|
|                              | Preferred shares options | Average exercise price - R\$ | Preferred shares options | Average exercise price - R\$ |
| Balance at beginning of year | 270,802                  | 13.00                        | 410,737                  | 13.00                        |
| Extinguished options         | (13,947)                 | 17.30                        | (139,935)                | 13.00                        |
| Balance at end of year       | 256,855                  | 16.88                        | 270,802                  | 13.00                        |

Stock options represent 0.05% of total outstanding shares (0.05% as of December 31, 2006).

Assuming that the options will be fully exercised, the premiums on the related options, calculated based on the Black&Scholes method, payable by the Company, would total R\$1,761 (R\$532 in 2006).

**Plan approved on November 6, 2007**

The new plan authorizes granting stock options, allowing plan participants, under certain conditions, to purchase or subscribe, in the future, shares that are part of a basket of shares defined as UP (Performance Unity), at a preestablished price. The amount corresponding to the number of UPs granted cannot exceed the maximum amount of 10% of the book value of the shares of each type of share of the Company.



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The shares derived from the exercise of options entitle beneficiaries to the same rights granted to the Company's other shareholders.

The Board of Directors is responsible for managing of this plan and is vested with full powers for establishing stock options programs, which can be delegated to a compensation committee formed by up to three Board members.

At the Meeting held on December 14, 2007, the Company's Board of Directors approved two programs related to the new stock options plan, with retroactive effects to July 1, 2007, which consist of the following:

Program 1

Options are granted as a one-time concession and do not allow new grants for a period of up to four years. The exercise price of the UP has been set up by the Board of Directors, under the terms defined in the plan and it is subject to indexation by the IGP-M, plus 6% p.a., to be discounted from the amounts paid as dividends and/or interest on capital in the period.

Program 2

Stock options under this program are granted annually, on July 1 of every year. Stock options for Program 2 were granted on July 1, 2007 and the exercise price of the UP has been set up by the Board of Directors, under the terms defined in the plan, to be discounted from the amounts paid as dividends and/or Interest on Shareholders' Equity in the period.

The stock options for programs 1 and 3 are vested as follows:

| Program | Granting   |     |                  |                   | Adjusted exercise price (In Brazilian reais) | Options (in UPs) |
|---------|------------|-----|------------------|-------------------|--|------------------|
|         | Grant date | Lot | Exercise as from | Exercise deadline |  |                  |
| 1       | 07/01/07   | 25% | 07/01/08         | 06/30/11          | 28.91  | 791,259          |
|         |            | 25% | 07/01/09         | 06/30/12          | 28.91  | 791,259          |
|         |            | 25% | 07/01/10         | 06/30/13          | 28.91  | 791,259          |
|         |            | 25% | 07/01/11         | 06/30/14          | 28.91  | 791,258          |
| 2       | 07/01/07   | 25% | 07/01/08         | 06/30/11          | 26.41  | 217,851          |
|         |            | 25% | 07/01/09         | 06/30/12          | 26.41  | 217,851          |
|         |            | 25% | 07/01/10         | 06/30/13          | 26.41  | 217,851          |
|         |            | 25% | 07/01/11         | 06/30/14          | 26.41  | 217,852          |

The vesting periods set out in programs 1 and 2 can be anticipated as a result of special events or conditions established in the option granting agreement.

The stock options balance (UPs) as of December 31, 2007 represents 2.23% of the Company's shareholders' equity.

Assuming that the options included in programs 1 and 2 will be fully exercised, the amount of the premiums on the related options, calculated according to the Binomial stock options pricing model, for the Company would be R\$53,462.



**c. Other employee benefits**

Other benefits are granted to employees, such as: health/dental care, meal allowance, group life insurance, occupational accident allowance, sick pay, transportation allowance, and others.

**7. PROVISION FOR CONTINGENCIES**

**a. Contingent liabilities**

The Company and its subsidiaries periodically assess their contingency risks, and also review their lawsuits taking into consideration the legal, economic, tax and accounting aspects. The assessment of these risks aims at classifying them according to the chances of unfavorable outcome as probable, possible or remote, taking into account the opinion of its legal counsel.

Contingencies whose risks are classified as probable are accrued. Contingencies classified as possible are discussed in this note. These proceedings are under discussion at the administrative or judicial level, in all the court levels, from the lower to the extraordinary courts.

In a number of situations, due to legal requirement or as a caution measure, escrow deposits are made to ensure the continuity of the proceedings in discussion. The escrow deposits related to contingencies with possible and remote likelihood of loss are shown in note 24.

Note that in some cases similar matters may be ranked in different risk degree ratings, which is justified by the facts and the particular status of each proceeding.

**Labor lawsuits**

The provisions for labor lawsuits include an estimate made by the Company's management, supported by the opinion of its legal counsel, of the losses related to lawsuits filed by employees and former employees of the Company and service providers related to labor matters.

**Tax lawsuits**

Provisions for tax contingencies refers specially to issues related to the tax collection arisen from disagreements between the management's understanding, supported by the opinion of the Company's legal advisors and the Tax Authorities regarding the interpretation, enforcement, legality and constitutionality of tax legislation.

**Civil lawsuits**

The reserves for civil contingencies refer to an estimate of lawsuits related to contractual adjustments arising from Federal Government economic plans, and other cases related to community telephony plans and suit for damages and consumer lawsuits.

**Classification by risk level**Probable risk contingencies

Contingencies classified as probable loss risk, which are accrued in liabilities and have the following balances:

| Nature  | COMPANY          |                  | CONSOLIDATED     |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2007             | 2006             | 2007             | 2006             |
| <b>Provisions</b>                               | <b>1,134,171</b> | <b>972,257</b>   | <b>1,188,528</b> | <b>1,008,019</b> |
| Labor   | 414,393          | 480,972          | 421,759          | 487,266          |
| Tax   | 335,754          | 155,319          | 367,923          | 174,502          |
| Civil   | 384,024          | 335,966          | 398,846          | 346,251          |
| <b>Related escrow deposits</b>                  | <b>(289,049)</b> | <b>(276,635)</b> | <b>(295,843)</b> | <b>(279,490)</b> |
| Labor   | (216,761)        | (242,787)        | (220,679)        | (244,579)        |
| Tax   | (21,414)         | (1,256)          | (22,046)         | (1,882)          |
| Civil   | (50,874)         | (32,592)         | (53,118)         | (33,029)         |
| <b>Total provisions, net of escrow deposits</b> | <b>845,122</b>   | <b>695,622</b>   | <b>892,685</b>   | <b>728,529</b>   |
| Current   | 178,950          | 157,615          | 197,457          | 175,590          |
| Long term                                       | 666,172          | 538,007          | 695,228          | 552,939          |

*Labor*

Changes in 2007:

|  | COMPANY          | CONSOLIDATED     |
|--|------------------|------------------|
| <b>Provisions as of December 31, 2006</b>                      | <b>480,972</b>   | <b>487,266</b>   |
| <b>Changes allocated to income</b>                             | <b>89,929</b>    | <b>91,669</b>    |
| Monetary adjustment  | 48,370           | 49,266           |
| Reassessment of contingent risks                               | (18,395)         | (18,608)         |
| Provisions of new lawsuits                                     | 59,954           | 61,011           |
| <b>Payments</b>  | <b>(156,508)</b> | <b>(157,176)</b> |
| <b>Subtotal I (provisions)</b>                                 | <b>414,393</b>   | <b>421,759</b>   |
| <b>Related escrow deposits as of December 31, 2006</b>         | <b>(242,787)</b> | <b>(244,579)</b> |
| Changes in escrow deposits                                     | 26,026           | 23,900           |
| <b>Subtotal II (escrow deposits)</b>                           | <b>(216,761)</b> | <b>(220,679)</b> |
| <b>Balance as of December 31, 2007, net of escrow deposits</b> | <b>197,632</b>   | <b>201,080</b>   |

The main matters affecting the accrued labor contingencies are as follows

- (i) Hazardous duty premium - refers to the claim of hazardous duty premium, based on Law No.7369/85, regulated by Decree No. 93412/86, due to the alleged risk of contact by the employee with the electric power system;
- (ii) Salary differences and related effects - refer mainly to claims for salary increases due to alleged noncompliance with agreements with trade union. The effects relate to the impact of the salary increase allegedly due on the other amounts calculated based on the employee's salary.





- (iii) Career plan - refers to the claim for enforcement of the career and salaries plan for employees of the Santa Catarina Branch (formerly Telesc), with promotions for seniority and merit, allegedly not granted by the former Telesc;
- (iv) Joint/vicarious liability - refers to the claim to assign liability to the Company, filed by outsourced personnel, due to alleged noncompliance with this personnel's labor rights by their direct employers;
- (v) Overtime - refers to the claim for the payment of salary and allowances derived from alleged overtime worked;
- (vi) Job reinstatement - claim due to alleged noncompliance of an employee's special condition which would prevent the termination of the employment contract without cause;
- (vii) Claim for the application of regulation that established the payment of a percentage on the income of Brasil Telecom S.A., attributed to the Santa Catarina Branch; and
- (viii) Supplement to FGTS (severance pay fund) fine arising from understated inflation - refers to claims to increase the FGTS indemnity fine due to the adjustment of accounts of this fund because of inflation effects.

Brasil Telecom S.A. filed a lawsuit against Caixa Econômica Federal to assure the reimbursement of all amounts paid for this purpose.

*Tax*

Changes in 2007:

|  | COMPANY         | CONSOLIDATED    |
|--|-----------------|-----------------|
| <b>Provisions as of December 31, 2006</b>                      | <b>155,319</b>  | <b>174,502</b>  |
| <b>Changes allocated to income</b>                             | <b>213,172</b>  | <b>226,214</b>  |
| Monetary adjustment  | 13,562          | 16,485          |
| Reassessment of contingent risks                               | 81,709          | 81,876          |
| Provisions of new lawsuits                                     | 117,901         | 127,853         |
| <b>Payments</b>  | <b>(32,737)</b> | <b>(32,793)</b> |
| <b>Subtotal I (provisions)</b>                                 | <b>335,754</b>  | <b>367,923</b>  |
| <b>Related escrow deposits as of December 31, 2006</b>         | <b>(1,256)</b>  | <b>(1,882)</b>  |
| Changes in escrow deposits                                     | (20,158)        | (20,164)        |
| <b>Subtotal II (escrow deposits)</b>                           | <b>(21,414)</b> | <b>(22,046)</b> |
| <b>Balance as of December 31, 2007, net of escrow deposits</b> | <b>314,340</b>  | <b>345,877</b>  |

The main accrued lawsuits provisioned refer to the following disputes:

- (i) Federal Taxes - several tax deficiency assessments that require the payment of federal taxes on events qualified in a allegedly inadequate way by the Company or on differences in the calculation of these taxes; and
- (ii) State Taxes - claim for payment of ICMS (State value added tax) on transactions that, according to the Company, are not subject to this tax, and discussions on ICMS credits taken by the Company, the validity or legality of which is questioned by the State Tax Authorities.

*Civil*

Changes in 2007:

|  | <b>COMPANY</b>   | <b>CONSOLIDATED</b> |
|--|------------------|---------------------|
| <b>Provisions as of December 31, 2006</b>                      | <b>335,966</b>   | <b>346,251</b>      |
| <b>Changes allocated to income</b>                             | <b>322,949</b>   | <b>331,800</b>      |
| Monetary adjustment  | 26,545           | 27,611              |
| Reassessment of contingent risks                               | 231,230          | 230,958             |
| Provisions of new lawsuits                                     | 65,174           | 73,231              |
| <b>Payments</b>  | <b>(274,891)</b> | <b>(279,205)</b>    |
| <b>Subtotal I (provisions)</b>                                 | <b>384,024</b>   | <b>398,846</b>      |
| <b>Related escrow deposits as of December 31, 2006</b>         | <b>(32,592)</b>  | <b>(33,029)</b>     |
| Changes in escrow deposits                                     | (18,282)         | (20,089)            |
| <b>Subtotal II (escrow deposits)</b>                           | <b>(50,874)</b>  | <b>(53,118)</b>     |
| <b>Balance as of December 31, 2007, net of escrow deposits</b> | <b>333,150</b>   | <b>345,728</b>      |

The accrued lawsuits are as follows:

- (i) Review of contractual terms and conditions - lawsuit filed by an equipment supplier against the Company to claim the revision of contractual terms and conditions due to changes introduced by an economic stabilization plan;
- (ii) Financial Participation Agreements - the TJ/RS (Court of Appeals of Rio Grande do Sul) has issued decisions against the procedure previously adopted by the former CRT in lawsuits related to the application of a rule issued by the Ministry of the Communications. These lawsuits are in various stages: lower courts, Court of Appeals and Superior Court of Justice;
- (iii) Customer service centers - public civil actions related to the closing of customer services centers;
- (iv) Free Mandatory Telephone Directories (LTOGs) - lawsuits questioning the non-delivery of printed residential telephone directories; and
- (v) Other lawsuits - refer to various ongoing lawsuits, comprising civil liability suits, indemnities for contract termination and consumer matters in progress in the Special Courts, Courts of Law and Federal Courts throughout the country.

Possible risk contingencies

Contingencies with risk level considered possible, and therefore not recorded in the books, are broken down as follows:

| <b>Nature</b> | <b>COMPANY</b>   |                  | <b>CONSOLIDATED</b> |                  |
|---------------|------------------|------------------|---------------------|------------------|
|               | <b>2007</b>      | <b>2006</b>      | <b>2007</b>         | <b>2006</b>      |
| Labor         | 535,459          | 475,195          | 540,690             | 479,608          |
| Tax           | 1,994,196        | 2,084,378        | 2,062,095           | 2,145,398        |
| Civil         | 1,081,376        | 565,896          | 1,129,175           | 606,938          |
| <b>Total</b>  | <b>3,611,031</b> | <b>3,125,469</b> | <b>3,731,960</b>    | <b>3,231,944</b> |

*Labor*

Changes in 2007:

|   | <b>COMPANY</b> | <b>CONSOLIDATED</b> |
|---|----------------|---------------------|
| <b>Amount estimated as of December 31, 2006</b> | <b>475,195</b> | <b>479,608</b>      |
| Monetary adjustment                             | 67,160         | 67,764              |
| Reassessment of contingent risks                | (105,044)      | (105,761)           |
| New lawsuits                                    | 98,148         | 99,079              |
| <b>Amount estimated as of December 31, 2007</b> | <b>535,459</b> | <b>540,690</b>      |

The main matters involving possible losses in labor lawsuits are related to joint/vicarious responsibility, supplement of FGTS indemnity fine resulting from understated inflation, hazardous duty premium, promotions and claim of payment of alleged overtime worked.

*Tax*

Changes in 2007:

|   | <b>COMPANY</b>   | <b>CONSOLIDATED</b> |
|---|------------------|---------------------|
| <b>Amount estimated as of December 31, 2006</b> | <b>2,084,378</b> | <b>2,145,398</b>    |
| Monetary adjustment                             | 225,210          | 232,266             |
| Reassessment of contingent risks                | (480,628)        | (482,026)           |
| New lawsuits                                    | 165,236          | 166,457             |
| <b>Amount estimated as of December 31, 2007</b> | <b>1,994,196</b> | <b>2,062,095</b>    |

The main existing lawsuits are represented by the matters below:

- (i) Social Security (INSS) infraction notices on the addition of captions to the contribution salary allegedly due by the company;
- (ii) Tax infraction notices issued by the Federal Revenue Service due to differences in amounts reported in the DCTF (Declaration of Federal Tax Debits and Credits) and the DIPJ (Corporate Income Tax Return);



- (iii) Public civil lawsuits questioning the alleged pass-through of PIS and COFINS (taxes on revenues) to end consumers;
- (iv) ICMS levied on international calls, whose tax liability for the collection is assigned to another operator;
- (v) ICMS - credit and related tax rate difference on interstate purchases made by the Company;
- (vi) ICMS - tax infraction notices on the alleged levy of the tax on the activities described in Agreement No. 69/98;
- (vii) ICMS tax credit on cancelled invoices;
- (viii) Withholding Income Tax - on hedge transactions for debt coverage;
- (ix) FUST (Telecommunications Universal Service Fund) - due to the illegal retroactivity, according to the Company, of the effects generated by the change in interpretation of its calculation basis by ANATEL.
- (x) ISS (Service Tax) - alleged levy on communications auxiliary services and discussion on the classification of services taxed by the cities listed in the Supplementary Law No. 116/2003.

*Civil*

Changes in 2007:

|   | <b>COMPANY</b>   | <b>CONSOLIDATED</b> |
|---|------------------|---------------------|
| <b>Amount estimated as of December 31, 2006</b> | <b>565,896</b>   | <b>606,938</b>      |
| Monetary adjustment                             | 76,337           | 80,677              |
| Reassessment of contingent risks                | (30,772)         | (51,671)            |
| New lawsuits                                    | 469,915          | 493,231             |
| <b>Amount estimated as of December 31, 2007</b> | <b>1,081,376</b> | <b>1,129,175</b>    |

The main existing lawsuits are represented by the matters below:

- (i) Payments made in lawsuits related to the PCT (Community Telephony Program) - the plaintiffs claim payment in lawsuits related to the contracts resulting from the Community Telephony Program. These lawsuits are in various stages: lower courts, Court of Appeals and Superior Court of Justice;
- (ii) Lawsuit for damages and consumers; and
- (iii) Contractual - lawsuits related to the claim of a percentage resulting from the Real Plan, to be applied on a service agreement, review of conversion of installments into URV (units of account) and later into reais, related to equipment supply and service provision.

Letters of guarantee

As for contingent liabilities, the Company has contracts for letters of guarantee entered into with financial institutions, as supplementary guarantees for lawsuits in provisional foreclosure and guarantees for attending bidding processes with ANATEL. The total amount of guarantees contracted and in force at the balance sheet

date is R\$1,336,279 (R\$720,660 as of December 31, 2006) and R\$1,360,006 (R\$734,014 as of December 31, 2006) for consolidated purposes. The commission charges on these contracts are based on market rates.

#### **b. Contingent assets**

The tax lawsuit below was filed by the Company to claim the refund of taxes paid.

PIS/COFINS: tax lawsuits challenging the enforcement of Law No. 9718/98, which increased the PIS and COFINS tax basis. The period comprised by the Law was February 1999-November 2002 for PIS and February 1999-January 2004 for COFINS. In November 2005, the STF (Federal Supreme Court) concluded the judgment of certain lawsuits on the same matter and considered the increase of tax basis introduced by said Law unconstitutional. Part of the lawsuits filed by the Company and the STFC concessionaires from Region II of the Granting Plan, merged into the Company in February 2000, became final and unappealable in 2006 as regards the increase in COFINS tax basis. The Company is awaiting the judgments of the lawsuits filed by the other merged companies, whose likelihood of a favorable outcome in future filing of appeals is considered as probable by the Company's legal counsel. The amount attributed to these lawsuits representing unrecognized contingent assets, is R\$17,445 (R\$16,842 as of December 31, 2006).

### **8. SHAREHOLDERS EQUITY**

#### **a. Capital**

The Shareholders' Meeting held on April 10, 2007 approved the reverse split of shares of the Company's capital stock. Accordingly, the shares will be grouped at the ratio of one thousand (1,000) shares per one (1) share, and capital will be represented by 249,597,049 common shares and 311,353,240 preferred shares, totaling 560,950,289 shares issued. From the total amount of shares, 13,678,100 preferred shares are held in treasury.

The reverse stock split aims at bringing the unit price for quotation of shares to a more appropriate level from the market point of view, reducing operating costs for the Company and its shareholders, and increasing the efficiency of the systems for registration, controls and information disclosure to shareholders. After the approval of the reverse stock split, shareholders had a period of 30 days to adjust their share positions in lots of one thousand (1,000) shares by type, through trading on BOVESPA or an over-the-counter market. After that period, the shares are traded in groups with unit quotation. The remaining shares fractions were separated and grouped into full numbers and sold at an auction held on BOVESPA. The amounts resulting from such auction, after final settlement of the sale, were made available on behalf of the respective shareholders.

The Company is authorized to increase its capital, according to a resolution of the Board of Directors, up to the total limit of 800,000,000 common or preferred shares, in compliance with the legal limit of two thirds (2/3) for the issue of new preferred shares without voting rights.

By means of a resolution of the Shareholders' Meeting or the Board of Directors, the Company's capital may be increased by the capitalization of retained earnings or prior reserves allocated by the Shareholders' Meeting. Under these conditions, the capitalization may be carried out without changing the number of shares.

Capital is represented by common and preferred stocks, with no par value, and it is not mandatory to maintain the proportion between the shares in the case of capital increases.

By resolution of the Shareholders Meeting or the Shareholders' Meeting, the preemptive right on the issue of shares, warrants or debentures convertible into shares may be excluded, in the cases stipulated in article 172 of Corporate Law.

The preferred shares do not have voting rights, except in the cases specified in paragraphs 1 to 3 of article 12 of the Bylaws, but are assured priority in receiving the minimum noncumulative dividend equal to the higher of 6% per year, calculated on the amount resulting from dividing the capital by the total number of the Company's shares or 3% per year, calculated on the amount resulting from dividing shareholders' equity by the total number of the Company's shares, whichever is greater.

Subscribed and paid-up capital at the balance sheet date is R\$3,470,758 (R\$3,470,758 as of December 31, 2006), represented by the following shares with no par value:

| Share type   | Total              |                        | Treasury Shares   |                       | Outstanding Shares |                        |
|--------------|--------------------|------------------------|-------------------|-----------------------|--------------------|------------------------|
|              | 2007               | 2006                   | 2007              | 2006                  | 2007               | 2006                   |
| Common       | 249,597,049        | 249,597,049,542        | -                 | -                     | 249,597,049        | 249,597,049,542        |
| Preferred    | 311,353,240        | 311,353,240,857        | 13,678,100        | 13,678,100,000        | 297,675,140        | 297,675,140,857        |
| <b>Total</b> | <b>560,950,289</b> | <b>560,950,290,399</b> | <b>13,678,100</b> | <b>13,678,100,000</b> | <b>547,272,189</b> | <b>547,272,190,399</b> |

|   | 2007         | 2006 <sup>(1)</sup> |
|---|--------------|---------------------|
| <b>Book value per outstanding share (R\$)</b> | <b>10.19</b> | <b>10.10</b>        |

(1) Per thousand shares.

Preferred shares maintained in treasury are deducted when determining the net book value.

#### **b. Treasury shares**

Treasury shares derive from Stock Buyback Programs carried out in 2002 to 2004. On September 13, 2004, a material event was disclosed on the last proposal approved by the Company's Board of Directors for the buyback of preferred shares issued by the Company to be held in treasury or cancellation, or subsequent sale.

The number of treasury shares is as follows:

|                              | 2007             |         | 2006             |         |
|------------------------------|------------------|---------|------------------|---------|
|                              | Preferred shares | Amount  | Preferred shares | Amount  |
| Balance at beginning of year | 13,678,100       | 154,692 | 13,678,100,000   | 154,692 |
| Balance at end of year       | 13,678,100       | 154,692 | 13,678,100,000   | 154,692 |

| <b>History cost of the purchase of treasury shares in (R\$ per share)</b> | <b>2007</b> | <b>2006<sup>(1)</sup></b> |
|---|-------------|---------------------------|
| Weighted average cost   | 11.31       | 11.31                     |
| Minimum   | 10.31       | 10.31                     |
| Maximum   | 13.80       | 13.80                     |

(1) Per thousand shares.

The unit purchase cost considers all the share stock buyback programs.

Until the balance sheet date, there were no sales of preferred shares purchased through the buyback programs.

Market value of treasury shares

The market value of treasury shares at the balance sheet date was the following:

|  | <b>2007</b>    | <b>2006<sup>(1)</sup></b> |
|--|----------------|---------------------------|
| Number of preferred shares in treasury | 13,678,100     | 13,678,100,000            |
| Quotation per share on BOVESPA (R\$)   | 18.25          | 10.95                     |
| <b>Market value</b>                    | <b>249,625</b> | <b>149,775</b>            |

(1) Per thousand shares.

The Company maintains the balance of treasury shares in a separate caption in books. For presentation purposes, the values of treasury shares are deducted from the reserves that originated the buyback, and are stated as follows.

|  | <b>Share subscription premium</b> |                | <b>Other capital reserves</b> |               |
|--|-----------------------------------|----------------|-------------------------------|---------------|
|  | <b>2007</b>                       | <b>2006</b>    | <b>2007</b>                   | <b>2006</b>   |
| Account balance of reserves            | 458,684                           | 458,684        | 123,334                       | 123,334       |
| Treasury shares                        | (99,822)                          | (99,822)       | (54,870)                      | (54,870)      |
| <b>Balance, net of treasury shares</b> | <b>358,862</b>                    | <b>358,862</b> | <b>68,464</b>                 | <b>68,464</b> |



**c. Capital reserves**

Capital reserves are recognized in accordance with the following practices:

Reserve for share subscription premium: results from the difference between the amount paid on subscription and the portion allocated to capital.

Reserve for investment grants: recognized as a result of the investment grants received, the contra entry of which represents an asset received by the Company.

Special monetary restatement reserve of Law No. 8200/91: recognized as a result of special monetary restatement adjustments of permanent assets to offset distortions in the monetary adjustment indices prior to 1991.

Other capital reserves: formed by the contra entry of the interest on construction in progress incurred up to December 31, 1998 and funds invested in income tax incentives.

Due to the existence of several capital reserves, we present below the activity of such reserves aiming at providing further details on the variations demonstrated by changes in the shareholders' equity.

|   | Goodwill on Share Subscription |                 | Goodwill Special Reserve at Incorporation | Donations and Fiscal Incentives for Investments | Interest on Works in Progress |
|---|--------------------------------|-----------------|---|---|-------------------------------|
|   | Goodwill on Share Subscription | Treasury Stock  |   |   |                               |
| <b>Balance on December 31, 2005</b>                   | <b>434,647</b>                 | <b>(99,822)</b> | <b>59,007</b>                             | <b>123,551</b>                                  | <b>745,756</b>                |
| <b>Capital Stock Increase</b>                         |                                |                 |   |   |                               |
| Tax benefit on the amortization of goodwill on merger | 24,037                         |                 | (59,007)                                  |   |                               |
| <b>Additions to Capital Reserves</b>                  |                                |                 |   |   |                               |
| Investment grants                                     |                                |                 |   | 7   |                               |
| <b>Balance on December 31, 2006</b>                   | <b>458,684</b>                 | <b>(99,822)</b> | <b>-</b>                                  | <b>123,558</b>                                  | <b>745,756</b>                |
| <b>Additions to Capital Reserves</b>                  |                                |                 |   |   |                               |
| Investment grants                                     | -                              | -               | -   | -   | -                             |
| <b>Balance on December 31, 2007</b>                   | <b>458,684</b>                 | <b>(99,822)</b> | <b>-</b>                                  | <b>123,558</b>                                  | <b>745,756</b>                |

|   | Special<br>Monetary<br>Correction -<br>Law 8200/91 | Others         |                   | Total of<br>Capital<br>Reserves |
|---|--|----------------|-------------------|---------------------------------|
|   |  | Others         | Treasury<br>Stock |                                 |
| <b>Balance on December 31, 2005</b>                             | <b>31,287</b>                                      | <b>123,334</b> | <b>(54,870)</b>   | <b>1,362,890</b>                |
| <b>Capital Stock Increase</b>                                   |  |                |                   |                                 |
| Tax benefit on the amortization of goodwill<br>in the<br>merger |  |                |                   | <b>(34,970)</b>                 |
| <b>Additions to Capital Reserves</b>                            |  |                |                   |                                 |
| Investment grants   |  |                |                   | <b>7</b>                        |
| <b>Balance on December 31, 2006</b>                             | <b>31,287</b>                                      | <b>123,334</b> | <b>(54,870)</b>   | <b>1,327,927</b>                |
| <b>Additions to Capital Reserves</b>                            |  |                |                   |                                 |
| Investment grants   | -  | -              | -                 | -                               |
| <b>Balance on December 31, 2007</b>                             | <b>31,287</b>                                      | <b>123,334</b> | <b>(54,870)</b>   | <b>1,327,927</b>                |

#### d. Profit reserve

The profit reserve is recognized in accordance with the following practices:

Legal reserve: allocation of five percent of the annual net income up to twenty percent of paid-up capital or thirty percent of capital plus capital reserves. The legal reserve is used only to increase capital or absorb losses.

Retained earnings: recognized at the end of each financial year and consist of the remaining balances of net income or loss for the year, adjusted according to the terms of article 202 of Law No. 6404/76, or by the recording of prior years adjustments, if applicable.

#### e. Dividends and Interest on Shareholders Equity

The dividends are calculated according to the Company's Bylaws and in compliance with the Corporate Law. Mandatory minimum dividends are calculated in accordance with article 202 of Law No. 6404/76, and the preferred or priority dividends are calculated in accordance with the Company's Bylaws.

By decision of the Board of Directors, the Company may pay or credit, as dividends, on shareholders' equity ( JSCP ), under article 9, paragraph 7, of Law No. 9249, of December 26, 1995. The interest paid or credited will be offset with the minimum mandatory annual dividend amount, in accordance with article 43 of the Company's Bylaws.

Mandatory minimum dividends calculated in accordance with article 202 of Law No. 6404/76.

|   | 2007           | 2006           |
|---|----------------|----------------|
| <b>Net income for the year</b>                          | <b>797,287</b> | <b>432,391</b> |
| Allocation to legal reserve                             | (39,864)       | (21,619)       |
| <b>Adjusted net income</b>                              | <b>757,423</b> | <b>410,772</b> |
| <b>Mandatory dividends (25% of adjusted net income)</b> | <b>189,356</b> | <b>102,693</b> |

#### Dividends and Interest on Shareholders' Equity – JSCP Credited

The Company credited Interest on Shareholders' Equity to its shareholders during the year, according to the share position on the date of each credit was made. At the balance sheet date, interest on capital credited, net of withholding income tax, was attributed to dividends and is part of the net income allocation proposal to be submitted to the approval at the Annual Shareholders' Meeting (A.G.O.).

|   | 2007           | 2006           |
|---|----------------|----------------|
| <b>Interest on Shareholders' Equity – JSCP Credited</b> | <b>350,400</b> | <b>348,900</b> |
| IRRF (withholding income tax)                           | (52,560)       | (52,335)       |
| <b>Net JSCP</b>   | <b>297,840</b> | <b>296,565</b> |
| <b>Dividends Provisioned, supplementing JSCP</b>        | <b>407,023</b> | <b>61,872</b>  |
| <b>Total shareholders' compensation</b>                 | <b>704,863</b> | <b>358,437</b> |
| Common shares   | 321,470        | 163,474        |
| Preferred shares  | 383,393        | 194,963        |

| <b>Total compensation per share (in Brazilian reais) <sup>(1)</sup></b> | <b>2007</b> | <b>2006<sup>(2)</sup></b> |
|---|-------------|---------------------------|
| Common  | 1.287957    | 0.654952                  |
| Preferred   | 1.287957    | 0.654952                  |
| Total shares  | 1.287957    | 0.654952                  |

(1) The calculation of dividends/JSCP per share takes into account shares outstanding at the balance sheet date.

(2) Per thousand shares.

Shareholders' compensation exceeds the value of mandatory dividends and it is also higher than the value of priority dividends and dividends for common shares, calculated under the same conditions.

**9. OPERATING REVENUE FROM SERVICES AND SALES**

|   | COMPANY           |                   | CONSOLIDATED      |                   |
|---|-------------------|-------------------|-------------------|-------------------|
|   | 2007              | 2006              | 2007              | 2006              |
| <b>Fixed Telephone Service</b>                                      |                   |                   |                   |                   |
| <b>Local Service</b>  | <b>6,571,129</b>  | <b>6,941,633</b>  | <b>6,566,256</b>  | <b>6,928,969</b>  |
| Activation fees   | 16,352            | 27,443            | 16,352            | 27,443            |
| Subscription  | 3,541,731         | 3,517,664         | 3,541,429         | 3,517,369         |
| Fixed   | 1,105,696         | 1,386,164         | 1,101,419         | 1,374,012         |
| Fixed x Mobile - VC1  | 1,876,418         | 1,963,699         | 1,876,132         | 1,963,497         |
| Rental  | 1,165             | 1,689             | 1,157             | 1,680             |
| Other   | 29,767            | 44,974            | 29,767            | 44,968            |
| <b>Long distance service</b>  | <b>2,957,520</b>  | <b>2,777,410</b>  | <b>2,947,454</b>  | <b>2,770,089</b>  |
| Intra-sector fixed  | 863,566           | 878,955           | 863,484           | 878,880           |
| Intraregional (inter-sector) Fixed                                  | 264,498           | 302,508           | 264,243           | 302,432           |
| Interregional fixed   | 241,129           | 260,446           | 241,077           | 260,402           |
| VC2   | 793,849           | 717,203           | 788,455           | 713,095           |
| Fixed origin  | 292,445           | 283,885           | 292,343           | 283,802           |
| Mobile origin   | 501,404           | 433,318           | 496,112           | 429,293           |
| VC3   | 750,595           | 572,994           | 746,316           | 569,980           |
| Fixed origin  | 365,864           | 244,559           | 365,588           | 244,433           |
| Mobile origin   | 384,731           | 328,435           | 380,728           | 325,547           |
| International   | 43,883            | 45,304            | 43,879            | 45,300            |
| <b>Interconnection</b>  | <b>421,678</b>    | <b>490,579</b>    | <b>357,674</b>    | <b>442,148</b>    |
| Fixed x Fixed   | 243,267           | 298,253           | 243,236           | 298,203           |
| Mobile x Fixed  | 178,411           | 192,326           | 114,438           | 143,945           |
| <b>Cession of means</b>   | <b>462,435</b>    | <b>422,155</b>    | <b>357,893</b>    | <b>328,431</b>    |
| <b>Public telephony</b>   | <b>546,007</b>    | <b>540,610</b>    | <b>546,007</b>    | <b>540,610</b>    |
| <b>Supplementary services, smart network and advanced telephony</b> | <b>395,665</b>    | <b>368,124</b>    | <b>393,980</b>    | <b>367,559</b>    |
| <b>Other</b>  | <b>38,042</b>     | <b>45,276</b>     | <b>35,168</b>     | <b>43,459</b>     |
| <b>Total fixed telephone service</b>                                | <b>11,392,476</b> | <b>11,585,787</b> | <b>11,204,432</b> | <b>11,421,265</b> |

Continues

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... continued

|   | COMPANY            |                    | CONSOLIDATED       |                    |
|---|--------------------|--------------------|--------------------|--------------------|
|   | 2007               | 2006               | 2007               | 2006               |
| <b>Mobile telephone service</b>                             |                    |                    |                    |                    |
| <b>Telephony</b>  | -                  | -                  | <b>1,753,231</b>   | <b>1,140,055</b>   |
| Subscription  | -                  | -                  | 433,555            | 305,376            |
| Use   | -                  | -                  | 547,050            | 388,231            |
| Charge per call   | -                  | -                  | 6,810              | 5,658              |
| Roaming   | -                  | -                  | 16,070             | 13,319             |
| Interconnection   | -                  | -                  | 624,691            | 300,089            |
| Value added services  | -                  | -                  | 104,415            | 102,983            |
| Other services  | -                  | -                  | 20,640             | 24,399             |
|   |                    |                    |                    |                    |
| <b>Sale of products</b>                                     | -                  | -                  | <b>270,515</b>     | <b>286,198</b>     |
| Cell phones   | -                  | -                  | 263,982            | 274,295            |
| Electronic cards - Brasil chip, accessories and other goods | -                  | -                  | 6,533              | 11,903             |
|   |                    |                    |                    |                    |
| <b>Total of mobile telephony service</b>                    | -                  | -                  | <b>2,023,746</b>   | <b>1,426,253</b>   |
|   |                    |                    |                    |                    |
| <b>Data transmission services and others</b>                |                    |                    |                    |                    |
| <b>Data communication</b>                                   | <b>2,171,050</b>   | <b>1,804,613</b>   | <b>2,310,959</b>   | <b>1,897,542</b>   |
| <b>Other services of core activities</b>                    | <b>8,777</b>       | <b>7,489</b>       | <b>458,251</b>     | <b>366,258</b>     |
|   |                    |                    |                    |                    |
| <b>Total data transmission services and others</b>          | <b>2,179,827</b>   | <b>1,812,102</b>   | <b>2,769,210</b>   | <b>2,263,800</b>   |
|   |                    |                    |                    |                    |
| <b>Gross operating revenue</b>                              | <b>13,572,303</b>  | <b>13,397,889</b>  | <b>15,997,388</b>  | <b>15,111,318</b>  |
|   |                    |                    |                    |                    |
| <b>Deductions from gross revenue</b>                        | <b>(4,118,929)</b> | <b>(4,188,175)</b> | <b>(4,938,842)</b> | <b>(4,814,659)</b> |
| Taxes on gross revenue                                      | (3,841,848)        | (3,880,941)        | (4,353,809)        | (4,285,952)        |
| Other deductions from gross income                          | (277,081)          | (307,234)          | (585,033)          | (528,707)          |
|   |                    |                    |                    |                    |
| <b>Net operating revenue</b>                                | <b>9,453,374</b>   | <b>9,209,714</b>   | <b>11,058,546</b>  | <b>10,296,659</b>  |

**10. COST OF SERVICES AND SALES**

Costs incurred on services and sales are as follows:

|   | COMPANY            |                    | CONSOLIDATED       |                    |
|---|--------------------|--------------------|--------------------|--------------------|
|   | 2007               | 2006               | 2007               | 2006               |
| Interconnection                                 | (2,199,432)        | (2,210,504)        | (2,318,884)        | (2,114,865)        |
| Depreciation and amortization                   | (1,630,055)        | (1,912,500)        | (2,033,845)        | (2,306,553)        |
| Third-Party Services                            | (761,787)          | (775,430)          | (934,023)          | (911,059)          |
| Rental, leases and insurance                    | (228,597)          | (218,454)          | (313,925)          | (348,238)          |
| Connection means                                | (169,276)          | (122,586)          | (135,532)          | (105,996)          |
| Personnel                                       | (127,359)          | (149,399)          | (162,494)          | (169,260)          |
| Employee and management profit sharing          | (18,567)           | (20,174)           | (20,959)           | (22,519)           |
| Price of the public service concession          | (69,406)           | (67,363)           | (69,406)           | (67,363)           |
| Materials                                       | (66,403)           | (69,445)           | (69,951)           | (72,394)           |
| FISTEL (Telecommunications Inspection Fund) fee | (17,759)           | (17,569)           | (64,820)           | (48,551)           |
| Products sold                                   | -                  | -                  | (255,429)          | (294,727)          |
| Other   | (3,809)            | (3,694)            | (3,815)            | (3,696)            |
| <b>Total</b>                                    | <b>(5,292,450)</b> | <b>(5,567,118)</b> | <b>(6,383,083)</b> | <b>(6,465,221)</b> |

**11. SALES OF SERVICES**

*(Selling expenses)*

The expenses related to selling activities are detailed as follows:

|  | COMPANY          |                  | CONSOLIDATED       |                    |
|--|------------------|------------------|--------------------|--------------------|
|  | 2007             | 2006             | 2007               | 2006               |
| Third-Party Services                   | (428,994)        | (438,416)        | (735,592)          | (747,202)          |
| Losses on accounts receivables         | (266,411)        | (322,841)        | (348,001)          | (384,320)          |
| Personnel                              | (152,555)        | (173,469)        | (229,004)          | (235,745)          |
| Employee and management profit sharing | (17,373)         | (18,455)         | (21,149)           | (22,229)           |
| Rental, leases and insurance           | (18,602)         | (22,314)         | (56,801)           | (9,449)            |
| Depreciation and amortization          | (4,049)          | (4,653)          | (19,080)           | (16,504)           |
| Materials                              | (2,628)          | (2,846)          | (50,753)           | (23,798)           |
| Other                                  | (470)            | (422)            | (24,972)           | (31,385)           |
| <b>Total</b>                           | <b>(891,082)</b> | <b>(983,416)</b> | <b>(1,485,352)</b> | <b>(1,470,632)</b> |

**12. GENERAL AND ADMINISTRATIVE EXPENSES**

The expenses related to administrative activities, which include information technology expenses, are detailed as follows:

|  | COMPANY            |                    | CONSOLIDATED       |                    |
|--|--------------------|--------------------|--------------------|--------------------|
|  | 2007               | 2006               | 2007               | 2006               |
| Third-Party Services                   | (666,580)          | (634,758)          | (756,876)          | (716,279)          |
| Depreciation and amortization          | (260,432)          | (264,490)          | (327,124)          | (324,961)          |
| Personnel                              | (131,027)          | (128,637)          | (163,250)          | (169,613)          |
| Employee and management profit sharing | (31,090)           | (28,542)           | (38,340)           | (34,674)           |
| Rental, leases and insurance           | (36,684)           | (33,942)           | (41,054)           | (39,002)           |
| Materials                              | (3,283)            | (2,977)            | (4,058)            | (21,097)           |
| Other                                  | (666)              | (839)              | (1,219)            | (1,765)            |
| <b>Total</b>                           | <b>(1,129,762)</b> | <b>(1,094,185)</b> | <b>(1,331,921)</b> | <b>(1,307,391)</b> |

**13. OTHER OPERATING EXPENSES, NET**

Other revenues and expenses attributed to operating activities are shown as follows:

|   | COMPANY   |           | CONSOLIDATED |           |
|---|-----------|-----------|--------------|-----------|
|   | 2007      | 2006      | 2007         | 2006      |
| Rental of operating infrastructure and others                               | 125,591   | 112,563   | 87,439       | 78,796    |
| Refunded taxes and recovered expenses                                       | 94,144    | 187,710   | 95,755       | 197,166   |
| Recovery of expenses on pension plans surplus                               | 81,209    | -         | 81,209       | -         |
| Technical and administrative services                                       | 60,060    | 63,342    | 57,286       | 58,306    |
| Fines   | 64,050    | 59,537    | 77,988       | 67,574    |
| Settlement of litigation with telecommunications companies                  | 17,477    | 59,700    | 16,610       | 53,838    |
| Reversal of other provisions  | 6,965     | 13,567    | 32,390       | 15,540    |
| Subsidies and grants received   | 5,896     | 2,336     | 16,889       | 13,856    |
| Dividends from investments stated at acquisition cost                       | 383       | 262       | 383          | 262       |
| Results on write-off of repair/resale inventories                           | 184       | 105       | (1,923)      | 1,996     |
| Provision for contingencies <sup>(1)</sup>                                  | (626,050) | (470,557) | (649,683)    | (487,157) |
| Provision for Pension plans   | (89,675)  | (28,709)  | (89,675)     | (28,709)  |
| Taxes (other than on gross revenue, and income and social contribution tax) | (72,473)  | (93,139)  | (86,855)     | (105,906) |
| Court fees  | (50,415)  | (32,250)  | (51,060)     | (32,870)  |
| Amortization of goodwill on acquisition of investments                      | (22,073)  | (22,073)  | (84,911)     | (73,814)  |
| Donations and sponsoring  | (12,810)  | (9,387)   | (11,499)     | (9,892)   |
| Indemnities - telephony and others  | (156)     | (103)     | (157)        | (103)     |
| Other income (expenses)   | 7,235     | (7,267)   | 10,011       | (11,017)  |

|                                 |                  |                  |                    |                  |
|---------------------------------|------------------|------------------|--------------------|------------------|
| <b>Total</b>                    | <b>(410,458)</b> | <b>(164,363)</b> | <b>(499,803)</b>   | <b>(262,134)</b> |
| <b>Other operating income</b>   | <b>530,988</b>   | <b>557,146</b>   | <b>558,402</b>     | <b>566,013</b>   |
| <b>Other operating expenses</b> | <b>(941,446)</b> | <b>(721,509)</b> | <b>(1,058,205)</b> | <b>(828,147)</b> |

Revenues and expenses of the same nature are presented at their net amount.

(1) Accrued contingencies are described in note 7.



**14. FINANCIAL EXPENSES, NET**

|   | COMPANY          |                    | CONSOLIDATED       |                    |
|---|------------------|--------------------|--------------------|--------------------|
|   | 2007             | 2006               | 2007               | 2006               |
| <b>Financial income</b>                     | <b>285,862</b>   | <b>514,765</b>     | <b>435,948</b>     | <b>582,875</b>     |
| Local currency                              | 285,100          | 509,841            | 431,635            | 574,112            |
| On foreign currency-denominated rights      | 762              | 4,924              | 4,313              | 8,763              |
| <b>Financial expenses</b>                   | <b>(965,723)</b> | <b>(1,141,770)</b> | <b>(1,049,435)</b> | <b>(1,221,437)</b> |
| Local currency                              | (547,019)        | (658,590)          | (616,284)          | (721,161)          |
| On foreign currency-denominated liabilities | (68,304)         | (134,280)          | (82,751)           | (151,376)          |
| Interest on Shareholders Equity             | (350,400)        | (348,900)          | (350,400)          | (348,900)          |
| <b>Total</b>                                | <b>(679,861)</b> | <b>(627,005)</b>   | <b>(613,487)</b>   | <b>(638,562)</b>   |

**15. NON-OPERATING (EXPENSES) INCOME**

|   | COMPANY         |                 | CONSOLIDATED   |               |
|---|-----------------|-----------------|----------------|---------------|
|   | 2007            | 2006            | 2007           | 2006          |
| Allowance for losses on tax incentives  | -               | (14,473)        | -              | (14,473)      |
| Allowance for/reversal of investment losses   | (26,168)        | 757             | (26,168)       | 7,546         |
| Losses on write-off of fixed assets and deferred charges                                | (14,350)        | (10,620)        | (22,759)       | (9,297)       |
| Gains (losses) on investments   | (1,980)         | (9,766)         | -              | 39            |
| Provision for/reversal of realization amount and losses of property, plan and equipment | (1,955)         | (312)           | 20,384         | 51,522        |
| Amortization of goodwill on merger  | -               | -               | (126)          | (7,811)       |
| Gain on investment write-off  | 26,184          | -               | 26,216         | -             |
| Other nonoperating income (expenses)  | -               | 340             | (1)            | 3,339         |
| <b>Total</b>  | <b>(18,269)</b> | <b>(34,074)</b> | <b>(2,454)</b> | <b>30,865</b> |

**16. INCOME AND SOCIAL CONTRIBUTION TAXES**

The Company records a provision for income and social contribution taxes on an accrual basis, and recognizes deferred taxes for temporary differences. The provision for income and social contribution taxes recognized in the statement of income is as follows:

|   | COMPANY          |                  | CONSOLIDATED     |                 |
|---|------------------|------------------|------------------|-----------------|
|   | 2007             | 2006             | 2007             | 2006            |
| <b>Income before taxes and profit sharing</b>   | <b>825,002</b>   | <b>355,923</b>   | <b>733,348</b>   | <b>175,604</b>  |
| <b>Income of companies not subject to the calculation of income and social contribution taxes<sup>(1)</sup></b> | -                | -                | <b>11,880</b>    | <b>62,450</b>   |
| <b>Total of taxable income</b>  | <b>825,002</b>   | <b>355,923</b>   | <b>745,228</b>   | <b>238,054</b>  |
| <b>IRPJ (corporate income tax)</b>  |                  |                  |                  |                 |
| IRPJ on taxable income (10%+15%=25%)  | (206,251)        | (88,981)         | (186,307)        | (59,514)        |
| Permanent additions   | (78,993)         | (117,104)        | (53,151)         | (37,852)        |
| Equity in subsidiaries  | (49,550)         | (86,705)         | -                | -               |
| Goodwill amortization   | (5,518)          | (5,518)          | (21,215)         | (9,977)         |
| Nonoperating equity in subsidiaries   | (495)            | -                | 193              | -               |
| Exchange variation on investments   | -                | (7,262)          | (3,015)          | (5,177)         |
| Loss on investments   | -                | (2,442)          | -                | -               |
| Other additions   | (23,430)         | (15,177)         | (29,114)         | (22,698)        |
| Permanent deductions  | 4,315            | 5,220            | 15,490           | 24,955          |
| Dividends from investment at acquisition cost   | 96               | 66               | 96               | 88              |
| Recovery of federal taxes   | -                | 1,387            | -                | 1,387           |
| Other deductions  | 4,219            | 3,767            | 15,394           | 23,480          |
| Offset of tax loss carryforwards  | -                | -                | 3,411            | 1,634           |
| Recognition of deferred income tax on tax loss carryforwards  | -                | -                | 5,817            | -               |
| Other   | 2,329            | 605              | 2,219            | 966             |
| <b>Effect of IRPJ on the Statement of Income</b>  | <b>(278,600)</b> | <b>(200,260)</b> | <b>(212,521)</b> | <b>(69,811)</b> |
| <b>CSLL (social contribution on net profit)</b>   |                  |                  |                  |                 |
| CSLL on taxable income (9%)   | (74,250)         | (32,033)         | (67,071)         | (21,425)        |
| Permanent additions   | (26,727)         | (40,632)         | (17,638)         | (12,764)        |
| Equity in subsidiaries  | (17,838)         | (31,213)         | -                | -               |
| Goodwill amortization   | (1,987)          | (1,987)          | (7,637)          | (3,592)         |
| Nonoperating equity in subsidiaries   | (178)            | -                | (178)            | -               |
| Exchange variation on investments   | -                | (2,614)          | (1,085)          | (1,864)         |
| Loss on investments   | -                | (879)            | -                | -               |
| Other additions   | (6,724)          | (3,939)          | (8,738)          | (7,308)         |
| Permanent deductions  | 1,462            | 718              | 5,734            | 8,524           |
| Dividends from investment at acquisition cost   | 34               | 24               | 34               | 32              |
| Recovery of federal taxes   | -                | 499              | -                | 499             |
| Other deductions  | 1,428            | 195              | 5,700            | 7,993           |
| Offset of tax loss  | -                | -                | 1,220            | 587             |

|  |                  |                  |                  |                 |
|--|------------------|------------------|------------------|-----------------|
| Recognition of social contribution tax on tax loss carryforwards | -                | -                | 2,094            | -               |
| Other  | -                | (225)            | (109)            | (146)           |
| <b>Effect of CSLL on the Statement of Income</b>                 | <b>(99,515)</b>  | <b>(72,172)</b>  | <b>(75,770)</b>  | <b>(25,224)</b> |
| <b>Effect of IRPJ and CSLL on the Statement of Income</b>        | <b>(378,115)</b> | <b>(272,432)</b> | <b>(288,291)</b> | <b>(95,035)</b> |

(1) Negative result of subsidiaries which do not recognize income and social contribution taxes on tax loss carryforwards because they do not expect their realization.

**17. CASH, BANKS AND TEMPORARY CASH INVESTMENTS**

|                            | COMPANY        |                  | CONSOLIDATED     |                  |
|----------------------------|----------------|------------------|------------------|------------------|
|                            | 2007           | 2006             | 2007             | 2006             |
| Cash and banks             | 285,385        | 97,988           | 314,330          | 127,160          |
| Temporary cash investments | 350,002        | 1,734,377        | 2,062,701        | 2,414,448        |
| <b>Total</b>               | <b>635,387</b> | <b>1,832,365</b> | <b>2,377,031</b> | <b>2,541,608</b> |

The breakdown of the temporary cash investments portfolio is as follows:

|   | COMPANY        |                  | CONSOLIDATED     |                  |
|---|----------------|------------------|------------------|------------------|
|   | 2007           | 2006             | 2007             | 2006             |
| <b>Exclusive investment funds</b>                   |                |                  |                  |                  |
| Government securities                               | 239,238        | 1,519,996        | 1,553,017        | 2,119,213        |
| Private-sector securities                           | 89,261         | 48,933           | 354,724          | 77,463           |
| Cash and repos Overnight                            | 22,675         | 53,072           | 130,730          | 79,394           |
| Derivatives   | 5              | -                | 402              | -                |
| Provision for income tax amending                   | (905)          | (7,667)          | (7,440)          | (9,605)          |
| <b>Total exclusive investment funds</b>             | <b>350,274</b> | <b>1,614,334</b> | <b>2,031,433</b> | <b>2,266,465</b> |
| <b>Overnight fund</b>                               | -              | <b>120,377</b>   | -                | <b>120,377</b>   |
| <b>CDB</b>  | -              | -                | <b>3,583</b>     | <b>5,670</b>     |
| <b>Open investments funds</b>                       | -              | <b>66</b>        | <b>27,579</b>    | <b>21,870</b>    |
| <b>Investments abroad - certificates of deposit</b> | -              | -                | <b>378</b>       | <b>466</b>       |
| <b>Total investments</b>                            | <b>350,274</b> | <b>1,734,777</b> | <b>2,062,973</b> | <b>2,414,848</b> |
| Partial block by court order                        | (272)          | (400)            | (272)            | (400)            |
| <b>Total temporary cash investments</b>             | <b>350,002</b> | <b>1,734,377</b> | <b>2,062,701</b> | <b>2,414,448</b> |

Exclusive investment funds are subject to obligation associated to the payment of services provided for the asset management, attributed to investment transactions, such as custody and audit fees, and other related expenses, and there are no relevant financial liabilities not Company's assets to guarantee those liabilities.

**Statement of Cash Flows**

|   | COMPANY          |                  | CONSOLIDATED     |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2007             | 2006             | 2007             | 2006             |
| <b>Net Income</b>                             | <b>797,287</b>   | <b>432,391</b>   | <b>797,287</b>   | <b>432,391</b>   |
| <b>Minority interest</b>                      | -                | -                | <b>(1,830)</b>   | <b>(2,922)</b>   |
| <b>Items not affecting cash</b>               | <b>2,981,559</b> | <b>3,530,859</b> | <b>3,285,731</b> | <b>3,499,947</b> |
| Depreciation and amortization                 | 1,916,609        | 2,203,716        | 2,465,086        | 2,729,643        |
| Losses on accounts receivable                 | 266,411          | 322,841          | 348,001          | 384,320          |
| Provision for contingencies                   | 626,050          | 470,557          | 649,683          | 487,157          |
| Provision for pension plans                   | 89,675           | 28,709           | 89,675           | 28,709           |
| Recovery of expenses on pension plans surplus | (81,209)         | -                | (81,209)         | -                |

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|   |          |         |           |          |
|---|----------|---------|-----------|----------|
| Deferred taxes                              | (52,577) | 107,936 | (204,981) | (92,809) |
| Loss (gain) on disposal of permanent assets | 16,420   | 11,470  | 19,476    | (37,034) |
| Equity in subsidiaries                      | 198,200  | 375,864 | -         | -        |
| Loss (gain) on investments                  | 1,980    | 9,766   | -         | (39)     |

*To be continued ...*

*... continued,*

|  | COMPANY          |                    | CONSOLIDATED     |                    |
|--|------------------|--------------------|------------------|--------------------|
|  | 2007             | 2006               | 2007             | 2006               |
| <b>Changes in balance sheet accounts</b>   | <b>(828,444)</b> | <b>(1,135,461)</b> | <b>(970,076)</b> | <b>(1,403,719)</b> |
| Trade accounts receivable                  | (306,042)        | (275,461)          | (410,050)        | (359,161)          |
| Inventories                                | (464)            | (697)              | 31,453           | 18,871             |
| Personnel, payroll charges and benefits    | 3,596            | 3,819              | 11,810           | 347                |
| Accounts payable and accrued expenses      | 104,323          | (143,099)          | (33,297)         | (324,239)          |
| Taxes                                      | 173,685          | (169,590)          | 219,511          | (126,216)          |
| Financial Charges                          | (175,780)        | 9,826              | (175,998)        | (10,056)           |
| Services exploitation licenses             | (67,363)         | 67,363             | (101,905)        | 47,591             |
| Provisions for contingencies               | (464,137)        | (477,921)          | (469,174)        | (483,497)          |
| Provisions for pension plans               | (51,143)         | (107,585)          | (51,143)         | (107,585)          |
| Other assets and liabilities accounts      | (45,119)         | (42,116)           | 6,693            | (59,774)           |
| <b>Cash flow from operating activities</b> | <b>2,950,402</b> | <b>2,827,789</b>   | <b>3,109,088</b> | <b>2,525,697</b>   |

|  |                    |                    |                    |                    |
|--|--------------------|--------------------|--------------------|--------------------|
| <b>Investment activities</b>                     |                    |                    |                    |                    |
| Temporary investments in Fixed Income Securities | 89,397             | (89,098)           | 35,774             | (89,215)           |
| Funds obtained in the sale of permanent assets   | 40,022             | 13,654             | 47,708             | 15,257             |
| Escrow deposits                                  | (862,118)          | (281,469)          | (871,438)          | (287,801)          |
| Investments in permanent assets                  | (2,249,555)        | (2,266,601)        | (1,317,712)        | (1,504,832)        |
| <b>Cash flow from investment activities</b>      | <b>(2,982,254)</b> | <b>(2,623,514)</b> | <b>(2,105,668)</b> | <b>(1,866,591)</b> |

|  |                    |                |                    |                |
|--|--------------------|----------------|--------------------|----------------|
| <b>Financing activities</b>                                |                    |                |                    |                |
| Dividends/Interest on Shareholders Equity paid in the year | (352,019)          | (324,481)      | (352,019)          | (324,481)      |
| Loans and financing  | (813,107)          | 473,531        | (815,978)          | 476,900        |
| Obtained loans   | 600,448            | 1,912,568      | 601,028            | 1,915,937      |
| Repayment loans  | (1,413,555)        | (1,439,037)    | (1,417,006)        | (1,439,037)    |
| <b>Cash flow from investment activities</b>                | <b>(1,165,126)</b> | <b>149,050</b> | <b>(1,167,997)</b> | <b>152,419</b> |

|                                 |                    |                |                  |                |
|---------------------------------|--------------------|----------------|------------------|----------------|
| <b>Cash flow for the period</b> | <b>(1,196,978)</b> | <b>353,325</b> | <b>(164,577)</b> | <b>811,525</b> |
|---------------------------------|--------------------|----------------|------------------|----------------|

|   |                    |                |                  |                |
|---|--------------------|----------------|------------------|----------------|
| <b>Cash, bank and temporary cash investments:</b> |                    |                |                  |                |
| Ending balance                                    | 635,387            | 1,832,365      | 2,377,031        | 2,541,608      |
| Beginning Balance                                 | 1,832,365          | 1,479,040      | 2,541,608        | 1,730,083      |
| <b>Changes in the year</b>                        | <b>(1,196,978)</b> | <b>353,325</b> | <b>(164,577)</b> | <b>811,525</b> |

(1) Reclassification in some lines of cash flows of 2006 took place, aiming at the adequacy to the way presented in the current year.

**Supplementary cash flow information**

|   | COMPANY |         | CONSOLIDATED |         |
|---|---------|---------|--------------|---------|
|   | 2007    | 2006    | 2007         | 2006    |
| Income tax and social contribution paid                         | 330,099 | 34,384  | 359,016      | 49,072  |
| Interest paid from loans and financing<br>(includes debentures) | 471,699 | 566,450 | 472,133      | 566,720 |

**18. GOVERNMENT SECURITIES**

Investments made by BrT in fixed rate federal securities represented by LTN (National Treasury Bills), maintained as guarantee for the participation in a bidding process of ANATEL, totaling the consolidated amount of R\$53,573 at the balance sheet date, for which there is the reduction amount of R\$17, resulting from the hedge transactions under interest rate swap modality, resulting in the net amount of R\$53,556. Such securities are released for immediate availability of the Subsidiary with the completion of the bidding process associated thereto.

**19. TRADE ACCOUNTS RECEIVABLE**

The amounts related to trade accounts receivable are as follows:

|                                  | COMPANY          |                  | CONSOLIDATED     |                  |
|----------------------------------|------------------|------------------|------------------|------------------|
|                                  | 2007             | 2006             | 2007             | 2006             |
| Billed services                  | 1,395,393        | 1,340,111        | 1,597,040        | 1,476,842        |
| Unbilled services                | 854,214          | 868,661          | 892,448          | 916,672          |
| Sale of products                 | 344              | 2,362            | 75,603           | 91,775           |
| <b>Subtotal</b>                  | <b>2,249,951</b> | <b>2,211,134</b> | <b>2,565,091</b> | <b>2,485,289</b> |
| <b>Allowance for loan losses</b> | <b>(318,111)</b> | <b>(318,925)</b> | <b>(375,390)</b> | <b>(357,635)</b> |
| Services                         | (318,111)        | (318,925)        | (370,799)        | (353,203)        |
| Sale of products                 | -                | -                | (4,591)          | (4,432)          |
| <b>Total</b>                     | <b>1,931,840</b> | <b>1,892,209</b> | <b>2,189,701</b> | <b>2,127,654</b> |
| Current                          | 1,466,023        | 1,445,972        | 1,681,551        | 1,632,138        |
| Past-due                         |                  |                  |                  |                  |
| From 01 to 30 days               | 363,174          | 377,686          | 390,471          | 415,040          |
| From 31 to 60 days               | 108,731          | 112,005          | 125,924          | 124,393          |
| From 61 to 90 days               | 73,764           | 68,903           | 87,161           | 76,947           |
| From 91 to 120 days              | 49,743           | 53,688           | 61,219           | 61,490           |
| 120 days                         | 188,516          | 152,880          | 218,765          | 175,281          |

**20. INVENTORIES**

Maintenance and resale inventories, for which provisions for losses or adjustments to their estimated realization are recognized, are as follows:

|  | COMPANY      |              | CONSOLIDATED  |               |
|--|--------------|--------------|---------------|---------------|
|  | 2007         | 2006         | 2007          | 2006          |
| Resale inventories (cell phones and accessories) | -            | -            | 53,532        | 96,476        |
| Maintenance inventories                          | 6,423        | 7,280        | 7,158         | 9,175         |
| Provision for adjustment to realization value    | -            | -            | (27,554)      | (39,062)      |
| Provision for probable losses                    | (285)        | (1,606)      | (425)         | (2,425)       |
| <b>Total</b>                                     | <b>6,138</b> | <b>5,674</b> | <b>32,711</b> | <b>64,164</b> |

**21. LOANS AND FINANCING - ASSETS**

|                     | COMPANY      |              | CONSOLIDATED |              |
|---------------------|--------------|--------------|--------------|--------------|
|                     | 2007         | 2006         | 2007         | 2006         |
| Loans and financing | 7,973        | 8,386        | 7,973        | 8,409        |
| <b>Total</b>        | <b>7,973</b> | <b>8,386</b> | <b>7,973</b> | <b>8,409</b> |
| Current             | 1,797        | 5,534        | 1,797        | 5,557        |
| Long term           | 6,176        | 2,852        | 6,176        | 2,852        |

Loans and financing receivable refer to the transfer of funds to the company responsible for the production of phone directories, and result from the sale of fixed assets to other telephony companies. Loans and financing bear interest equal to the IGP-DI and IPA-OG/Industrial Products of Column 27 issued by Fundação Getulio Vargas (FGV).

**22. DEFERRED AND RECOVERABLE TAXES**

|                         | COMPANY          |                  | CONSOLIDATED     |                  |
|-------------------------|------------------|------------------|------------------|------------------|
|                         | 2007             | 2006             | 2007             | 2006             |
| Deferred taxes          | 839,930          | 767,667          | 1,585,758        | 1,389,104        |
| Other recoverable taxes | 459,677          | 686,315          | 657,060          | 881,576          |
| <b>Total</b>            | <b>1,299,607</b> | <b>1,453,982</b> | <b>2,242,818</b> | <b>2,270,680</b> |
| Current                 | 571,274          | 724,251          | 790,791          | 901,173          |
| Long term               | 728,333          | 729,731          | 1,452,027        | 1,369,507        |



Deferred taxes related to income and social contribution taxes

|  | COMPANY        |                | CONSOLIDATED     |                  |
|--|----------------|----------------|------------------|------------------|
|  | 2007           | 2006           | 2007             | 2006             |
| <b>Corporate income tax</b>                                  |                |                |                  |                  |
| <b>Deferred income tax on:</b>                               |                |                |                  |                  |
| Income tax loss carryforwards                                | -              | -              | 498,803          | 433,124          |
| Provision for contingencies                                  | 283,543        | 243,064        | 297,553          | 244,901          |
| Provision for covering actuarial deficiency of pension plans | 171,936        | 162,303        | 171,936          | 162,303          |
| Allowance for loan losses                                    | 79,528         | 79,731         | 93,548           | 89,245           |
| ICMS Agreement No. 69/98 and 78/01                           | 35,509         | 54,329         | 39,820           | 58,480           |
| Provision for profit sharing                                 | 13,658         | 14,036         | 16,092           | 15,922           |
| Provision for suspended payment - FUST                       | 14,673         | 9,575          | 19,027           | 10,246           |
| Provision for inventory losses                               | 7,930          | 7,035          | 10,606           | 10,288           |
| Provision for suspended payment - COFINS/CPMF/INSS           | 20,155         | 1,053          | 20,155           | 1,053            |
| Allowance for losses BIA                                     | -              | -              | 71               | 1,285            |
| Other provisions   | 8,780          | 10,030         | 16,358           | 11,099           |
| <b>Subtotal</b>  | <b>635,712</b> | <b>581,156</b> | <b>1,183,969</b> | <b>1,037,946</b> |
| <b>Social contribution tax</b>                               |                |                |                  |                  |
| <b>Deferred social contribution tax on:</b>                  |                |                |                  |                  |
| Tax loss carryforwards                                       | -              | -              | 181,382          | 156,388          |
| Provision for contingencies                                  | 102,075        | 87,503         | 107,119          | 88,164           |
| Provision for covering actuarial deficiency of pension plans | 61,897         | 58,430         | 61,897           | 58,429           |
| Allowance for loan losses                                    | 28,630         | 28,703         | 33,677           | 32,128           |
| Provision for profit sharing                                 | 5,599          | 5,732          | 6,476            | 6,421            |
| Provision for inventory losses                               | 2,855          | 2,532          | 3,818            | 3,704            |
| ICMS Agreement No. 78/01                                     | -              | -              | 1,510            | 1,466            |
| Allowance for losses BIA                                     | -              | -              | 25               | 463              |
| Other provisions   | 3,162          | 3,611          | 5,885            | 3,995            |
| <b>Subtotal</b>  | <b>204,218</b> | <b>186,511</b> | <b>401,789</b>   | <b>351,158</b>   |
| <b>Total</b>   | <b>839,930</b> | <b>767,667</b> | <b>1,585,758</b> | <b>1,389,104</b> |
| Current  | 276,544        | 238,369        | 336,508          | 270,776          |
| Long term  | 563,386        | 529,298        | 1,249,250        | 1,118,328        |

The following table shows the periods in which the deferred tax assets related to income and social contribution taxes are expected to be realized, which are derived from temporary differences between book income on the accrual basis and taxable income, as well as in the tax loss carryforwards, if any. The realization periods are based on a technical study that used expected future taxable income generated as from the years when the temporary differences become deductible expenses for tax purposes. These assets are recorded in accordance with the requirements in the CVM Instruction No. 371/02 and the technical study submitted to the approval of the executive board and the Board of Directors, and the examination of the supervisory board.



|                         | COMPANY        | CONSOLIDATED     |
|-------------------------|----------------|------------------|
| 2008                    | 276,544        | 336,508          |
| 2009                    | 108,036        | 137,650          |
| 2010                    | 100,450        | 162,009          |
| 2011                    | 72,619         | 162,798          |
| 1012                    | 72,619         | 186,602          |
| 2013 to 2015            | 97,535         | 232,865          |
| 2016 to 2017            | 24,917         | 181,442          |
| 2018 and following year | 87,210         | 185,884          |
| <b>Total</b>            | <b>839,930</b> | <b>1,585,758</b> |
| Current                 | 276,544        | 336,508          |
| Long term               | 563,386        | 1,249,250        |

The recoverable amount expected after 2017 is a result of a provision to cover the actuarial deficiency of pension plans that is being settled according to the maximum remaining period of 14 years, in line with the period established by the SPC (Secretariat for Pension Plans). Despite the time limit stipulated by the SPC and according to the estimated future taxable income, the Company is in a position to fully offset the deferred taxes within a period lower than ten years, if it opts to fully anticipate the repayment of the debt. Tax credits in the amount of R\$135,495, in Consolidated, have not been recognized because of the lack of the necessary requirements in terms of history and/or history future taxable income in VANT, BrT Multimídia and BrT CS, companies controlled by the Company.

#### Other recoverable taxes

Consist of federal withholding taxes and payments made, calculated based on legal estimates, which will be offset against future taxes payable. ICMS recoverable arises mostly from credits recorded upon the purchase of fixed assets, whose offset against ICMS payable may occur within up to 48 months, according to Supplementary Law No. 102/00.

|                         | COMPANY        |                | CONSOLIDATED   |                |
|-------------------------|----------------|----------------|----------------|----------------|
|                         | 2007           | 2006           | 2007           | 2006           |
| ICMS (state VAT)        | 374,509        | 498,256        | 500,994        | 632,227        |
| PIS and COFINS          | 61,478         | 158,900        | 90,410         | 183,307        |
| Corporate income tax    | 20,580         | 26,476         | 56,468         | 54,666         |
| Social contribution tax | 2,274          | 2,232          | 4,413          | 7,592          |
| Other                   | 836            | 451            | 4,775          | 3,784          |
| <b>Total</b>            | <b>459,677</b> | <b>686,315</b> | <b>657,060</b> | <b>881,576</b> |
| Current                 | 294,730        | 485,882        | 454,283        | 630,397        |
| Long term               | 164,947        | 200,433        | 202,777        | 251,179        |

**23. FIXED-INCOME SECURITIES**

Represented by CDB (bank certificates of deposit) of Banco de Brasília S.A. BRB, bearing interest of 94% and 95% of the SELIC rate, maintained as guarantee for the financing obtained through the PRÓ-DF (Economic and Sustained Development Support Program of the Federal District). These fixed-income securities will be maintained during the period of utilization and repayment of the financing (liability), whose grace period establishes the first payment for year 2019, repayable in 180 monthly, consecutive installments. This asset may be used to repay the final installments of that financing.

|  | COMPANY    |            | CONSOLIDATED |              |
|--|------------|------------|--------------|--------------|
|  | 2007       | 2006       | 2007         | 2006         |
| Banco de Brasília S.A. BRB Bank<br>Certificates of Deposit | 892        | 784        | 3,709        | 3,280        |
| <b>Total</b>   | <b>892</b> | <b>784</b> | <b>3,709</b> | <b>3,280</b> |

**24. ESCROW DEPOSITS**

Balances of escrow deposits related to contingencies with possible and remote risk of loss.

| Restriction by nature of contingencies | COMPANY          |                | CONSOLIDATED     |                |
|--|------------------|----------------|------------------|----------------|
|  | 2007             | 2006           | 2007             | 2006           |
| Labor                                  | 248,625          | 197,380        | 250,564          | 198,343        |
| Tax                                    | 93,901           | 124,518        | 98,153           | 128,372        |
| Civil                                  | 1,038,688        | 215,158        | 1,044,152        | 216,984        |
| <b>Total</b>                           | <b>1,381,214</b> | <b>537,056</b> | <b>1,392,869</b> | <b>543,699</b> |
| Current                                | 326,222          | 117,940        | 329,357          | 119,058        |
| Long term                              | 1,054,992        | 419,116        | 1,063,512        | 424,641        |

Escrow deposits tied to provisions for liabilities are shown as a deduction from such provisions. Refer to notes 7 and 32.

**25. OTHER ASSETS**

|  | COMPANY |        | CONSOLIDATED |        |
|--|---------|--------|--------------|--------|
|  | 2007    | 2006   | 2007         | 2006   |
| Pension funds future recoverable<br>contributions <sup>(1)</sup> | 74,476  | -      | 74,476       | -      |
| Tax credits acquired <sup>(2)</sup>                              | 46,543  | -      | 46,543       | -      |
| Advances to employees  | 31,424  | 28,805 | 36,541       | 33,610 |
| Advances to suppliers  | 17,940  | 44,670 | 18,588       | 59,183 |
| Amounts receivable from telecommunications<br>companies          | 8,807   | 9,501  | 8,807        | 9,501  |
| Prepaid expenses   | 44,874  | 68,654 | 57,405       | 91,307 |
| Compulsory deposits  | 1,562   | 1,750  | 1,562        | 1,750  |
| Assets for sale  | 1,280   | 1,016  | 1,280        | 1,016  |
| Other  | 13,125  | 6,834  | 25,183       | 12,047 |

|              |                |                |                |                |
|--------------|----------------|----------------|----------------|----------------|
| <b>Total</b> | <b>240,031</b> | <b>161,230</b> | <b>270,385</b> | <b>208,414</b> |
| Current      | 151,098        | 127,372        | 175,529        | 166,171        |
| Long term    | 88,933         | 33,858         | 94,856         | 42,243         |

(1) Asset recognized to be used on the offset of future employer contributions to the supplementary pension TCSPREV plan, as mentioned in note 6.

(2) State Letters of Credit, acquired for the full payment of ICMS Infraction notices issued against the Company.

## 26. INVESTMENTS

|  | COMPANY          |                  | CONSOLIDATED   |                |
|--|------------------|------------------|----------------|----------------|
|  | 2007             | 2006             | 2007           | 2006           |
| <b>Investments accounted for under the equity method</b> | <b>4,027,222</b> | <b>3,032,956</b> | -              | -              |
| 14 Brasil Telecom Celular S.A.                           | 3,247,042        | 2,241,296        | -              | -              |
| BrT Serviços de Internet S.A.                            | 423,039          | 643,014          | -              | -              |
| BrT Comunicação Multimídia Ltda.                         | 189,692          | 7,490            | -              | -              |
| Brasil Telecom Cabos Submarinos Ltda.                    | 159,641          | -                | -              | -              |
| Vant Telecomunicações S.A. <sup>(1)</sup>                | 7,720            | -                | -              | -              |
| Brasil Telecom Call Center S.A.                          | 88               | 3                | -              | -              |
| MTH Ventures do Brasil Ltda.                             | -                | 141,153          | -              | -              |
| <b>Advances for future capital increase</b>              | <b>48,646</b>    | <b>31,345</b>    | -              | -              |
| BrT Serviços de Internet S.A.                            | 6,696            | 6,695            | -              | -              |
| Vant Telecomunicações S.A.                               | -                | 1,650            | -              | -              |
| BrT Comunicação Multimídia Ltda.                         | 27,130           | 23,000           | -              | -              |
| Brasil Telecom Call Center S.A.                          | 14,820           | -                | -              | -              |
| <b>Goodwill on acquisition of investments, net</b>       | <b>29,431</b>    | <b>51,504</b>    | <b>156,835</b> | <b>241,695</b> |
| MTH Ventures do Brasil                                   | 29,431           | 51,504           | 29,431         | 51,504         |
| iG Cayman Ltd;   | -                | -                | 95,011         | 141,862        |
| IBEST companies  | -                | -                | 31,452         | 45,508         |
| BRT Cabos Submarinos companies                           | -                | -                | 941            | 2,821          |
| <b>Investments accounted for at cost</b>                 | <b>5,013</b>     | <b>39,148</b>    | <b>5,013</b>   | <b>39,148</b>  |
| <b>Tax incentives, net of provisions for losses</b>      | <b>19,166</b>    | <b>22,135</b>    | <b>19,166</b>  | <b>22,135</b>  |
| <b>Other investments</b>                                 | <b>23</b>        | <b>373</b>       | <b>39</b>      | <b>389</b>     |
| <b>Total</b>   | <b>4,129,501</b> | <b>3,177,461</b> | <b>181,053</b> | <b>303,367</b> |

(1) On the 2006 balance sheet date, VANT presented a shareholders' deficit in the amount of R\$8,347. In 2006, the Company recognized a provision in the amount of this subsidiary's shareholders' deficit.

Advances for future capital increase in favor of the subsidiaries were considered investments, for presentation purposes, since the allocated contributions are waiting for the formalization of the corporate documentation of these companies to complete the related capital increases.

Investments accounted for under the equity method: the main data related to direct subsidiaries are as follows:

|                            | BrT Celular |           | BrTI     |          | BrT CS <sup>(1)</sup> |      |
|----------------------------|-------------|-----------|----------|----------|-----------------------|------|
|                            | 2007        | 2006      | 2007     | 2006     | 2007                  | 2006 |
| Shareholders equity        | 3,247,042   | 2,241,296 | 423,039  | 643,014  | 159,641               | -    |
| Capital                    | 4,473,443   | 3,286,163 | 505,149  | 675,703  | 272,444               | -    |
| Book value per share (R\$) | 725.85      | 682.04    | 626.07   | 951.62   | 0.58                  | -    |
| Number of shares held      |             |           |          |          |                       |      |
| Common shares              | 4,473,443   | 3,286,163 | 675,703  | 675,703  | -                     | -    |
| Shares                     | -           | -         | -        | -        | 272,443,966           | -    |
| Ownership interest - %     |             |           |          |          |                       |      |
| In total capital           | 100%        | 100%      | 100%     | 100%     | 99.99%                | -    |
| In voting capital          | 100%        | 100%      | 100%     | 100%     | 99.99%                | -    |
| Net income (loss)          | (181,534)   | (338,911) | (49,421) | (12,320) | 26,963                | -    |

(1) The Company's direct investments in BrT CS started on January 2, 2007, with the transfer of investment then held by subsidiary BrTI. This transfer resulted in the reduction of BrTI's capital, existing in favor of the Company.

|                            | BrT Multimídia |            | VANT        |             | MTH <sup>(1)</sup> |             |
|----------------------------|----------------|------------|-------------|-------------|--------------------|-------------|
|                            | 2007           | 2006       | 2007        | 2006        | 2007               | 2006        |
| Shareholders equity        | 211,158        | 167,157    | 7,720       | (8,347)     | -                  | 141,153     |
| Capital                    | 414,233        | 379,420    | 141,512     | 123,300     | -                  | 321,150     |
| Book value per share (R\$) | 0.56           | 0.44       | 0.05        | (0.07)      | -                  | (0.44)      |
| Number of shares held      |                |            |             |             |                    |             |
| Common shares              | -              | -          | 141,512,000 | 123,299,999 | -                  | -           |
| Shares                     | 372,123,000    | 17,000,000 | -           | -           | -                  | 321,149,999 |
| Ownership interest - %     |                |            |             |             |                    |             |
| In total capital           | 89.83%         | 4.48%      | 100%        | 100%        | -                  | 100%        |
| In voting capital          | 89.83%         | 4.48%      | 100%        | 100%        | -                  | 100%        |
| Net income (loss)          | 9,188          | (4,620)    | (2,146)     | 10,681      | -                  | 28,436      |

(1) MTH was merged into the Company on April 10, 2007.

|                            | BrT SCS Bermuda <sup>(1)</sup> |          | BrT Call Center |       |
|----------------------------|--------------------------------|----------|-----------------|-------|
|                            | 2007                           | 2006     | 2007            | 2006  |
| Shareholders equity        | -                              | -        | 88              | 3     |
| Capital                    | -                              | -        | 400             | 4     |
| Book value per share (R\$) | -                              | -        | 220.00          | 0.74  |
| Number of shares held      |                                |          |                 |       |
| Common shares              | -                              | -        | 134             | 1,334 |
| Preferred shares           | -                              | -        | 266             | 2,666 |
| Ownership interest - %     |                                |          |                 |       |
| In total capital           | -                              | -        | 100%            | 100%  |
| In voting capital          | -                              | -        | 100%            | 100%  |
| Net income (loss)          | -                              | (52,651) | (311)           | (1)   |

(1) On September 1, 2006, the Company transferred to BrTI the investment held in BrT SCS Bermuda representing a capital contribution to BrTI.

The equity in subsidiaries result consists of the following:



|   | Operating        |                  | Nonoperating   |                |
|---|------------------|------------------|----------------|----------------|
|   | 2007             | 2006             | 2007           | 2006           |
| 14 Brasil Telecom Celular S.A.                          | (181,534)        | (338,911)        | -              | -              |
| BrT Serviços de Internet S.A.                           | (49,421)         | (12,320)         | (1,980)        | -              |
| BrT Subsea Cable Systems (Bermudas) Ltd. <sup>(1)</sup> | -                | (64,003)         | -              | -              |
| Brasil Telecom Cabos Submarinos Ltda.                   | 26,963           | -                | -              | -              |
| MTH Ventures do Brasil Ltda.                            | 1,618            | 28,436           | -              | (9,766)        |
| BrT Comunicação Multimídia Ltda.                        | 6,631            | 256              | -              | -              |
| Vant Telecomunicações S.A.                              | (2,146)          | 10,681           | -              | -              |
| Brasil Telecom Call Center S.A.                         | (311)            | (1)              | -              | -              |
| Santa Bárbara do Pantanal S.A.                          | -                | (1)              | -              | -              |
| Santa Bárbara do Cerrado S.A.                           | -                | (1)              | -              | -              |
| <b>Total</b>  | <b>(198,200)</b> | <b>(375,864)</b> | <b>(1,980)</b> | <b>(9,766)</b> |

(1) Includes exchange variation related to investment abroad.

Investments accounted for at cost: represented by shareholding obtained by converting shares from tax incentive investments in the FINOR/FINAM regional programs, the Incentive Law for Information Technology Companies, and the Audiovisual Law. The amount is predominantly composed of shares of other telecommunications companies located in the regions covered by these regional incentives.

Tax incentives: arise from investments in FINOR/FINAM and audiovisual programs and result from allocated amount of income tax payable.

Other investments: related to cultural assets.

## 27. PROPERTY, PLANT AND EQUIPMENT

| Type                             | Annual depreciation rates | COMPANY           |                          |                  |                  |
|----------------------------------|---------------------------|-------------------|--------------------------|------------------|------------------|
|                                  |                           | 2007              |                          |                  | 2006             |
|                                  |                           | Cost              | Accumulated depreciation | Net book value   | Net book value   |
| Construction in progress         | -                         | 256,484           | -                        | 256,484          | 242,319          |
| Public switching equipment       | 20%                       | 4,991,975         | (4,858,151)              | 133,824          | 275,725          |
| Transmission equipment and means | 16.9% <sup>(1)</sup>      | 11,190,855        | (9,750,010)              | 1,440,845        | 1,874,547        |
| Termination                      | 20%                       | 512,304           | (468,696)                | 43,608           | 36,957           |
| Data communication equipment     | 20%                       | 2,085,208         | (1,383,292)              | 701,916          | 793,328          |
| Buildings                        | 4.2%                      | 921,176           | (550,244)                | 370,932          | 395,809          |
| Infrastructure                   | 8.7% <sup>(1)</sup>       | 3,627,061         | (2,484,735)              | 1,142,326        | 1,296,331        |
| Assets for general use           | 18.5% <sup>(1)</sup>      | 904,923           | (694,026)                | 210,897          | 240,177          |
| Land                             | -                         | 82,582            | -                        | 82,582           | 79,737           |
| Other assets                     | -                         | 66                | -                        | 66               | 66               |
| <b>Total</b>                     |                           | <b>24,572,634</b> | <b>(20,189,154)</b>      | <b>4,383,480</b> | <b>5,234,996</b> |

(1) Weighed annual average rate

According to the STFC concession agreements, the Company's assets that are indispensable to providing the service and qualified as returnable assets will be automatically returned to ANATEL when the concession ends, and the Company will be entitled to the indemnities established in the legislation and the related agreements. The amount of returnable assets at the balance sheet was R\$21,636,432 for cost, with residual value of R\$3,288,196.

**CONSOLIDATED**

| Type                             | Annual depreciation rates | 2007              |                          |                  | 2006             |
|----------------------------------|---------------------------|-------------------|--------------------------|------------------|------------------|
|                                  |                           | Cost              | Accumulated depreciation | Net book value   | Net book value   |
| Construction in progress         | -                         | 460,354           | -                        | 460,354          | 322,712          |
| Public switching equipment       | 20%                       | 5,156,451         | (4,929,268)              | 227,183          | 371,709          |
| Transmission equipment and means | 16.9% <sup>(1)</sup>      | 12,521,489        | (10,449,717)             | 2,071,772        | 2,662,419        |
| Termination                      | 20%                       | 513,839           | (469,328)                | 44,511           | 37,193           |
| Data communication equipment     | 20%                       | 2,169,376         | (1,436,307)              | 733,069          | 824,318          |
| Buildings                        | 4.2%                      | 957,331           | (565,291)                | 392,040          | 412,638          |
| Infrastructure                   | 8.7% <sup>(1)</sup>       | 3,893,823         | (2,582,887)              | 1,310,936        | 1,450,310        |
| Assets for general use           | 18.5% <sup>(1)</sup>      | 1,164,730         | (825,856)                | 338,874          | 369,030          |
| Land                             | -                         | 84,613            | -                        | 84,613           | 84,830           |
| Other assets                     | -                         | 66                | -                        | 66               | 66               |
| <b>Total</b>                     |                           | <b>26,922,072</b> | <b>(21,258,654)</b>      | <b>5,663,418</b> | <b>6,535,225</b> |

(1) Weighed annual average rate

**LEASING**

Financial lease agreements are entered into for IT equipment. The position of the long-term payables related to those contracts at the balance sheet date is as follows, per year of outlay.

|                               | COMPANY       |               | CONSOLIDATED  |               |
|-------------------------------|---------------|---------------|---------------|---------------|
|                               | 2007          | 2006          | 2007          | 2006          |
| 2007                          | -             | 20,193        | -             | 20,953        |
| 2008                          | 30,395        | 19,453        | 30,750        | 19,643        |
| 2009                          | 11,601        | 7,614         | 11,601        | 7,614         |
| <b>Total minimum payments</b> | <b>41,996</b> | <b>47,260</b> | <b>42,351</b> | <b>48,210</b> |

Lease agreements bear charges subject to the DI-Over rate variation.

**Insurance**

The Company has an insurance policy program for covering returnable assets, loss of profits and contractual guarantees, as established in the Concession Agreement entered into with the government, and civil liability for telephony service operations.

The assets, liabilities and interests covered by insurance are as follows:

| Type                   | Coverage  | Insured amount |            |
|------------------------|---|----------------|------------|
|                        |   | 2007           | 2006       |
| Operating risks        | Buildings, machinery and equipment, premises, call centers, towers, infrastructure and IT equipment | 12,705,368     | 12,046,261 |
| Loss of profits        | Fixed expenses and net income   | 8,669,400      | 9,015,211  |
| Contractual guarantees | Compliance with contractual obligations   | 89,405         | 143,648    |
| Civil liability        | Telephony service operations  | 12,000         | 12,000     |

There is also insurance coverage related to civil liability of management, supported by a policy of Brasil Telecom Participações S.A., related to the Parent Company and the Company, whose total amount is equivalent to US\$90,000,000.00.

There is no insurance coverage for the optional civil liability, related to casualties with Company vehicles involving third parties.

## 28. INTANGIBLE ASSETS

### COMPANY

|                         | 2007             |                          |                | 2006           |
|-------------------------|------------------|--------------------------|----------------|----------------|
|                         | Cost             | Accumulated amortization | Net book value | Net book value |
| Data processing systems | 1,692,454        | (1,207,414)              | 485,040        | 583,852        |
| Trademarks and patents  | 392              | (44)                     | 348            | 376            |
| Other                   | 52,440           | (10,178)                 | 42,262         | 15,006         |
| <b>Total</b>            | <b>1,745,286</b> | <b>(1,217,636)</b>       | <b>527,650</b> | <b>599,234</b> |

### CONSOLIDATED

|                         | 2007             |                          |                  | 2006             |
|-------------------------|------------------|--------------------------|------------------|------------------|
|                         | Cost             | Accumulated amortization | Net book value   | Net book value   |
| Data processing systems | 2,166,817        | (1,420,635)              | 746,182          | 861,168          |
| Regulatory licenses     | 325,368          | (78,075)                 | 247,293          | 272,022          |
| Trademarks and patents  | 652              | (51)                     | 601              | 1,101            |
| Other                   | 68,409           | (12,925)                 | 55,484           | 29,101           |
| <b>Total</b>            | <b>2,561,246</b> | <b>(1,511,686)</b>       | <b>1,049,560</b> | <b>1,163,392</b> |

## 29. DEFERRED CHARGES

### COMPANY

|  | 2007 |                          |                | 2006           |
|--|------|--------------------------|----------------|----------------|
|  | Cost | Accumulated amortization | Net book value | Net book value |

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|                                       |               |                 |               |               |
|---------------------------------------|---------------|-----------------|---------------|---------------|
| Installation and reorganization costs | 70,205        | (46,580)        | 23,625        | 14,871        |
| Other                                 | 14,250        | (10,955)        | 3,295         | 4,509         |
| <b>Total</b>                          | <b>84,455</b> | <b>(57,535)</b> | <b>26,920</b> | <b>19,380</b> |

**CONSOLIDATED**

|                                       | 2007           |                          |                | 2006           |
|---------------------------------------|----------------|--------------------------|----------------|----------------|
|                                       | Cost           | Accumulated amortization | Net book value | Net book value |
| Installation and reorganization costs | 302,054        | (194,397)                | 107,657        | 133,825        |
| Goodwill from merger                  | -              | -                        | -              | 126            |
| Other                                 | 14,250         | (10,955)                 | 3,295          | 4,517          |
| <b>Total</b>                          | <b>316,304</b> | <b>(205,352)</b>         | <b>110,952</b> | <b>138,468</b> |

**30. PAYROLL AND RELATED ACCRUALS**

|                   | COMPANY       |               | CONSOLIDATED  |               |
|-------------------|---------------|---------------|---------------|---------------|
|                   | 2007          | 2006          | 2007          | 2006          |
| Salaries and fees | -             | -             | 6,010         | 4,402         |
| Payroll charges   | 57,113        | 52,358        | 72,834        | 61,064        |
| Social benefits   | 3,373         | 5,687         | 3,837         | 6,447         |
| Other             | 7,253         | 6,098         | 7,690         | 6,648         |
| <b>Total</b>      | <b>67,739</b> | <b>64,143</b> | <b>90,371</b> | <b>78,561</b> |

**31. ACCOUNTS PAYABLE AND ACCRUED EXPENSES**

|                                       | COMPANY          |                  | CONSOLIDATED     |                  |
|---------------------------------------|------------------|------------------|------------------|------------------|
|                                       | 2007             | 2006             | 2007             | 2006             |
| Suppliers                             | 1,156,715        | 1,119,856        | 1,496,038        | 1,481,367        |
| Consignment in favor of third parties | 123,164          | 90,634           | 131,850          | 104,165          |
| <b>Total</b>                          | <b>1,279,879</b> | <b>1,210,490</b> | <b>1,627,888</b> | <b>1,585,532</b> |
| Current                               | 1,268,645        | 1,203,820        | 1,614,432        | 1,578,823        |
| Long term                             | 11,234           | 6,670            | 13,456           | 6,709            |

**32. INDIRECT TAXES**

|   | COMPANY        |                | CONSOLIDATED   |                |
|---|----------------|----------------|----------------|----------------|
|   | 2007           | 2006           | 2007           | 2006           |
| ICMS, net of escrow deposits of Agreement No. 69/98 | 523,896        | 695,109        | 621,601        | 775,471        |
| ICMS  | 713,736        | 912,425        | 811,743        | 993,009        |
| Escrow deposits related to Agreement No. 69/98      | (189,840)      | (217,316)      | (190,142)      | (217,538)      |
| Taxes on operating revenue (COFINS and PIS)         | 139,973        | 67,452         | 161,587        | 77,112         |
| Other   | 39,541         | 37,487         | 60,711         | 54,451         |
| <b>Total</b>  | <b>703,410</b> | <b>800,048</b> | <b>843,899</b> | <b>907,034</b> |
| Current   | 617,163        | 747,268        | 746,216        | 851,234        |
| Long term   | 86,247         | 52,780         | 97,683         | 55,800         |

The balance of ICMS comprises amounts resulting from Agreement no. 69/98, which has been questioned in Courts and is deposited in an escrow deposited on a monthly basis. It also includes the ICMS deferral, based on incentives by the State Government of Paraná.

**33. TAXES ON INCOME**

|   | COMPANY        |               | CONSOLIDATED   |               |
|---|----------------|---------------|----------------|---------------|
|   | 2007           | 2006          | 2007           | 2006          |
| <b>Corporate income tax</b>                 |                |               |                |               |
| Payable                                     | 94,652         | 43,601        | 99,779         | 60,189        |
| Law No. 8200/91 Special monetary adjustment | 5,492          | 6,171         | 5,492          | 6,171         |
| <b>Subtotal</b>                             | <b>100,144</b> | <b>49,772</b> | <b>105,271</b> | <b>66,360</b> |
| <b>Social contribution tax</b>              |                |               |                |               |
| Payable                                     | 28,254         | 14,400        | 30,015         | 18,654        |
| Law No. 8200/91 Special monetary adjustment | 1,977          | 2,222         | 1,976          | 2,222         |
| <b>Subtotal</b>                             | <b>30,231</b>  | <b>16,622</b> | <b>31,991</b>  | <b>20,876</b> |
| <b>Total</b>                                | <b>130,375</b> | <b>66,394</b> | <b>137,262</b> | <b>87,236</b> |
| Current                                     | 68,260         | 16,725        | 74,628         | 37,050        |
| Long term                                   | 62,115         | 49,669        | 62,634         | 50,186        |

#### 34. DIVIDENDS/INTEREST ON SHAREHOLDERS EQUITY AND PROFIT SHARING

|  | COMPANY        |                | CONSOLIDATED   |                |
|--|----------------|----------------|----------------|----------------|
|  | 2007           | 2006           | 2007           | 2006           |
| <b>Controlling shareholders</b>                | <b>474,246</b> | <b>241,145</b> | <b>474,246</b> | <b>241,145</b> |
| Dividends/interest on Shareholders Equity      | 509,608        | 276,354        | 509,608        | 276,354        |
| IRRF interest on Shareholders Equity           | (35,362)       | (35,209)       | (35,362)       | (35,209)       |
| <b>Minority interest</b>                       | <b>290,595</b> | <b>171,730</b> | <b>290,595</b> | <b>171,730</b> |
| Dividends/ interest on Shareholders Equity     | 247,815        | 134,418        | 247,815        | 134,418        |
| IRRF interest on Shareholders Equity           | (17,198)       | (17,126)       | (17,198)       | (17,126)       |
| Unclaimed prior years dividends                | 59,978         | 54,438         | 59,978         | 54,438         |
| <b>Total shareholders</b>                      | <b>764,841</b> | <b>412,875</b> | <b>764,841</b> | <b>412,875</b> |
| <b>Employees and management profit sharing</b> | <b>67,906</b>  | <b>68,530</b>  | <b>81,328</b>  | <b>76,334</b>  |
| <b>Total</b>                                   | <b>832,747</b> | <b>481,405</b> | <b>846,169</b> | <b>489,209</b> |



### 35. LOANS AND FINANCING (Includes Debentures)

|   | COMPANY          |                  | CONSOLIDATED     |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2007             | 2006             | 2007             | 2006             |
| Loans                                   | -                | -                | -                | 3,457            |
| Financing                               | 4,264,694        | 5,109,971        | 4,284,543        | 5,129,237        |
| Accrued interest and other on financing | 98,386           | 242,065          | 98,860           | 242,496          |
| <b>Total</b>                            | <b>4,363,080</b> | <b>5,352,036</b> | <b>4,383,403</b> | <b>5,375,190</b> |
| Current                                 | 496,301          | 1,105,677        | 496,775          | 1,109,564        |
| Long term                               | 3,866,779        | 4,246,359        | 3,886,628        | 4,265,626        |

#### Loans

|                        | COMPANY  |          | CONSOLIDATED |              |
|------------------------|----------|----------|--------------|--------------|
|                        | 2007     | 2006     | 2007         | 2006         |
| Foreign currency loans | -        | -        | -            | 3,457        |
| <b>Total</b>           | <b>-</b> | <b>-</b> | <b>-</b>     | <b>3,457</b> |

The amount recorded as of December 31, 2006 of R\$3,457 concerns a debt held by VANT with its former controller and adjusted only based to the exchange variation of the US dollar. Such liabilities were settled in February 2007.

#### Financing

|   | COMPANY          |                  | CONSOLIDATED     |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2007             | 2006             | 2007             | 2006             |
| BNDES (National Bank for Economic and Social Development) | 2,206,917        | 2,448,583        | 2,206,917        | 2,448,583        |
| Local currency  | 2,112,204        | 2,240,615        | 2,112,204        | 2,240,615        |
| Basket of currencies, including US dollar                 | 94,713           | 207,968          | 94,713           | 207,968          |
| Loans and financing                                       | 1,065,830        | 1,275,337        | 1,086,153        | 1,295,034        |
| Local currency  | 32,183           | 42,276           | 52,506           | 61,973           |
| Foreign currency  | 1,033,647        | 1,233,061        | 1,033,647        | 1,233,061        |
| Public debentures   | 1,088,956        | 1,625,939        | 1,088,956        | 1,625,939        |
| Suppliers foreign currency                                | 1,377            | 2,177            | 1,377            | 2,177            |
| <b>Total</b>  | <b>4,363,080</b> | <b>5,352,036</b> | <b>4,383,403</b> | <b>5,371,733</b> |
| Current   | 496,301          | 1,105,677        | 496,775          | 1,106,107        |
| Long term   | 3,866,779        | 4,246,359        | 3,886,628        | 4,265,626        |

Financing in local currency: bear (i) fixed interest ranging from 2.4% p.a. to 11.5% p.a., resulting in a weighted average rate of 6.90% p.a.; and (ii) variable interest based on TJLP plus 2.3% to 5.5% p.a., UMBNDES plus 5.5% p.a., 104% of CDI, resulting in a weighted average rate of 11.13% p.a.

Financing in foreign currency: bear (i) fixed interest ranging from 1.75% p.a. to 9.38% p.a., resulting in a weighted average rate of 9.35% p.a.; and (ii) variable interest based on LIBOR and 1.92% p.a. above the YEN LIBOR, resulting in a weighted average rate of 3.28 p.a. LIBOR and YEN LIBOR rates as of December 31, 2007, for half-yearly payments, were 5.4% p.a. and 1.0825% p.a., respectively.

Public debentures:

*Forth public issue:* 108,000 non-convertible debentures without renegotiation clause, with unit face value of R\$10, amounting to R\$1,080,000, carried out on July 1, 2006. Repayment term is seven years, maturing on June 1, 2013. Yield corresponds to an interest rate of 104.0% of CDI and its payment periodicity is semiannual. Repayment, which shall indistinctly consider all debentures, will occur annually as from June 1, 2011, in three installments of 33.3%, 33.3% and 33.4% of the unit face value, respectively. At the balance sheet date there were no debentures from this issue in treasury.

**Payment schedule**

Long-term debt payment is scheduled for the following years:

|                         | COMPANY          |                  | CONSOLIDATED     |                  |
|-------------------------|------------------|------------------|------------------|------------------|
|                         | 2007             | 2006             | 2007             | 2006             |
| 2008                    | -                | 437,569          | -                | 437,569          |
| 2009                    | 608,463          | 1,026,792        | 608,463          | 1,026,792        |
| 2010                    | 719,714          | 588,426          | 719,714          | 588,426          |
| 2011                    | 778,469          | 651,880          | 778,469          | 651,880          |
| 2012                    | 640,969          | 520,459          | 640,969          | 520,459          |
| 2013                    | 641,720          | 521,143          | 641,720          | 521,143          |
| 2014 and following year | 477,444          | 500,090          | 497,293          | 519,357          |
| <b>Total</b>            | <b>3,866,779</b> | <b>4,246,359</b> | <b>3,886,628</b> | <b>4,265,626</b> |

**Debt breakdown by currency/index**

| Adjusted by                     | COMPANY          |                  | CONSOLIDATED     |                  |
|---------------------------------|------------------|------------------|------------------|------------------|
|                                 | 2007             | 2006             | 2007             | 2006             |
| TJLP                            | 2,112,204        | 2,240,615        | 2,112,204        | 2,240,615        |
| CDI                             | 1,088,956        | 1,625,939        | 1,088,956        | 1,625,939        |
| US dollar                       | 394,979          | 484,935          | 394,979          | 488,391          |
| Yen                             | 241,933          | 351,786          | 241,933          | 351,786          |
| Hedge of yen-denominated debt   | 398,112          | 398,518          | 398,112          | 398,518          |
| UMBNDDES BNDDES currency basket | 94,713           | 185,881          | 94,713           | 185,881          |
| Hedge of UMBNDDES debt          | -                | 22,087           | -                | 22,087           |
| IGP-DI                          | 6,276            | 5,803            | 26,599           | 25,501           |
| Other                           | 25,907           | 36,472           | 25,907           | 36,472           |
| <b>Total</b>                    | <b>4,363,080</b> | <b>5,352,036</b> | <b>4,383,403</b> | <b>5,375,190</b> |

**Guarantees**

Certain loans and financing raised are guaranteed by collateral of receivables from the provision of telephony services and the Parent Company's surety.

The Company maintains hedging contracts on 60.1% of these US dollar- and yen-denominated loans and financing entered into with third parties to hedge against significant fluctuations in quotations of these debt adjustment indices. As of December 31, 2007, considering the hedging transactions and foreign currency cash investments, the Company had an actual exposure of 3.6% (9.7% as of December 31, 2006). The gains and losses on these contracts are recognized on the accrual basis.

Public debentures are collateralized by a surety granted by Brasil Telecom Participações S.A. Under the indenture, the Company, as intervening guarantor, undertakes before the debenture holders as primary obligor and guarantor, to be jointly liable for all obligations assumed by the Subsidiary related to its debentures.

**36. SERVICE EXPLOITATION LICENSES**

|                         | COMPANY |               | CONSOLIDATED   |                |
|-------------------------|---------|---------------|----------------|----------------|
|                         | 2007    | 2006          | 2007           | 2006           |
| Personal mobile service | -       | -             | 242,162        | 275,985        |
| STFC concession         | -       | 67,363        | -              | 67,363         |
| Other licenses          | -       | -             | 11,314         | 12,033         |
| <b>Total</b>            | -       | <b>67,363</b> | <b>253,476</b> | <b>355,381</b> |
| Current                 | -       | 67,363        | 78,844         | 135,848        |
| Long term               | -       | -             | 174,632        | 219,533        |

The licenses for Personal Mobile Services are represented by the agreements entered into in 2002 and 2004 by subsidiary 14 Brasil Telecom Celular S.A. with ANATEL, to exploit SMP services during a fifteen-year period in the same area of operation where the Company has a concession for fixed telephony. Out of the contracted value, 10% was paid on execution date and the remaining balance was fully recognized in the Subsidiary's liabilities to be paid in equal, consecutive annual installments, with maturities scheduled for 2008-2010 (balance of three installments), and 2008-2012 (balance of five installments), depending on the year the agreements were executed. The remaining balance is adjusted based on the variation of IGP-DI, plus 1% per month.

The STFC concession as of December 31, 2006 refers to the provision recognized on an accrual basis, based on the application of 1% upon the taxes net revenue. According to the concession agreement in effect, the payment in favor of ANATEL becomes due at each two-year period, set up for April of odd years and equivalent to 2% of net revenue verified in the previous year. The first payment was made in April 2007.

The amount of other licenses relates to BrT Multimídia and refers to the license granted to the use of radiofrequency blocks associated with the exploitation of multimedia communication services. Initially, such granting was obtained from ANATEL by VANT and on April 2006 the transfer registration to BrTMultimídia took place, which assumed the outstanding balance, with a variation of the IGP-M, plus 1% a month. The settlement of the balance of such obligation will be paid in four equal, consecutive and annual installments, falling due in May.

**37. PROVISIONS FOR PENSION PLANS**

Refer to the recognition of the actuarial deficit of the pension plans of defined benefit managed by FBrTPREV and the pension plan managed by the Company appraised by independent actuaries in accordance with CVM Resolution No.371/00. Such sponsored plans are detailed in note 6.

|  | <b>COMPANY AND<br/>CONSOLIDATED</b> |                |
|--|-------------------------------------|----------------|
|  | <b>2007</b>                         | <b>2006</b>    |
| FBrTPREV BrTPREV, Alternativo and Fundador plans | 685,668                             | 648,567        |
| PAMEC plan                                       | 2,077                               | 646            |
| <b>Total</b>                                     | <b>687,745</b>                      | <b>649,213</b> |
| Current  | 101,467                             | 43,238         |
| Long term  | 586,278                             | 605,975        |

**38. ADVANCES FROM CUSTOMERS**

|  | <b>COMPANY</b> |              | <b>CONSOLIDATED</b> |                |
|--|----------------|--------------|---------------------|----------------|
|  | <b>2007</b>    | <b>2006</b>  | <b>2007</b>         | <b>2006</b>    |
| Assignment of telecommunications means | 6,691          | 5,119        | 91,273              | 92,630         |
| Prepaid services                       | -              | -            | 42,877              | 28,969         |
| Other advances from customers          | 847            | 1,581        | 940                 | 1,709          |
| <b>Total</b>                           | <b>7,538</b>   | <b>6,700</b> | <b>135,090</b>      | <b>123,308</b> |
| Current                                | 2,065          | 2,320        | 62,957              | 52,643         |
| Long term                              | 5,473          | 4,380        | 72,133              | 70,665         |

The long-term balance refers to the assignment agreements of telecommunications means, for which the customers made advances aimed at obtaining benefits for a more extensive period, and realization is estimated for the following years:

|                         | <b>COMPANY</b> |              | <b>CONSOLIDATED</b> |               |
|-------------------------|----------------|--------------|---------------------|---------------|
|                         | <b>2007</b>    | <b>2006</b>  | <b>2007</b>         | <b>2006</b>   |
| 2008                    | -              | 716          | -                   | 7,063         |
| 2009                    | 879            | 716          | 7,920               | 6,976         |
| 2010                    | 879            | 716          | 7,770               | 6,826         |
| 2011                    | 879            | 716          | 7,718               | 6,774         |
| 2012                    | 879            | 716          | 7,496               | 6,774         |
| 2013                    | 879            | 708          | 7,238               | 6,766         |
| 2014                    | 230            | 92           | 6,589               | 6,766         |
| 2015 and following year | 848            | -            | 27,402              | 22,720        |
| <b>Total</b>            | <b>5,473</b>   | <b>4,380</b> | <b>72,133</b>       | <b>70,665</b> |

**39. OTHER LIABILITIES**

|  | COMPANY       |               | CONSOLIDATED  |               |
|--|---------------|---------------|---------------|---------------|
|  | 2007          | 2006          | 2007          | 2006          |
| Self-financing funds - Rio Grande do Sul branch        | 24,143        | 24,143        | 24,143        | 24,143        |
| Bank credits and repeater receivables under processing | 10,359        | 10,663        | 12,293        | 12,226        |
| Obligations from acquisition of tax credits            | 7,053         | 15,086        | 7,053         | 15,086        |
| Obligations from reverse stock split                   | 5,842         | -             | 5,842         | -             |
| Bonuses and premiums - subsequent periods              | 3,249         | -             | 3,249         | -             |
| Provision for loss on subsidiaries                     | -             | 8,347         | -             | -             |
| CPMF (tax on banking transactions) - suspended payment | 2,421         | 2,286         | 2,421         | 2,286         |
| Other taxes  | 1,987         | 1,915         | 11,332        | 4,835         |
| Obligations with telecommunications companies          | 1,616         | 15,271        | 1,616         | 1,616         |
| Return of self-financing funds                         | 608           | 737           | 608           | 737           |
| Other  | 11,855        | 4,044         | 16,816        | 8,997         |
| <b>Total</b>   | <b>69,133</b> | <b>82,492</b> | <b>85,373</b> | <b>69,926</b> |
| Current  | 55,007        | 71,296        | 68,153        | 64,643        |
| Long term  | 14,126        | 11,196        | 17,220        | 5,283         |

**Self financing funds - Rio Grande do Sul branch**

Correspond to the financial participation credits, paid by committed subscribers, for the purchase of the right of use of switched fixed telephone service, still under the discontinued self-financing modality. It happened that, as the shareholders of the Company had fully subscribed the capital increase made to repay in shares the credits for capital participation, there were no unsold shares to be delivered to the committed subscribers. Part of these committed subscribers, who did not accept the Company's Public Offering to return the referred credits in cash, as established in article 171, paragraph 2, of Law No. 6.404/76, are awaiting the termination of the ongoing lawsuit, filed by the Public Prosecution Office and Others, aiming at reimbursement in shares.

**40. CAPITALIZABLE FUNDS**

The expansion plans (self-financing) were the means by which the telecommunications companies financed part of the network investments. With the issue of Administrative Rule No. 261/97 by the Ministry of Communications, this fund raising mechanism was discontinued and the existing amount of R\$7,974 (R\$7,974 as of December 31, 2006) derives from plans sold prior to the issue of said Administrative Rule, the corresponding assets to which are already incorporated to the Company's fixed assets through the PCT (Community Telephony Plant). For reimbursement in shares, it is necessary to await a court decision on the suits filed by the interested parties.

**41. INFORMATION BY BUSINESS SEGMENT - CONSOLIDATED**

The information by segment refers to the business of the Company and its subsidiaries and has been identified based on their operating and management structure, as well as internal management information.



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The transactions of the business segments have been carried out under market terms and conditions.

Results by segment, and balance sheet account presented, consider revenues, costs, and expenses directly linked to each segment and those that can be reasonably allocated.

|   | 2007                                  |                  |           |             |                               |              |
|---|---------------------------------------|------------------|-----------|-------------|-------------------------------|--------------|
|   | Fixed telephony and data transmission | Mobile telephony | Internet  | Call center | Eliminations between segments | Consolidated |
| <b>Gross operating revenue</b>  | 13,911,298                            | 2,445,806        | 445,820   | 22,151      | (827,687)                     | 15,997,388   |
| <b>Deductions from gross revenue</b>                                    | (4,178,153)                           | (699,872)        | (66,305)  | (1,252)     | 6,740                         | (4,938,842)  |
| <b>Net operating revenue</b>  | 9,733,145                             | 1,745,934        | 379,515   | 20,899      | (820,947)                     | 11,058,546   |
| <b>Cost of services and sales</b>                                       | (5,487,894)                           | (1,531,692)      | (55,203)  | (20,517)    | 712,223                       | (6,383,083)  |
| <b>Gross profit</b>   | 4,245,251                             | 214,242          | 324,312   | 382         | (108,724)                     | 4,675,463    |
| <b>Operating expenses, net</b>  | (2,487,461)                           | (546,325)        | (400,630) | (617)       | 108,859                       | (3,326,174)  |
| Sales of services   | (898,192)                             | (453,909)        | (274,212) | -           | 140,961                       | (1,485,352)  |
| General and administrative expenses                                     | (1,158,241)                           | (128,803)        | (68,475)  | (617)       | 24,215                        | (1,331,921)  |
| Management compensation   | (8,290)                               | -                | (808)     | -           | -                             | (9,098)      |
| Other operating income (expenses)                                       | (422,738)                             | 36,387           | (57,135)  | -           | (56,317)                      | (499,803)    |
| <b>Income (loss) from operations before financial expenses (income)</b> | 1,757,790                             | (332,083)        | (76,318)  | (235)       | 135                           | 1,349,289    |
| <b>Trade accounts receivable</b>  | 2,033,133                             | 194,556          | 110,223   | 22,151      | (170,362)                     | 2,189,701    |
| <b>Inventories</b>  | 6,165                                 | 26,546           | -         | -           | -                             | 32,711       |
| <b>Property, plant and equipment and intangible assets, net</b>         | 5,254,440                             | 1,399,206        | 59,332    | -           | -                             | 6,712,978    |

|                                      | 2006                                  |                  |           |                               |              |
|--------------------------------------|---------------------------------------|------------------|-----------|-------------------------------|--------------|
|                                      | Fixed telephony and data transmission | Mobile telephony | Internet  | Eliminations between segments | Consolidated |
| <b>Gross operating revenue</b>       | 13,653,447                            | 1,788,972        | 342,050   | (673,151)                     | 15,111,318   |
| <b>Deductions from gross revenue</b> | (4,234,182)                           | (541,595)        | (42,508)  | 3,626                         | (4,814,659)  |
| <b>Net operating revenue</b>         | 9,419,265                             | 1,247,377        | 299,542   | (669,525)                     | 10,296,659   |
| <b>Cost of services and sales</b>    | (5,769,433)                           | (1,176,083)      | (145,564) | 625,859                       | (6,465,221)  |
| <b>Gross profit</b>                  | 3,649,832                             | 71,294           | 153,978   | (43,666)                      | 3,831,438    |
| <b>Operating expenses, net</b>       | (2,328,060)                           | (548,647)        | (215,155) | 43,725                        | (3,048,137)  |
| Sales of services                    | (986,621)                             | (432,432)        | (135,687) | 84,108                        | (1,470,632)  |
| General and administrative expenses  | (1,123,975)                           | (125,930)        | (76,575)  | 19,089                        | (1,307,391)  |
| Management compensation              | (7,767)                               | -                | (213)     | -                             | (7,980)      |

|   |                  |                  |                 |                  |                  |
|---|------------------|------------------|-----------------|------------------|------------------|
| Other operating income (expenses)                                       | (209,697)        | 9,715            | (2,680)         | (59,472)         | (262,134)        |
|   |                  |                  |                 |                  |                  |
| <b>Income (loss) from operations before financial expenses (income)</b> | <b>1,321,772</b> | <b>(477,353)</b> | <b>(61,177)</b> | <b>59</b>        | <b>783,301</b>   |
|   |                  |                  |                 |                  |                  |
| <b>Trade accounts receivable</b>  | <b>1,966,744</b> | <b>196,266</b>   | <b>69,383</b>   | <b>(104,739)</b> | <b>2,127,654</b> |
| <b>Inventories</b>  | <b>5,674</b>     | <b>58,490</b>    | <b>-</b>        | <b>-</b>         | <b>64,164</b>    |
| <b>Property, plant and equipment and intangible assets, net</b>         | <b>6,129,360</b> | <b>1,472,858</b> | <b>96,399</b>   | <b>-</b>         | <b>7,698,617</b> |



**42. STATEMENTS OF VALUE ADDED DVA**

|   | COMPANY            |                    | CONSOLIDATED       |                    |
|---|--------------------|--------------------|--------------------|--------------------|
|   | 2007               | 2006               | 2007               | 2006               |
| <b>REVENUES</b>                                   | <b>13,327,923</b>  | <b>12,992,420</b>  | <b>15,430,883</b>  | <b>14,524,356</b>  |
| Sales of goods and services                       | 13,572,303         | 13,397,889         | 15,997,388         | 15,111,318         |
| Voluntary discounts and cancelations              | (277,081)          | (307,234)          | (585,034)          | (528,706)          |
| Losses on accounts receivable                     | (266,411)          | (322,841)          | (348,001)          | (384,320)          |
| Other revenues                                    | 299,112            | 224,606            | 366,530            | 326,064            |
| <b>INPUTS ACQUIRED FROM THIRD PARTIES</b>         | <b>(4,435,989)</b> | <b>(4,382,189)</b> | <b>(5,446,445)</b> | <b>(5,186,295)</b> |
| Materials   | (72,314)           | (75,267)           | (380,219)          | (412,016)          |
| Third parties services                            | (4,257,198)        | (4,225,707)        | (4,945,680)        | (4,675,102)        |
| Other third parties designations                  | (106,477)          | (81,215)           | (120,546)          | (99,177)           |
| <b>RETENTIONS</b>                                 | <b>(2,542,659)</b> | <b>(2,674,273)</b> | <b>(3,114,769)</b> | <b>(3,216,800)</b> |
| Depreciation and amortization                     | (1,916,609)        | (2,203,716)        | (2,465,086)        | (2,729,643)        |
| Provisions for Contingencies                      | (626,050)          | (470,557)          | (649,683)          | (487,157)          |
| <b>NET ADDED VALUE PRODUCED</b>                   | <b>6,349,275</b>   | <b>5,935,958</b>   | <b>6,869,669</b>   | <b>6,121,261</b>   |
| <b>VALUE ADDED RECEIVED IN TRANSFER</b>           | <b>213,634</b>     | <b>251,726</b>     | <b>523,770</b>     | <b>661,933</b>     |
| Equity in subsidiaries                            | (198,200)          | (375,864)          | -                  | -                  |
| Dividends (investment stated at acquisition cost) | 383                | 262                | 383                | 262                |
| Financial income                                  | 285,862            | 514,765            | 435,948            | 582,875            |
| Rental income                                     | 125,589            | 112,563            | 87,439             | 78,796             |
| <b>TOTAL VALUE ADDED FOR DISTRIBUTION</b>         | <b>6,562,909</b>   | <b>6,187,684</b>   | <b>7,393,439</b>   | <b>6,783,194</b>   |
| <b>DISTRIBUTION OF THE VALUE ADDED</b>            |                    |                    |                    |                    |
| <b>Work compensation</b>                          | <b>513,087</b>     | <b>490,973</b>     | <b>653,034</b>     | <b>609,817</b>     |
| Payroll charges, benefits and profit sharing      | 216,554            | 229,873            | 305,982            | 306,946            |
| Charges, social benefits and interests            | 206,858            | 232,391            | 257,377            | 274,162            |
| Provisions for pension plans                      | 89,675             | 28,709             | 89,675             | 28,709             |
| <b>Government - taxes</b>                         | <b>4,428,724</b>   | <b>4,290,680</b>   | <b>4,958,854</b>   | <b>4,614,480</b>   |
| <b>Donations and Sponsoring</b>                   | <b>12,810</b>      | <b>9,387</b>       | <b>11,499</b>      | <b>9,892</b>       |

|                              |                |                |                |                  |
|------------------------------|----------------|----------------|----------------|------------------|
| <b>Renters</b>               | <b>811,001</b> | <b>964,253</b> | <b>974,595</b> | <b>1,119,536</b> |
| Rents, Leases and insurances | 252,752        | 230,697        | 347,007        | 316,988          |
| Financial expenses           | 558,249        | 733,556        | 627,588        | 802,548          |

*To be continued ...*

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... continued,

|                                 | COMPANY          |                  | CONSOLIDATED     |                  |
|---------------------------------|------------------|------------------|------------------|------------------|
|                                 | 2007             | 2006             | 2007             | 2006             |
| <b>Shareholders</b>             | <b>797,287</b>   | <b>432,391</b>   | <b>797,287</b>   | <b>432,391</b>   |
| Interest on Shareholders Equity | 350,400          | 348,900          | 350,400          | 348,900          |
| Dividends                       | 407,023          | 61,872           | 407,023          | 61,872           |
| Allocation to Legal Reserve     | 39,864           | 21,619           | 39,864           | 21,619           |
| <b>Minority Interests</b>       | <b>-</b>         | <b>-</b>         | <b>(1,830)</b>   | <b>(2,922)</b>   |
| <b>VALUE ADDED DISTRIBUTED</b>  | <b>6,562,909</b> | <b>6,187,684</b> | <b>7,393,439</b> | <b>6,783,194</b> |

#### 43. LAW 11638/07 AMENDMENTS TO THE BRAZILIAN CORPORATE LAW

Law No. 11638 was issued on December 28, 2007 and amends the provisions of the Brazilian Corporate Law - Law No. 6.404/76. Said law sets forth several amendments on the preparation of financial statements, aiming at aligning them with the international accounting standards and grants to the CVM (Brazilian Securities Commission) the power to issue standards for publicly traded companies. The main amendments introduced by said Law are effective from 2008 and refer to: (i) replacement of the DOAR (Statements of Changes in Financial Position) for the Statement of Cash Flows; (ii) mandatory preparation of the DVA (Statement of Value Added); (iii) possible inclusion of tax bookkeeping in the commercial bookkeeping, with segregation between the commercial and tax statements; (iv) creation of subgroup Asset Appraisal Adjustment in shareholders' equity; (v) standardization of financial instruments measurement and classification criteria; (vi) mandatory evaluation the noncurrent assets recovery level; (vii) change on subsidiaries measurement parameters under the equity method of accounting; (viii) possible recognition of the Tax Incentive Reserve; and (ix) mandatory recognition of new assets at fair value, in cases of merger, consolidation or spin-off.

The Company already issues the Statement of Cash Flows and the Statement of Value Added, and the segregation of Intangible assets in permanent assets. On the date of preparation of these financial statements it was not possible to estimate the possible effects from adopting the other changes set forth by said law, applicable to the Company, which might impact its financial statements.

#### 44. SUBSEQUENT EVENTS

##### Establishment of the company IG Participações S.A. and assignment of investments among subsidiaries

On January 7, 2008, the company iG Participações S.A. ( iG Part ) was established with a capital contribution in the amount of R\$5, represented by the issue of five thousand registered common shares with no par value. Subscription and payment were carried out by BrTI and Freelance at the ratio of 98% and 2%, respectively. This company, headquartered in Brasília, DF, is engaged in holding capital in other companies, whether commercial or civil, and other entities, including consortiums, funds, foundations or associations, domestic or foreign, as partner or shareholder, whether a subsidiary or not, which are engaged in activities related to the telecommunications industry or the provisions of internet and similar services

On January 10, 2008, iG Cayman assigned its investment held in iG Brasil to iG Part in the amount of R\$76,867, which represents a capital contribution corresponding to the issue of 76,866,991 registered common shares with no par value.

### **BNDES Financing for BrT Celular**

On January 9, 2008 BNDES communicated the approval of a financing in the amount of R\$259,100 to 14 Brasil Telecom Celular S.A., to be invested in the expansion and modernization of the mobile phone network (personal mobile service) by 2009. The financing shall have the total term of nine years and six months, with a thirty months grace period, as from which period the payment in eighty four installments shall begin. This financing bears charges based on the TJLP variation, plus 3.52% a year. Funding for this financing, which is already approved by the administrative bodies, is expected to occur in the periods of 2008 and 2009, after executing the contract and according to the procedures of the financing body.

### **Communication**

We reproduced below the joint communication from the Company and Brasil telecom Participações S.A., disclosed after the balance sheet date:

Communication disclosed on January 9, 2008:

#### **Brasil Telecom Clarifies CVM Consultation**

In response to the Official Letters CVM/SEP/GEA-2/No. 003/08 and CVM/SEP/GEA-4/No. 004/08, sent, respectively, on January 08 and 09, 2008, regarding news that are being published by the press, such as Valor Econômico newspaper, under the heading *BrT prepares corporate restructuring and Oi buys back shares with an eye on possible consolidation*, comments of the *De olho na bolsa (An eye on the Stock market)*, as well as due to the today's notes published on Radar On-Line ( *Telemar Buys Brasil Telecom* ), Brasil Telecom Participações S.A. and Brasil Telecom S.A. (jointly, the Companies) clarify that they have no participation on a occasional negotiation regarding the pledging of shares companies in its corporate structure by their controlling shareholders. In addition, the Companies reinforce that they have not entered into any agreement, even preliminary, regarding merge or purchase or sale with Oi/Telemar or with any other company or investment vehicle.

The Companies also communicate that the group companies belonging to Brasil Telecom control network group (Solpart Participações S.A., Techold Participações S.A., Invitel S.A. and Zain Participações S.A., herein referred to as Parent Companies) were questioned and expressed themselves as follows:

*As is widely known by the Companies shareholders and by the market in general, the Parent Companies have been evaluating, with the assistance of specialized companies, several strategic alternatives for their participation on the Companies.*

*The Parent Companies clarify that, regarding rumors in contrary, and notwithstanding the fact that there are discussion on the matter, they did not take any decision as to carry out a corporate reorganization of the Companies, nor have they celebrated any agreement, even preliminary,*

*regarding merge or purchase or sale with Oi/Telemar or with any other company or investment vehicle.*

*The Parent Companies inform that, under the applicable laws and regulations, they will promptly disclose any material act or event which takes place.*

Brasília, January 9, 2008

**Paulo Narcélio Simões Amaral**  
Investor Relations Officer  
Brasil Telecom Participações S.A.  
Brasil Telecom S.A.

**45. AUTHORIZATION FOR COMPLETION OF THE FINANCIAL STATEMENTS**

The meeting held by the Company's Board of Directors on January 29, 2008, authorized the completion of these financial statements, which comprise the subsequent events to the closing date of the financial year 2007, and are therefore approved for disclosure.

Brasília (DF), January 29, 2008

**Paulo Narcélio Simões Amaral**  
Financial Officer

**Célio José Godinho**  
Accountant

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**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: March 03, 2008

**BRASIL TELECOM S.A.**

By:           /s/ Paulo Narcélio Simões  
                  Amaral

Name: Paulo Narcélio Simões  
Amaral  
Title: Chief Financial  
Officer

**FORWARD-LOOKING STATEMENTS**

This press release may contain forward-looking statements. These statements are statements that are not historical facts, and are based on management's current view and estimates of future economic circumstances, industry conditions, company performance and financial results. The words "anticipates", "believes", "estimates", "expects", "plans" and similar expressions, as they relate to the company, are intended to identify forward-looking statements. Statements regarding the declaration or payment of dividends, the implementation of principal operating and financing strategies and capital expenditure plans, the direction of future operations and the factors or trends affecting financial condition, liquidity or results of operations are examples of forward-looking statements. Such statements reflect the current views of management and are subject to a number of risks and uncertainties. There is no guarantee that the expected events, trends or results will actually occur. The statements are based on many assumptions and factors, including general economic and market conditions, industry conditions, and operating factors. Any changes in such assumptions or factors could cause actual results to differ materially from current expectations.

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