

BRASIL TELECOM SA  
Form 6-K  
February 17, 2005

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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 FEBRUARY 17, 2005**

**(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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BRTO3: R\$13.81 / 1,000 shares  
BRTO4: R\$11.70 / 1,000 shares  
BTM: US\$13.78 / ADR  
**Market Value: R\$6,958.3 million**  
Closing Price: February 15, 2005

# **Brasil Telecom S.A.**

## **Consolidated Earnings Release**

**4<sup>th</sup> Quarter 2004**

Non-audited

**Brasília, February 16, 2005.**

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**QUARTER HIGHLIGHTS**

**535.5 thousand ADSL accesses in service, an increase of 17.4%**

**622.3 thousand mobile accesses in service**

**Net revenues grew by 4.5%, reaching R\$2.5 billion**

**Fixed-line ARPU reached R\$83.9, a 2.6% growth**

**Mobile telephony ARPU of R\$35**

**Data communications revenues of R\$374.0 million, a growth of 16.4%**

**EBITDA of R\$772.9 million**

**Total fixed-line CAPEX of R\$470.5 million**

**PCS CAPEX of R\$417.9 million**

**Net earnings adjusted by the goodwill of R\$50.5 million**

**HIGHLIGHTS**

Brasília, February 16, 2005 - **Brasil Telecom S.A. (BOVESPA: BRTO3/BRTO4; NYSE: BTM)** announces its consolidated earnings for the fourth quarter of 2004 (4Q04).

**Our clients can now experience the CONVERGENCE concept in practice.** With the commercial launch of Brasil Telecom GSM, **Brasil Telecom added another service to its portfolio and became a multi-provider of telecommunications solutions** offering a whole range of telecommunications services including fixed-line and mobile telephony, data communications, internet connectivity, data center, and other value-added services.

Our financial statements consolidate the operational results of Brasil Telecom GSM since November 2004, and the results of iG since December 2004.

**Operating Performance****Fixed-Line Telephony**

Our **network** had 10,737 thousand lines installed at the end of 2004, an increase of 0.1% and 0.5% compared to 3Q04 and 4Q03, respectively.

At the end of the quarter, we had 9,503 thousand **lines in service**.

**Local traffic** increased 1.6% compared to 3Q04.

**Inter-network traffic** increased 7.5% compared to 3Q04, mainly due to the VC-2 and VC-3 traffic increase of 35.2% and 50.0%, respectively.

**Mobile Telephony**

After its first quarter of operations, our **mobile network** had 622.3 thousand accesses in service, of which 33.1% were **post-paid**.

**Data Communications**

At the end of 4Q04, we had 535.5 thousand **ADSL accesses in service**, which represents a growth of 89.9% compared to 4Q03.

**BrTurbo** consolidated its leadership in Region II, with 266 thousand clients at the end of 4Q04, a 146% increase compared to 4Q03.

**Financial Performance**

**Net revenues** of R\$2,466.1 million in 4Q04; an increment of 4.5% and 19.0% compared to 3Q04's and 4Q03's net revenues, respectively.

**Measured service revenues** increased by 4.0% compared to 3Q04, reflecting rate adjustments and the increase in traffic.

**Fixed-line ARPU** (net revenues/ Avg. LIS/month) of R\$83.9 in 4Q04, compared to R\$81.8 in 3Q04.

**Mobile telephony revenues** (excluding revenues derived from Brasil Telecom S.A.) of R\$87.9 million in 4Q04, including R\$69.7 million in **merchandise sales** (handsets and accessories).

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**Trailing 12M Highlights**

Increase of 89.9% in the ADSL accesses in service

Net revenue grew by 14.5%, to R\$9.1 billion

Data communications revenues reached R\$1.24 billion, a 49.1% growth

EBITDA of R\$3.6 billion, an increase of 8.2%

Net debt 9.0% lower

2004 cost of debt of 11.4% p.a., or 70.7% of the CDI

Free cash flow of R\$565.6 million

Net earnings adjusted by goodwill of R\$401.0 million, a 306% growth

Interest on shareholder s equity of R\$444.5 million, an increase of 80.5%

Our ISPs' customer base reached 5 million

**Inter-network revenues** increased 6.1% compared to the previous quarter, mainly due to increase in fixed-to-mobile traffic and the use of the Carrier Selection Code ( CSC ) 14 in calls made by mobile operator clients.

**Data communications and other services revenues** of R\$374.0 million in 4Q04, an increase of 47.8% year-on-year and 16.4% sequentially.

**EBITDA** in 4Q04 was of R\$772.9 million. The **EBITDA margin** was of 31.3% in 4Q04. The consolidated EBITDA margin, excluding the impact of Brasil Telecom GSM, was of 41.4% in 2004.

As of December 2004, Brasil Telecom s **consolidated total debt** was of R\$5,281.5 million, 2.6% lower than in the 3Q04.

**Mobile telephony ARPU** of R\$35.0 in 4Q04, while the **subscriber acquisition cost** was of R\$205.9 in the same period. Both indicators exceeded expectations.

**Interconnection costs** totaled R\$647.2 million in 4Q04, a 6.1% increase compared to the previous quarter.

The **dollar-denominated debt** represented 14.3% of the total debt, amounting to R\$755.4 million at the end of 4Q04.

**Debt denominated in foreign currency** represented 30.2% of total debt.

Brasil Telecom **hedged** 48.1% of its debt denominated in foreign currency, so that 16.1% of its total debt was exposed to exchange rate risk.

R\$ Million	Dec/03	Sep/04	Dec/04	Δ Quarter	Δ 12 Months
<b>Total Debt</b>	<b>4,635.8</b>	<b>5,421.8</b>	<b>5,281.5</b>	<b>-2.6%</b>	<b>13.9%</b>
(-) Cash	1,465.8	2,598.9	2,397.8	-7.7%	63.6%
<b>Net Debt</b>	<b>3,170.0</b>	<b>2,822.9</b>	<b>2,883.7</b>	<b>2.2%</b>	<b>-9.0%</b>
(-) Inter Company with BRP	1,497.8	1,014.7	1,046.5	3.1%	-30.1%
<b>Net Debt Ex-Inter Company with BRP</b>	<b>1,672.2</b>	<b>1,808.2</b>	<b>1,837.2</b>	<b>1.6%</b>	<b>9.9%</b>

**2004 cost of debt** was 11.4% p.a., equivalent to 70.1% of the domestic inter-bank rate (CDI).

**Consolidated net debt** (excluding inter-company debt and debentures raised from our parent company) was of R\$1,837.2 million, as of December.

**Consolidated net debt as a percentage of shareholders equity** was of 44.5% in 4Q04 compared to 42.1% in 3Q04.

In 4Q04, Brasil Telecom generated a positive **operating cash flow** of R\$685.1 million.

**The trailing 12-month free cash flow** was R\$565.6 million, calculated by subtracting from the operating cash flow the cash flow from investment activities and the interest paid.

**Net earnings adjusted by goodwill** in 4Q04 were R\$50.5 million, compared to net losses of R\$280 million in 4Q03. In the year, net earnings adjusted by goodwill were R\$401.0 million, compared to R\$98.7 million in 2003.

**Financial Indicators**

Financial Indicators	4Q03	3Q04	4Q04	Δ Quarter	Δ 12 Months
EBITDA* / Interest Expenses	5.26	6.95	5.27	-24.2%	0.1%
Net Debt** / EBITDA* (x4)	0.44	0.46	0.59	30.4%	34.1%
Total Debt / (EBITDA* + Financial Income) (x4)	1.13	1.30	1.40	7.1%	23.2%
EBITDA* (x4) / Lines in Service	R\$383	R\$413	R\$325	-21.2%	-15.1%
EBITDA* (x4) / Employees (thousand)	R\$718	R\$627	R\$463	-26.2%	-35.5%

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\* EBITDA without effects of non-recurrent itens.

\*\* Net debt excluding inter-company loans with Brasil Telecom Participações.

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**INCOME STATEMENT**

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**Table 1: Consolidated Income Statement - Brasil Telecom S.A.**

R\$ Million	4QO3	3QO4	4QO4	Δ Quarter	Δ 12 Months	12MO3	12MO4	Δ Year
<b>GROSS REVENUES</b>	<b>2,899.8</b>	<b>3,315.2</b>	<b>3,502.0</b>	<b>5.6%</b>	<b>20.8%</b>	<b>11,077.4</b>	<b>12,763.4</b>	<b>15.2%</b>
<b>Fixed Telephony</b>	<b>2,646.7</b>	<b>2,993.8</b>	<b>3,040.1</b>	<b>1.5%</b>	<b>14.9%</b>	<b>10,247.5</b>	<b>11,438.1</b>	<b>11.6%</b>
Local Service	1,162.7	1,218.3	1,262.5	3.6%	8.6%	4,432.6	4,710.8	6.3%
Public Telephony	115.4	128.4	123.2	-4.0%	6.8%	394.5	478.8	21.4%
Long Distance Service	377.1	478.3	444.9	-7.0%	18.0%	1,450.5	1,723.7	18.8%
Inter-network Calls	613.9	805.5	854.4	6.1%	39.2%	2,536.0	3,100.2	22.2%
Interconnection	215.7	182.6	178.1	-2.4%	-17.4%	835.3	731.3	-12.5%
Lease of Means	60.9	53.9	66.7	23.6%	9.5%	215.5	239.1	11.0%
Supplementary and Value Added Services	94.0	117.2	100.7	-14.1%	7.0%	356.4	421.0	18.1%
Other	7.0	9.7	9.7	-0.7%	38.3%	26.7	33.2	24.4%
<b>Mobile Telephony</b>	<b>-</b>	<b>-</b>	<b>87.9</b>	<b>N.A.</b>	<b>N.A.</b>	<b>-</b>	<b>87.9</b>	<b>N.A.</b>
<b>Data Transmission</b>	<b>253.1</b>	<b>321.3</b>	<b>374.0</b>	<b>16.4%</b>	<b>47.8%</b>	<b>829.9</b>	<b>1,237.4</b>	<b>49.1%</b>
Deductions	(826.6)	(954.3)	(1,036.0)	8.6%	25.3%	(3,162.2)	(3,698.6)	17.0%
<b>NET REVENUES</b>	<b>2,073.2</b>	<b>2,360.9</b>	<b>2,466.1</b>	<b>4.5%</b>	<b>19.0%</b>	<b>7,915.2</b>	<b>9,064.9</b>	<b>14.5%</b>
<b>COSTS &amp; OPERATING EXPENSES</b>	<b>(1,494.5)</b>	<b>(1,369.2)</b>	<b>(1,693.2)</b>	<b>23.7%</b>	<b>13.3%</b>	<b>(4,601.2)</b>	<b>(5,479.7)</b>	<b>19.1%</b>
Personnel	(144.6)	(104.5)	(124.0)	18.7%	-14.2%	(429.8)	(422.9)	-1.6%
Materials	(24.6)	(23.5)	(137.3)	483.3%	458.1%	(89.7)	(208.7)	132.6%
Subcontracted Services	(363.6)	(367.9)	(484.3)	31.6%	33.2%	(1,288.9)	(1,571.9)	22.0%
Interconnection	(461.3)	(610.2)	(647.2)	6.1%	40.3%	(1,772.1)	(2,298.9)	29.7%
Advertising and Marketing	(28.3)	(31.4)	(53.5)	70.3%	89.3%	(85.5)	(133.6)	56.2%
Provisions and Losses	(410.4)	(163.7)	(253.7)	55.0%	-38.2%	(657.8)	(662.5)	0.7%
Other	(61.8)	(68.0)	6.7	N.A.	N.A.	(277.4)	(181.1)	-34.7%
<b>EBITDA</b>	<b>578.6</b>	<b>991.7</b>	<b>772.9</b>	<b>-22.1%</b>	<b>33.6%</b>	<b>3,314.0</b>	<b>3,585.2</b>	<b>8.2%</b>
Depreciation and Amortization	(505.2)	(626.8)	(639.4)	2.0%	26.6%	(2,082.4)	(2,464.9)	18.4%
<b>OPERATING PROFIT BEFORE FINANCIA RESULT</b>	<b>73.4</b>	<b>364.9</b>	<b>133.5</b>	<b>-63.4%</b>	<b>81.8%</b>	<b>1,231.6</b>	<b>1,120.3</b>	<b>-9.0%</b>
Financial Result	(198.3)	(141.5)	(361.7)	155.7%	82.4%	(1,091.0)	(1,024.0)	-6.1%
Financial Revenues	78.6	48.1	172.7	258.9%	119.7%	302.6	493.3	63.0%
Financial Expenses	(276.9)	(189.6)	(328.0)	73.0%	18.5%	(1,147.4)	(1,072.8)	-6.5%
Interest on Shareholders' Equity	-	-	(206.4)	N.A.	N.A.	(246.2)	(444.5)	80.5%
<b>OPERATING PROFIT AFTER FINANCIAL RESULT</b>	<b>(124.9)</b>	<b>223.4</b>	<b>(228.2)</b>	<b>N.A.</b>	<b>82.8%</b>	<b>140.6</b>	<b>96.3</b>	<b>-31.5%</b>
Non-Operating Revenues (Expenses)	(360.5)	(33.4)	10.6	N.A.	N.A.	(469.0)	(160.1)	-65.9%



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Goodwill Amortization - CRT								
Acquisition	(31.0)	(31.0)	(31.0)	0.0%	0.0%	(124.0)	(124.0)	0.0%
Other	(329.5)	(2.4)	41.6	N.A.	N.A.	(345.0)	(36.1)	-89.5%
<b>EARNINGS BEFORE INCOME AND SOCIAL CONTRIBUTION TAXES</b>								
<b>CONTRIBUTION TAXES</b>	<b>(485.4)</b>	<b>190.0</b>	<b>(217.7)</b>	<b>N.A.</b>	<b>-55.1%</b>	<b>(328.5)</b>	<b>(63.8)</b>	<b>-80.6%</b>
Income and Social Contribution Taxes	140.3	(73.0)	50.9	N.A.	-63.7%	58.0	(43.7)	N.A.
<b>EARNINGS BEFORE PROFIT SHARING</b>								
<b>SHARING</b>	<b>(345.1)</b>	<b>117.0</b>	<b>(166.8)</b>	<b>N.A.</b>	<b>-51.7%</b>	<b>(270.4)</b>	<b>(107.5)</b>	<b>-60.3%</b>
Profit Sharing	33.9	(13.1)	(13.8)	5.1%	N.A.	(1.1)	(53.8)	N.A.
Minority Interest	0.0	0.0	(6.3)	N.A.	N.A.	0.0	(6.3)	N.A.
<b>EARNINGS BEFORE REVERSION OF INTEREST ON SHAREHOLDERS' EQUITY</b>								
<b>OF</b>	<b>(311.2)</b>	<b>103.9</b>	<b>(186.9)</b>	<b>N.A.</b>	<b>-40.0%</b>	<b>(271.5)</b>	<b>(167.5)</b>	<b>-38.3%</b>
Reversion of Interest on Shareholders' Equity	-	-	206.4	N.A.	N.A.	246.2	444.5	80.5%
<b>NET EARNINGS (LOSSES)</b>								
<b>NET EARNINGS (LOSSES)</b>	<b>(311.2)</b>	<b>103.9</b>	<b>19.5</b>	<b>-81.2%</b>	<b>N.A.</b>	<b>(25.3)</b>	<b>277.0</b>	<b>N.A.</b>
Goodwill Amortization - CRT Acquisition	31.0	31.0	31.0	0.0%	0.0%	124.0	124.0	0.0%
<b>NET EARNINGS (LOSSES) ADJUSTED BY GOODWILL AMORTIZATION</b>								
<b>AMORTIZATION</b>	<b>(280.2)</b>	<b>134.9</b>	<b>50.5</b>	<b>-62.6%</b>	<b>N.A.</b>	<b>98.7</b>	<b>401.0</b>	<b>306.2%</b>
Net Earnings (Losses)/1,000 shares - R\$	(0.5709)	0.1891	0.0355	-81.2%	N.A.	(0.0464)	0.5038	N.A.
Net Earnings (Losses)/ADR - US\$	(0.5928)	0.1984	0.0401	-79.8%	N.A.	(0.0482)	0.5694	N.A.

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**Table 2: Consolidated Income Statement - Brasil Telecom GSM**

	R\$ Million	4Q04
<b>GROSS REVENUES</b>		<b>102.3</b>
Subscription		10.2
Utilization		5.7
Roaming		0.2
Interconnection		16.0
Other Revenues		0.2
Data Transmission		0.3
Merchandise Sales (Handsets and Accessorie		69.7
Deductions		(23.3)

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<b>NET REVENUES</b>	<b>79.0</b>
<hr/>	
<b>COSTS &amp; OPERATING EXPENSES</b>	<b>(223.6)</b>
Personnel	(11.5)
Materials	(116.0)
Subcontracted Services	(43.9)
Interconnection	(7.8)
Advertising and Marketing	(24.2)
Provisions and Losses	(1.9)
Other	(18.3)
<hr/>	
<b>EBITDA</b>	<b>(144.6)</b>
Depreciation and Amortization	(28.7)
<hr/>	
<b>OPERATING PROFIT BEFORE FINANCIAL RESULT</b>	<b>(173.3)</b>
<hr/>	
Financial Result	(6.5)
Financial Revenues	11.1
Financial Expenses	(17.6)
<hr/>	
<b>EARNINGS BEFORE INCOME AND SOCIAL CONTRIBUTION TAXES</b>	<b>(179.8)</b>
<hr/>	
Income and Social Contribution Taxes	60.7
<hr/>	
<b>NET EARNINGS (LOSSES)</b>	<b>(119.1)</b>
<hr/>	

Note: Statement does not consider inter-company eliminations with Brasil Telecom S.A.

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**OPERATING PERFORMANCE**

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**FIXED-LINE TELEPHONY**

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**NETWORK**

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**Table 3: Network**

PLANT	4QO3	3QO4	4QO4	Δ Quarter	Δ 12 Months
<b>Lines Installed (Thousand)</b>	<b>10,686.5</b>	<b>10,725.4</b>	<b>10,737.2</b>	<b>0.1%</b>	<b>0.5%</b>
Additional Lines Installed (Thousand)	8.9	13.8	11.8	-14.1%	33.0%

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<b>Lines in Service - LIS (Thousand)</b>	<b>9,850.9</b>	<b>9,604.3</b>	<b>9,503.1</b>	<b>-1.1%</b>	<b>-3.5%</b>
Residential	7,166.1	6,685.4	6,444.9	-3.6%	-10.1%
Non-Residential	1,565.6	1,451.5	1,433.0	-1.3%	-8.5%
Public Telephones	296.3	296.0	295.9	0.0%	-0.1%
Pre-paid	266.4	284.6	297.1	4.4%	11.5%
Hybrid Terminals	10.8	267.2	408.3	52.8%	N.A.
Other (including PBX)	545.7	619.5	623.9	0.7%	14.3%
Additional LIS (Thousand)	41.7	(42.4)	(101.2)	138.6%	N.A.
<b>Average LIS (Thousand)</b>	<b>9,830.0</b>	<b>9,625.5</b>	<b>9,553.7</b>	<b>-0.7%</b>	<b>-2.8%</b>
LIS/100 Inhabitants	23.4	22.7	22.4	-1.3%	-4.3%
Public Telephones/ 1,000 Inhabitants	7.0	7.0	7.0	-0.3%	-1.0%
Public Telephones/100 Lines Installed	2.8	2.8	2.8	-0.1%	-0.6%
<b>Utilization Rate</b>	<b>92.2%</b>	<b>89.5%</b>	<b>88.5%</b>	<b>-1.0 p.p.</b>	<b>-3.7 p.p.</b>
<b>Digitization Rate</b>	<b>99.0%</b>	<b>99.6%</b>	<b>99.7%</b>	<b>0.1 p.p.</b>	<b>0.7 p.p.</b>

**Fixed-line Network**

**In 4Q04, Brasil Telecom installed 11.8 thousand lines, closing the quarter with 10.7 million terminals**, an increase of 50.7 thousand lines from the same period in 2003.

**The plant in service totaled 9.5 million lines in 4Q04.** Brasil Telecom continued the process of detecting delinquent lines, disconnecting lines without prospects of returning to the active base in the medium term and transferring some of the clients who negotiated their obligations to the hybrid plan (LigMix).

Additionally, the increase of 52.8% in the number of hybrid terminals was a result of the Company's initiative to encourage the migration of clients that were on default or who subscribed to alternative plans. Over the past quarters, Brasil Telecom has been concentrating its efforts to identify the usage profile of its clients, allocating them to the appropriate plan with the objective of reducing delinquency and increasing fixed-line telephony ARPU.

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**TRAFFIC**

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**Table 4: Traffic**

TRAFFIC	4Q03	3Q04	4Q04	Δ Quarter	Δ 12 Months
Exceeding Local Pulses (Million)	2,927.4	2,730.0	2,772.5	1.6%	-5.3%
Long Distance Minutes (Million)	1,559.4	1,638.0	1,436.5	-12.3%	-7.9%
Fixed-Mobile Minutes (Million)	991.0	1,098.4	1,180.3	7.5%	19.1%
Exceeding Pulses/Average LIS/Month	99.3	94.5	96.7	2.3%	-2.5%

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LD Minutes/Average LIS/Month	52.9	56.7	50.1	-11.6%	-5.2%
Fixed-Mobile Minutes/Average LIS/Month	33.6	38.0	43.2	13.6%	28.5%

### Billed Pulses

**Billed pulses traffic (exceeding local pulses) increased by 1.6% compared to 3Q04, to 2.8 billion.** Local traffic has increased for the third quarter in a row.

### Long Distance Traffic

Since September, a new regulation approved by Anatel has been effective, establishing a new division of the fixed-line telephony local areas in the country. According to this regulation, calls between close localities (conurbations), which were previously considered long distance calls, are now considered local calls. Although this change has affected long distance traffic, it did not have the same impact on billed pulses traffic, as the majority of this local traffic is used as part of the monthly free minutes to which subscribers are eligible. As a result long distance traffic decreased by 12.3% quarter-on-quarter, to 1.4 billion minutes.

### LD Market Share

**Brasil Telecom closed the fiscal year 2004 well positioned in the long distance segment, with a 48.9% and 26.6% (quarterly average) market share in the interregional and international long distance segments, achieved in last than one year of operations.**

**Sequentially, our quarterly average long distance market share increased 0.4 p.p. in the intra-state segment and 1.4 p.p. in the inter-state segment, to 91.2% and 82.3%, respectively.**

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### Graph 1: DLD Market Share\*

\* Historical data has been updated to reflect the exclusion of traffic generated by administrative-use terminals and public telephones.

### Inter-Network Traffic

**Inter-network traffic increased by 7.5% in 4Q04 compared to 3Q04**, mainly due to the 16.3% increase in the number of mobile phones in the Region in the quarter, to 19.7 million mobile accesses in service at the end of 2004, of which 3.2% were part of Brasil Telecom GSM's network.

The use of the CSC 14 in calls made from mobile phones and the use of the CSC 14 in calls terminating outside Region II resulted in a change of profile in the inter-network traffic throughout the year. **Of the total inter-network traffic in the 4Q04, 76.8% corresponded to VC-1 calls, while 15.1% corresponded to VC-2 calls and 8.2% to VC-3 calls.** A year ago, VC-2 and VC-3 calls corresponded to only 6.4% and 1.5%, respectively.

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## MOBILE TELEPHONY

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**Table 5: Operational Data**

Key Operational Data	4Q04
Clients	622,295

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Post-Paid	205,716
Pre-Paid	416,579
<b>Gross Additions</b>	<b>626,526</b>
Post-Paid	209,497
Pre-Paid	417,029
<b>Cancellations</b>	<b>4,231</b>
Post-Paid	3,781
Pre-Paid	450
<b>Annualized Churn</b>	<b>1.4%</b>
<b>Market Share</b>	<b>3.2%</b>
<b>Served Localities</b>	<b>626</b>
<b>Base Stations</b>	<b>1,632</b>
<b>Switches</b>	<b>3</b>
<b>Employees</b>	<b>881</b>

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### Mobile Network

The launch of Brasil Telecom GSM was a success, exceeding all expectations in its first quarter of commercial operations. At the end of 4Q04, the mobile network had 622.3 thousand accesses in service. Christmas sales, leveraged by the Pula-Pula launch promotion, resulted in net adds of 368.4 thousand in December.

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#### Graph 2: Mobile Network

### Client Base Mix

The mobile network had 205.7 thousand post-paid subscribers at the end of 4Q04, or 33.1% of the client base. This mix reflects good brand awareness in the corporate segment and the attentiveness of our clients to the benefits of convergence.

### Market Share

At the end of 4Q04, Brasil Telecom GSM achieved a 3.2% market share in its operational area.

### Coverage

In deciding to initiate its commercial operations with a wide GSM coverage, Brasil Telecom covered 626 localities with its mobile operations at the end of 4Q04, which represented 81.2% of the population of Region II.

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## DATA COMMUNICATIONS

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### BROADBAND

#### ADSL Accesses

Brasil Telecom increased its ADSL accesses in service by 89.9% in one year, to 535.5 thousand accesses at the end of 4Q04.

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## Graph 3: ADSL Accesses

[Table of Contents](#)**INTERNET PROVIDERS**

Together, our internet service providers - iG, iBest and BrTurbo - served approximately 5 million clients at the end of 4Q04, which make us **the largest internet service provider in Latin America and one of the 15 largest providers worldwide.**

**BrTurbo**

**BrTurbo consolidated its broadband market leadership in Region II, with 266 thousand clients at the end of 4Q04, 146% higher than in 4Q03.** As a result, approximately **50% of the ADSL accesses we provide in Region II are to our BrTurbo customers.**

**iBest**

**iBest is the leading free internet company in Region II with a 43% market share at the end of 4Q04. With 1.6 million active users, iBest is the second largest dial-up internet access provider in Brazil.** In 2004, iBest generated 16.6 billion minutes and organized the largest Internet Award in Brazil, the Prêmio iBest, with more than 25 thousand registered websites.

**iG**

At the end of 4Q04, **iG had more than three million active users and 7.7 million active email accounts.** Besides being the largest dial-up internet access provider in Brazil, iG is also the largest wireless content portal, with a **market share of more than 30%.**

[Table of Contents](#)**FINANCIAL PERFORMANCE**[Table of Contents](#)**REVENUES**[Table of Contents](#)

Table 6: Consolidated Operating Gross Revenues

R\$ Million	4Q03	3Q04	4Q04	Δ Quarter	Δ 12 Months	12MO3	12MO4	Δ Year
<b>GROSS REVENUES</b>	<b>2,899.8</b>	<b>3,315.2</b>	<b>3,502.0</b>	<b>5.6%</b>	<b>20.8%</b>	<b>11,077.4</b>	<b>12,763.4</b>	<b>15.2%</b>
<b>FIXED TELEPHONY</b>	<b>2,646.7</b>	<b>2,993.8</b>	<b>3,040.1</b>	<b>1.5%</b>	<b>14.9%</b>	<b>10,247.5</b>	<b>11,438.1</b>	<b>11.6%</b>
<b>Local Service</b>	<b>1,162.7</b>	<b>1,218.3</b>	<b>1,262.5</b>	<b>3.6%</b>	<b>8.6%</b>	<b>4,432.6</b>	<b>4,710.8</b>	<b>6.3%</b>
Activation	8.9	7.7	7.3	-5.2%	-17.7%	35.5	33.5	-5.8%
Basic Subscription	745.8	800.6	832.2	3.9%	11.6%	2,858.0	3,110.0	8.8%
Measured Service	378.7	386.7	402.0	4.0%	6.1%	1,427.2	1,474.5	3.3%
Lease of Lines	0.4	0.4	0.4	-4.1%	-1.8%	1.7	1.6	-4.0%
Other	28.9	22.8	20.5	-10.0%	-28.8%	110.2	91.1	-17.3%

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<b>Public Telephony</b>	<b>115.4</b>	<b>128.4</b>	<b>123.2</b>	<b>-4.0%</b>	<b>6.8%</b>	<b>394.5</b>	<b>478.8</b>	<b>21.4%</b>
<b>Long Distance Service</b>	<b>377.1</b>	<b>478.3</b>	<b>444.9</b>	<b>-7.0%</b>	<b>18.0%</b>	<b>1,450.5</b>	<b>1,723.7</b>	<b>18.8%</b>
Intea-Region	376.9	404.1	358.4	-11.3%	-4.9%	1,450.0	1,435.1	-1.0%
Inter-Region	-	67.0	74.3	11.0%	N.A.	-	214.8	N.A.
International / Borderline	0.1	7.2	12.1	68.0%	8308.3%	0.6	31.6	5523.6%
<b>Inter-Network Calls</b>	<b>613.9</b>	<b>805.5</b>	<b>854.4</b>	<b>6.1%</b>	<b>39.2%</b>	<b>2,536.0</b>	<b>3,100.2</b>	<b>22.2%</b>
VC-1	525.8	562.8	553.4	-1.7%	5.3%	2,062.8	2,180.9	5.7%
VC-2	69.5	156.1	183.7	17.6%	164.3%	399.9	613.8	53.5%
VC-3	18.6	86.3	115.4	33.7%	520.8%	73.2	303.0	313.8%
International	-	0.2	2.0	844.1%	N.A.	-	2.4	N.A.
<b>Interconnection</b>	<b>215.7</b>	<b>182.6</b>	<b>178.1</b>	<b>-2.4%</b>	<b>-17.4%</b>	<b>835.3</b>	<b>731.3</b>	<b>-12.5%</b>
Fixed-Fixed	151.3	114.9	111.7	-2.8%	-26.1%	607.1	468.0	-22.9%
Mobile-Fixed	64.5	67.7	66.4	-1.9%	3.0%	228.2	263.3	15.4%
<b>Lease of Means</b>	<b>60.9</b>	<b>53.9</b>	<b>66.7</b>	<b>23.6%</b>	<b>9.5%</b>	<b>215.5</b>	<b>239.1</b>	<b>11.0%</b>
<b>Supplementary and Value Added Services</b>	<b>94.0</b>	<b>117.2</b>	<b>100.7</b>	<b>-14.1%</b>	<b>7.0%</b>	<b>356.4</b>	<b>421.0</b>	<b>18.1%</b>
<b>Other</b>	<b>7.0</b>	<b>9.7</b>	<b>9.7</b>	<b>-0.7%</b>	<b>38.3%</b>	<b>26.7</b>	<b>33.2</b>	<b>24.4%</b>
<b>MOBILE TELEPHONY</b>	<b>-</b>	<b>-</b>	<b>87.9</b>	<b>N.A.</b>	<b>N.A.</b>	<b>-</b>	<b>87.9</b>	<b>N.A.</b>
Subscription	-	-	10.2	N.A.	N.A.	-	10.2	N.A.
Utilization	-	-	5.5	N.A.	N.A.	-	5.5	N.A.
Roaming	-	-	0.2	N.A.	N.A.	-	0.2	N.A.
Interconnection	-	-	2.1	N.A.	N.A.	-	2.1	N.A.
Other Services	-	-	0.2	N.A.	N.A.	-	0.2	N.A.
Merchandise Sales (Handsets and Accessories)	-	-	69.7	N.A.	N.A.	-	69.7	N.A.
<b>DATA COMMUNICATIONS</b>	<b>253.1</b>	<b>321.3</b>	<b>374.0</b>	<b>16.4%</b>	<b>47.8%</b>	<b>829.9</b>	<b>1,237.4</b>	<b>49.1%</b>
Fixed	253.1	321.3	373.7	16.3%	47.7%	829.9	1,237.1	49.1%
Mobile	-	-	0.3	N.A.	N.A.	-	0.3	N.A.
Deductions	(826.6)	(954.3)	(1,036.0)	8.6%	25.3%	(3,162.2)	(3,698.6)	17.0%
<b>NET REVENUES</b>	<b>2,073.2</b>	<b>2,360.9</b>	<b>2,466.1</b>	<b>4.5%</b>	<b>19.0%</b>	<b>7,915.2</b>	<b>9,064.9</b>	<b>14.5%</b>

Note: Revenues previously recorded as Other were reclassified as Data Communications Revenues.

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**Graph 4: Gross Revenues Breakdown**

**Local Service**

**Gross local service revenues reached R\$1,262.5 million in 4Q04**, 8.6% higher than in 4Q03 and 3.6% higher compared to 3Q04, mainly as a result of an increase in billed pulses (measured service) and basic subscription fees.

**Gross line activation revenues totaled R\$7.3 million in 4Q04**, 5.2% lower than in 3Q04, primarily due to the 6.5% reduction in the number of lines activated in the quarter, partially offset by the rate adjustment of 3.4%, effective from November 01, 2004 onwards. Brasil Telecom installed 337 thousand lines in the 4Q04, compared to 403 thousand lines in the previous quarter.

**Basic subscription revenues reached R\$832.2 million in the quarter, an increase of 3.9% compared to 3Q04**, due to the rate adjustment of 4.7%, effective from November 01, 2004.

**Billed pulses revenues totaled R\$402.0 million in the 4Q04, an increase of 4.0% compared to 3Q04.** This increase is a result of a 1.6% increase in local traffic compared to 3Q04 and the rate adjustment of 3.6%, effective from November 01, 2004.

**Public Telephony**

**Public telephony revenues reached R\$123.2 million in 4Q04,** a decrease of 4.0% compared to 3Q04, explained by sales seasonality, and an increase of 21.4% year-on-year.

**Long-Distance**

**Long distance revenues reached R\$444.9 million in 4Q04,** a decrease of 7.0% compared to 3Q04. This was mainly due to the 12.3% decrease in traffic, which in turn, was a result of new regulation established by Anatel with a new division of the fixed-line telephony local areas in the country and seasonal variations, typical of the last quarter of the year, with fewer business days. Such effects were partially offset by the rate adjustment of 4.7% in the DLD basket, effective from November 01, 2004.

**Inter-Network**

**Gross revenue from inter-network calls reached R\$854.4 million in 4Q04,** a 6.1% increase compared to 3Q04, reflecting the 7.5% increase in inter-network traffic and the increase of VC-2 and VC-3 traffic in the inter-network call mix.

**Interconnection**

**Interconnection revenues decreased by 2.4% compared to 3Q04, due to the increase in our market share in the long distance segments.** This reduction was partially offset by the rate adjustment effective on November 01, 2004, which adjusted the Local Network Usage Rate (TU-RL) and the Intercity Network Usage Rate (TU-RIU) by 5.1%.

**Data Communications**

**In 4Q04, data communications and other services revenues reached R\$374.0 million, an increase of 16.4% compared to the previous quarter,** due to the growth in data communications services such as VPN, Vetur, and Interlan, and also by the 17.4% increase in ADSL accesses.

Data communications revenues have been increasing as a percentage of total revenues. The segment increased its share from 8.7% of total revenues a year ago to 10.7% in 4Q04.

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**Graph 5: Data Communications and Other Services Revenues**

**Mobile Telephony**

**Mobile telephony revenues totaled R\$87.9 million in 4Q04,** of which R\$18.2 million were service revenues and R\$69.7 million were revenues from the sale of handsets and accessories. Due to the quality of the client base mix (33.1% post-paid) 56.0% of total mobile telephony revenues derived from subscription revenues.

**Gross Revenue Deductions**

**Gross revenue deductions reached R\$1,036.0 million in 4Q04,** representing 29.6% of the quarter's gross revenue, compared to 28.7% in the previous quarter. The R\$14.6 million increment in the quarter is explained by the application of a new ICMS (a state value-added tax) tax rates on internet ports, retroactive to January 2004.

**Fixed-line ARPU**

**Fixed-line ARPU** (net revenue/Average LIS/month) increased 2.6% in 4Q04, to **R\$83.9**, compared to R\$81.8 in 3Q04.

**Mobile Telephony ARPU**

**Mobile telephony ARPU was of R\$35.0 in 4Q04. Post-paid ARPU was of R\$64.0, while pre-paid ARPU was of R\$16.0.**

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## COSTS AND EXPENSES

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Table 7: Consolidated Operating Costs and Expenses

R\$ Million	4QO3	3QO4	4QO4	Δ Quarter	Δ 12 Months	12MO3	12MO4	Δ Year
<b>NET REVENUES</b>	<b>2,073.2</b>	<b>2,360.9</b>	<b>2,466.1</b>	<b>4.5%</b>	<b>19.0%</b>	<b>7,915.2</b>	<b>9,064.9</b>	<b>14.5%</b>
<b>Costs</b>	<b>(1,247.9)</b>	<b>(1,480.7)</b>	<b>(1,623.4)</b>	<b>9.6%</b>	<b>30.1%</b>	<b>(4,853.4)</b>	<b>(5,829.2)</b>	<b>20.1%</b>
Personnel	(42.0)	(30.1)	(32.2)	7.1%	-23.3%	(129.4)	(120.2)	-7.1%
Materials	(23.2)	(22.0)	(113.4)	416.8%	389.0%	(84.3)	(180.3)	113.9%
Subcontracted Services	(623.9)	(774.0)	(831.2)	7.4%	33.2%	(2,370.5)	(2,959.7)	24.9%
Interconnection	(461.3)	(610.2)	(647.2)	6.1%	40.3%	(1,772.1)	(2,298.9)	29.7%
Other	(162.6)	(163.8)	(184.0)	12.3%	13.2%	(598.3)	(660.7)	10.4%
Depredation and Amortization	(462.2)	(541.6)	(560.9)	3.6%	21.4%	(1,916.2)	(2,185.3)	14.0%
Other	(96.7)	(113.1)	(85.6)	-24.3%	-11.4%	(353.0)	(383.8)	8.7%
<b>GROSS PROFIT</b>	<b>825.2</b>	<b>880.1</b>	<b>842.7</b>	<b>-4.3%</b>	<b>2.1%</b>	<b>3,061.8</b>	<b>3,235.7</b>	<b>5.7%</b>
<b>Sales Expenses</b>	<b>(158.4)</b>	<b>(145.4)</b>	<b>(257.4)</b>	<b>77.1%</b>	<b>62.6%</b>	<b>(521.9)</b>	<b>(675.6)</b>	<b>29.4%</b>
Personnel	(44.9)	(36.1)	(46.9)	29.8%	4.3%	(140.0)	(146.4)	4.6%
Materials	(0.6)	(0.4)	(22.5)	N.A.	N.A.	(2.0)	(23.8)	N.A.
Subcontracted Services	(110.8)	(106.7)	(178.4)	67.3%	61.0%	(369.9)	(488.2)	32.0%
Advertising and Marketing	(28.3)	(31.4)	(53.5)	70.3%	89.3%	(85.5)	(133.6)	56.2%
Other	(82.5)	(75.2)	(124.9)	66.0%	51.3%	(284.4)	(354.6)	24.7%
Depredation and Amortization	(1.3)	(1.3)	(3.1)	138.6%	134.8%	(5.3)	(7.2)	34.9%
Other	(0.7)	(0.9)	(6.6)	N.A.	N.A.	(4.7)	(10.0)	111.1%
<b>General and Administrative Expenses</b>	<b>(155.1)</b>	<b>(144.9)</b>	<b>(185.3)</b>	<b>27.9%</b>	<b>19.5%</b>	<b>(497.4)</b>	<b>(614.3)</b>	<b>23.5%</b>
Personnel	(47.7)	(31.4)	(35.4)	12.9%	-25.7%	(134.2)	(128.3)	-4.4%
Materials	(0.5)	(0.7)	(0.7)	7.0%	29.3%	(2.2)	(2.5)	13.9%
Subcontracted Services	(95.9)	(103.6)	(138.5)	33.7%	44.4%	(327.0)	(446.8)	36.7%
Depredation and Amortization	(7.2)	(6.1)	(7.2)	17.5%	-0.2%	(20.7)	(24.0)	16.3%
Other	(3.8)	(3.1)	(3.5)	10.2%	-8.4%	(13.4)	(12.6)	-6.0%
<b>Information Technology</b>	<b>(84.1)</b>	<b>(84.4)</b>	<b>(106.8)</b>	<b>26.5%</b>	<b>26.9%</b>	<b>(297.9)</b>	<b>(354.0)</b>	<b>18.8%</b>
Personnel	(9.9)	(6.9)	(9.5)	36.6%	-4.5%	(26.2)	(28.0)	6.8%
Materials	(0.3)	(0.5)	(0.7)	38.0%	142.1%	(1.3)	(2.2)	67.5%
Subcontracted Services	(22.6)	(25.2)	(36.8)	45.9%	63.1%	(79.2)	(109.7)	38.5%
Depredation and Amortization	(40.1)	(46.6)	(53.8)	15.6%	34.3%	(139.6)	(187.4)	34.3%
Other	(11.3)	(5.1)	(5.9)	15.1%	-47.4%	(51.7)	(26.8)	-48.2%
<b>Provisions and Losses</b>	<b>(410.4)</b>	<b>(163.7)</b>	<b>(253.7)</b>	<b>55.0%</b>	<b>-38.2%</b>	<b>(657.8)</b>	<b>(662.5)</b>	<b>0.7%</b>
Doubtful Accounts	(102.6)	(97.9)	(129.5)	32.3%	26.2%	(298.0)	(410.3)	37.7%
Contingencies	(307.8)	(65.8)	(124.2)	88.8%	-59.7%	(359.7)	(252.2)	-29.9%
<b>Other Operating Revenues (Expenses)</b>	<b>56.2</b>	<b>23.1</b>	<b>94.0</b>	<b>307.0%</b>	<b>67.3%</b>	<b>144.8</b>	<b>191.0</b>	<b>31.9%</b>
Goodwill Amortization	5.5	(31.2)	(14.3)	-54.1%	N.A.	(0.6)	(61.0)	N.A.
Other	50.6	54.3	108.3	99.5%	113.9%	145.4	252.0	73.4%

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<b>OPERATING PROFIT BEFORE FINANCIAL RESULTS</b>	<b>73.4</b>	<b>364.9</b>	<b>133.5</b>	<b>-63.4%</b>	<b>81.8%</b>	<b>1,231.6</b>	<b>1,120.3</b>	<b>-9.0%</b>
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<b>R\$ Million</b>	<b>4QO3</b>	<b>3QO4</b>	<b>4QO4</b>	<b>Δ Quarter</b>	<b>Δ 12 Months</b>	<b>12MO3</b>	<b>12MO4</b>	<b>Δ Year</b>
<b>COSTS AND OPERATING EXPENSES</b>	<b>(1,999.8)</b>	<b>(1,996.0)</b>	<b>(2,332.6)</b>	<b>16.9%</b>	<b>16.6%</b>	<b>(6,683.6)</b>	<b>(7,944.6)</b>	<b>18.9%</b>
Depredation and Amortization	(505.2)	(626.8)	(639.4)	2.0%	26.6%	(2,082.4)	(2,464.9)	18.4%
Interconnection	(461.3)	(610.2)	(647.2)	6.1%	40.3%	(1,772.1)	(2,298.9)	29.7%
Subcontracted Services	(363.6)	(367.9)	(484.3)	31.6%	33.2%	(1,288.9)	(1,571.9)	22.0%
Personnel	(144.6)	(104.5)	(124.0)	18.7%	-14.2%	(429.8)	(422.9)	-1.6%
Provisions and Losses	(410.4)	(163.7)	(253.7)	55.0%	-38.2%	(657.8)	(662.5)	0.7%
Materials	(24.6)	(23.5)	(137.3)	483.3%	458.1%	(89.7)	(208.7)	132.6%
Advertising and Marketing	(28.3)	(31.4)	(53.5)	70.3%	89.3%	(85.5)	(133.6)	56.2%
Other	(61.8)	(68.0)	6.7	N.A.	N.A.	(277.4)	(181.1)	-34.7%

<b>R\$ Million</b>	<b>4QO3</b>	<b>3QO4</b>	<b>4QO4</b>	<b>Δ Quarter</b>	<b>Δ 12 Months</b>	<b>12MO3</b>	<b>12MO4</b>	<b>Δ Year</b>
<b>COSTS AND OPERATING EXPENSES</b>	<b>(1,999.8)</b>	<b>(1,996.0)</b>	<b>(2,332.6)</b>	<b>16.9%</b>	<b>16.6%</b>	<b>(6,683.6)</b>	<b>(7,944.6)</b>	<b>18.9%</b>
(+) Depreciation and Amortization	505.2	626.8	639.4	2.0%	26.6%	2,082.4	2,464.9	18.4%
(+) Provisions and Losses	410.4	163.7	253.7	55.0%	-38.2%	657.8	662.5	0.7%
(+) Other	61.8	68.0	(6.7)	N.A.	N.A.	277.4	181.1	-34.7%
<b>(=) CASH COST</b>	<b>(1,022.4)</b>	<b>(1,137.5)</b>	<b>(1,446.3)</b>	<b>27.1%</b>	<b>41.5%</b>	<b>(3,666.0)</b>	<b>(4,636.0)</b>	<b>26.5%</b>

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

**Operating Costs and Expenses**

Operating costs and expenses were impacted by the start-up of mobile operations, which makes a comparison of 4Q04 with previous quarters biased.

**Operating costs and expenses totaled R\$2,332.6 million in 4Q04**, compared to R\$1,996.0 million in the previous quarter.

**Operating costs and expenses excluding depreciation, amortization, provisions, losses and other were of R\$1,446.3 million in 4Q04**, compared to R\$1,137.5 million in 3Q04, an increase of 19.4% compared to the previous quarter. Costs and expenses in connection with mobile operations were fully accounted for in 4Q04. The increase in costs was mainly a result of an increase in material costs (+483.3%), advertising and marketing (+70.3%) and costs with subcontracted services (+31.6%).

**Number of Employees**

**At the end of 4Q04, Brasil Telecom's fixed telephony operation had 5,799 employees**, compared to 5,503 in the previous quarter. This increase was mainly due to the consolidation of iG, which added 204 employees to our personnel.

**As of December 2004, Brasil Telecom GSM had 881 employees**, compared to 822 in 3Q04.

**Personnel**

**Personnel costs and expenses reached R\$124.0 million, an increase of 18.7% compared to the previous quarter**, due to the consolidation of iG and the increase in the number of mobile telephony employees.

**Subcontracted services**

**Costs and expenses with subcontracted services**, excluding interconnection and advertising & marketing, **totaled R\$484.3 million in 4Q04**, a 31.6% increase compared to the previous quarter.

This increase is explained by items related to our mobile operations and by an increase in commission charges associated with ADSL sales and subcontracted stores, and rate adjustments in internal and external network maintenance contracts, call center contracts, and energy expenses.

**Interconnection**

**Interconnection costs totaled R\$647.2 million in 4Q04**, a 6.1% increase compared to the previous quarter. The increase is a result of (i) inter-network traffic intensification, (ii) the increase of VC-2 and VC-3 traffic in the inter-network traffic mix, (iii) our growing market share in long distance calls terminating outside Region II, and (iv) the rate adjustment in connection with the TU-RL (Local Network Usage Rate) and the TU-RIU (Inter-city Network Usage Rate).

**Advertising & Marketing**

**Expenses with advertising & marketing totaled R\$53.5 million in 4Q04**, an increase of 70.3% from the previous period, mainly associated with Brasil Telecom GSM's Christmas campaigns.

**Losses with Accounts Receivable/Gross Revenue**

**Losses with accounts receivable reached 3.7% in percentage of gross revenues terms in 4Q04 and 3.2% in 2004**. Provisions for doubtful accounts totaled R\$129.5 million in 4Q04, an increment of R\$31.6 million compared to the previous quarter, mainly due to increased delinquency and risk of co-billing with mobile companies.

**Accounts Receivable**

**Gross accounts receivable as a percentage of gross revenues fell from 68.9% in 3Q04 to 67.2% in 4Q04**, the lowest value in the last 15 months, given that the increase in gross revenues was higher than the increase in accounts receivable in the period. Despite the rate adjustments applied during the quarter, gross accounts receivable as a percentage of gross revenues fell significantly, mainly due to our efforts to recover overdue balances through campaigns promoted during 4Q04.

Deducting provision for doubtful accounts in the amount of R\$243.2 million, **Brasil Telecom's net accounts receivable totaled R\$2,111.6 million at the end of 4Q04**.

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**Graph 7: Accounts Receivable / Gross Revenues Ratio**

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**Table 8: Gross Accounts Receivable**

	Dec/03	Mar/04	Jun/04	Sep/04	Dec/04
<b>Total (R\$ Million)</b>	<b>2,042.7</b>	<b>2,099.0</b>	<b>2,145.9</b>	<b>2,284.4</b>	<b>2,354.8</b>
Due	63.7%	60.6%	60.1%	61.5%	64.5%
Overdue (up to 30 days)	15.3%	16.2%	15.7%	17.3%	16.4%
Overdue (between 31-60 days)	4.9%	6.2%	6.3%	5.8%	5.7%
Overdue (between 61-90 days)	4.1%	4.4%	3.6%	3.5%	3.7%
Overdue (over 90 days)	12.1%	12.6%	14.3%	11.9%	9.7%

**Provisions for Contingencies**

**In 4Q04, provisions for contingencies totaled R\$124.2 million.** During the quarter, we reevaluated labor, civil and legal tax proceedings due to recent judicial decisions.

**Materials**

**Costs and Expenses with materials totaled R\$137.3 million in 4Q04,** an increase of 483.3% in comparison with 3Q04, mainly associated with costs of merchandise sold by Brasil Telecom GSM (handsets and accessories), which totaled R\$113.6 million in the quarter.

**Other Operating Costs and Expenses/Revenues**

**Other Operating Costs and Expenses/Revenues totaled R\$6.7 million in the 4Q04.** Despite the increase in expenses of R\$60 million in connection with the application of the ICMS tax on IP ports, retroactive to January 2004, we had revenues of R\$125 million in the quarter, associated with the agreement entered into with Embratel and the recovery of other expenses.

[Table of Contents](#)**EBTIDA**[Table of Contents](#)**Table 9: EBITDA Margin Gains and Losses**

R\$ Million	4Q03	Vertical	3Q04	Vertical	4Q04	Vertical
<b>GROSS REVENUES</b>	<b>2,899.8</b>	<b>139.9%</b>	<b>3,315.2</b>	<b>140.4%</b>	<b>3,502.0</b>	<b>142.0%</b>
<b>Fixed Telephony</b>	<b>2,646.7</b>	<b>127.7%</b>	<b>2,993.8</b>	<b>126.8%</b>	<b>3,040.1</b>	<b>123.3%</b>
Local Service	1,162.7	56.1%	1,218.3	51.6%	1,262.5	51.2%
Public Telephony	115.4	5.6%	128.4	5.4%	123.2	5.0%
Long Distance Service	377.1	18.2%	478.3	20.3%	444.9	18.0%
Fixed-Mobile Calls	613.9	29.6%	805.5	34.1%	854.4	34.6%
Interconnection	215.7	10.4%	182.6	7.7%	178.1	7.2%
Lease of Means	60.9	2.9%	53.9	2.3%	66.7	2.7%
Supplementary and Value Added Services	94.0	4.5%	117.2	5.0%	100.7	4.1%
Other	7.0	0.3%	9.7	0.4%	9.7	0.4%
<b>Mobile Telephony</b>	-	0.0%	-	0.0%	87.9	3.6%
<b>Data Transmission</b>	<b>253.1</b>	<b>12.2%</b>	<b>321.3</b>	<b>13.6%</b>	<b>374.0</b>	<b>15.2%</b>
Deductions	(826.6)	-39.9%	(954.3)	-40.4%	(1,036.0)	-42.0%
<b>NET REVENUES</b>	<b>2,073.2</b>	<b>100.0%</b>	<b>2,360.9</b>	<b>100.0%</b>	<b>2,466.1</b>	<b>100.0%</b>
<b>COSTS &amp; OPERATING EXPENSES</b>	<b>(1,494.5)</b>	<b>-72.1%</b>	<b>(1,369.2)</b>	<b>-58.0%</b>	<b>(1,693.2)</b>	<b>-68.7%</b>
Personnel	(144.6)	-7.0%	(104.5)	-4.4%	(124.0)	-5.0%
Materials	(24.6)	-1.2%	(23.5)	-1.0%	(137.3)	-5.6%
Subcontracted Services	(363.6)	-17.5%	(367.9)	-15.6%	(484.3)	-19.6%
Interconnection	(461.3)	-22.2%	(610.2)	-25.8%	(647.2)	-26.2%
Advertising and Marketing	(28.3)	-1.4%	(31.4)	-1.3%	(53.5)	-2.2%

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Provisions and Losses	(410.4)	-19.8%	(163.7)	-6.9%	(253.7)	-10.3%
Other	(61.8)	-3.0%	(68.0)	-2.9%	6.7	0.3%
<b>EBITDA</b>	<b>578.6</b>	<b>27.9%</b>	<b>991.7</b>	<b>42.0%</b>	<b>772.9</b>	<b>31.3%</b>

**EBITDA of R\$772.9 million** Brasil Telecom s EBITDA was R\$772.9 million in 4Q04, R\$194.2 million above 4Q03 s EBITDA, an increase of 33.6% year-on-year.

**EBITDA Margin** In 4Q04, Brasil Telecom s EBITDA margin reached 31.3%. The EBITDA margin for the fiscal year was of 39.6%. Excluding the negative impact of 1.8 p.p. of our mobile operations, the EBITDA margin for 2004 would have been 41.4%.

**EBITDA/Avg LIS/month** In 4Q04, EBITDA/Average LIS/month reached R\$27.0, 37.8% higher than in 4Q03.

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**FINANCIAL RESULT**

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**Table 10: Consolidated Financial Result**

R\$ million	4Q03	3Q04	4Q04	Δ Quarter	Δ 12 Months	12M03	12M04
<b>Financial Revenue</b>	<b>78.6</b>	<b>48.1</b>	<b>172.7</b>	<b>258.9%</b>	<b>119.7%</b>	<b>302.6</b>	<b>493.3</b>
Local Currency	66.9	66.4	106.0	59.7%	58.3%	231.8	387.2
Foreign Currency	11.7	(18.2)	66.8	-466.4%	471.1%	70.8	106.1
<b>Financial Expense</b>	<b>(276.9)</b>	<b>(189.6)</b>	<b>(328.0)</b>	<b>73.0%</b>	<b>18.5%</b>	<b>(1,147.4)</b>	<b>(1,072.8)</b>
Local Currency	(259.7)	(191.2)	(223.4)	16.8%	-14.0%	(1,050.9)	(860.7)
Foreign Currency	(17.2)	1.7	(104.7)	-6426.6%	508.3%	(96.4)	(212.1)
<b>Interest on Shareholders' Equity</b>			<b>(206.4)</b>	<b>N.A.</b>	<b>N.A.</b>	<b>(246.2)</b>	<b>(444.5)</b>
<b>Financial Result</b>	<b>(198.3)</b>	<b>(141.5)</b>	<b>(361.7)</b>	<b>155.7%</b>	<b>82.4%</b>	<b>(1,091.1)</b>	<b>(1,024.0)</b>

**Financial Result** In 4Q04, Brasil Telecom reported a negative net financial result of R\$361.7 million, of which R\$206.4 million refer to interest on shareholder s capital. Excluding interest on shareholder s capital, the financial result would have been negative R\$155.3 million, compared to the negative result of R\$141.5 million reported in 3Q04.

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**OTHER ITEMS**

**Amortization of Reconstituted Goodwill** In 4Q04, Brasil Telecom amortized R\$31.0 million in reconstituted goodwill regarding the acquisition of CRT (with no impact on cash flow and dividends distribution), accounted for as

non-operating expenses.

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## NET EARNINGS

**Net earnings totaled R\$19.5 million in 4Q04** (R\$0.0355/1,000 shares). Net earnings/ADR in the same period were of US\$0.0401.

Net earnings adjusted by goodwill totaled R\$50.5 million in 4Q04, reverting 4Q03's net losses of R\$280.2 million.

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## BALANCE SHEETS

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**Table 11: Consolidated Balance Sheet Brasil Telecom S.A.**

R\$ Million	Dec/03	Dec/04
<b>CURRENT ASSETS</b>	<b>3,985.5</b>	<b>5,802.0</b>
Cash and Equivalents	1,465.8	2,397.8
Accounts Receivables (Net)	1,865.2	2,111.6
Deferred and Recoverable Taxes	501.3	735.7
Other Recoverable Amounts	107.4	327.0
Inventory	8.0	174.0
Other	37.8	55.9
<b>LONG TERM ASSETS</b>	<b>1,363.1</b>	<b>1,299.5</b>
Loans and Financing	7.5	8.2
Deferred and Recoverable Taxes	736.4	729.7
Other	619.2	561.6
<b>PERMANENT ASSETS</b>	<b>9,977.4</b>	<b>10,300.9</b>
Investment (Net)	286.4	477.5
Property, Plant and Equipment (Net)	9,046.0	8,897.2
Property, Plant and Equipment (Gross)	22,915.0	24,562.4
Accumulated Depreciation	(13,869.1)	(15,665.2)
Deferred Assets (Net)	645.0	926.2
<b>TOTAL ASSETS</b>	<b>15,326.0</b>	<b>17,402.4</b>

<b>CURRENT LIABILITIES</b>	<b>3,957.8</b>	<b>4,808.4</b>
Loans and Financing	1,990.3	1,103.1
Suppliers	935.7	1,769.2
Taxes and Contributions	462.1	799.2
Dividends Payable	296.2	472.1
Provisions	76.5	357.1
Salaries and Benefits	61.6	73.2
Consignment for Third Parties	51.7	114.2
Authorization for Services Exploration		44.1
Other	83.7	76.2
<b>LONG TERM LIABILITIES</b>	<b>4,693.9</b>	<b>6,008.2</b>
Loans and Financing	2,645.6	4,178.4
Provisions	1,128.3	883.2
Taxes and Contributions	633.1	665.0
Authorization for Services Exploration	211.8	261.5
Other	75.1	20.2
<b>DEFERRED INCOME</b>	<b>11.4</b>	<b>74.0</b>
<b>MINORITY INTEREST</b>	<b>-</b>	<b>30.3</b>
<b>SHAREHOLDERS' EQUITY</b>	<b>6,662.8</b>	<b>6,481.6</b>
Capital Stock	3,373.1	3,401.2
Capital Reserves	1,579.8	1,552.0
Profit Reserves	273.2	273.2
Retained Earnings	1,512.3	1,347.6
Treasury Shares	(75.6)	(92.5)
<b>TOTAL LIABILITIES</b>	<b>15,326.0</b>	<b>17,402.5</b>

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**Table 12: Consolidated Balance Sheet Brasil Telecom GSM**

<b>R\$ Million</b>	<b>Dec/03</b>	<b>Dec/04</b>
<b>CURRENT ASSETS</b>	<b>15.3</b>	<b>633.2</b>
Cash and Equivalents	3.2	214.7
Accounts Receivables (Net)	-	91.2
Deferred and Recoverable Taxes	0.8	149.6
Other Recoverable Amounts	2.5	8.8
Inventory	8.7	166.2

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Other	0.0	2.7
<b>LONG TERM ASSETS</b>	<b>3.1</b>	<b>112.0</b>
Deferred and Recoverable Taxes	3.1	109.8
Other	0.0	2.3
<b>PERMANENT ASSETS</b>	<b>303.3</b>	<b>1,450.3</b>
Property, Plant and Equipment (Net)	281.0	1,149.1
Property, Plant and Equipment (Gross)	281.0	1,169.1
Accumulated Depreciation	-	(20.0)
Deferred Assets (Net)	22.3	301.2
<b>TOTAL ASSETS</b>	<b>321.6</b>	<b>2,195.5</b>
<b>CURRENT LIABILITIES</b>	<b>46.4</b>	<b>834.0</b>
Suppliers	43.6	687.0
Taxes and Contributions	0.4	81.5
Dividends Payable	1.2	4.8
Salaries and Benefits	0.9	6.6
Consignment for Third Parties	0.3	6.7
Authorization for Services Exploration	-	44.1
Other	-	3.4
<b>LONG TERM LIABILITIES</b>	<b>211.8</b>	<b>250.8</b>
Loans and Financing	-	0.4
Authorization for Services Exploration	211.8	250.3
<b>SHAREHOLDERS' EQUITY</b>	<b>63.4</b>	<b>1,110.7</b>
Capital Stock	63.4	1,218.0
Capital Reserves	-	11.8
Retained Earnings	-	(119.1)
<b>TOTAL LIABILITIES</b>	<b>321.6</b>	<b>2,195.5</b>

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**INDEBTEDNESS**

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**Table 13: Indebtedness**

R\$ Million	Currency	Annual Cost	Maturity	% Total Balance Dec/04
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<b>Short Term</b>				<b>20.9</b>	<b>1,103.1</b>
Private Debenture (BRP)	R\$	100% CDI	Jul/2006		452.0
Inter Company (BRP)	US\$	1.75%	Jul/2014		8.3
BNDES	R\$	TJLP + 6.5%	Dec/2007		15.6
BNDES	R\$	TJLP + 3.85%	Dec/2007		347.9
BNDES	R\$	TJLP + 3.85%	Oct/2007		82.1
BNDES	R\$	Basket + 6.5%	Dec/2007		36.0
BNDES	R\$	Basket + 3.85%	Nov/2007		12.4
BNDES	R\$	Basket + 5.5%	Apr/2011		2.0
BNDES	R\$	TJLP + 5,5%	Apr/2011		8.3
BRDE	R\$	IGP-M + 12.0%	Sep/2006		9.5
BB	R\$	14%	Jan/2008		5.2
Public Debentures - 3rd Issuance	R\$	CDI + 1,0%	Jul/2009		41.7
Bonds - US\$ 200 MM	US\$	9.38%	Feb/2014		21.0
Financial Institutions I	US\$	Lib6 + 4.0%	Mar/2006		11.7
Financial Institutions II	US\$	Lib6 + 2.4%	Dec/2005		9.5
Financial Institutions III	US\$	Lib6 + 0.5%	Jul/2008-Jul/2011		11.2
Financial Institutions IV	Yen\$	Jibor6 + 1.92%	Mar/2011		3.5
Financial Institutions V	Yen\$	3.65%	Feb/2009		0.6
Suppliers I	US\$	Lib3 + 2.95%	Jun/2007		0.6
Suppliers II	US\$	1.75%	Feb/2014		0.2
Hedge Adjustmest					23.8
<b>Long Term</b>				<b>79.1%</b>	<b>4,178.4</b>
Private Debenture (BRP)	R\$	100% CDI	Jul/2006		520.0
Inter Company (BRP)	US\$	1.75%	Jul/2014		66.2
BRB	R\$	2.47%	Jul/2015		0.4
BNDES	R\$	TJLP + 6.5%	Dec/2007		30.3
BNDES	R\$	TJLP + 3.85%	Dec/2007		765.1
BNDES	R\$	TJLP + 3.85%	Oct/2007		154.8
BNDES	R\$	Basket + 6.5%	Dec/2007		71.5
BNDES	R\$	Basket + 3.85%	Nov/2007		24.5
BNDES	R\$	Basket + 5.5%	Apr/2011		129.1
BNDES	R\$	TJLP + 5,5%	Apr/2011		608.4
BRDE	R\$	IGP-M + 12.0%	Sep/2006		7.2
BB	R\$	14%	Jan/2008		10.4
Public Debentures - 3rd Issuance	R\$	CDI + 1,0%	Jul/2009		500.0
Bonds - US\$ 200 MM	US\$	9.38%	Feb/2014		530.9
Financial Institutions I	US\$	Lib6 + 4.0%	Mar/2006		5.7
Financial Institutions III	US\$	Lib6 + 0.5%	Jul/2008-Jul/2011		61.2
Financial Institutions IV	Yen\$	Jibor6 + 1.92%	Mar/2011		559.5
Financial Institutions V	Yen\$	3.65%	Feb/2009		2.0
Financial Institutions VI	US\$	0.00%	Dec/2015		26.4
Suppliers I	US\$	Lib3 + 2.95%	Jun/2007		0.8
Suppliers II	US\$	1.75%	Feb/2014		1.7
Hedge Adjustmest					102.3
<b>Total Debt</b>				<b>100.0%</b>	<b>5,281.5</b>

**Total Debt**

**As of December 2004, Brasil Telecom s consolidated total debt was of R\$5,281.5 million, 2.6% lower than the amount reported in 3Q04. In 4Q04, the Company paid R\$400 million in principal and R\$33.8 million in interest, in connection with the 2<sup>nd</sup> public debentures of Brasil Telecom, which matured on December 01. On October 26, Brasil Telecom received another tranche of the loan raised with BNDES in the amount of R\$342.4 million, of which R\$282.7 million bear interest of TJLP + 5.5 p.a. and R\$59.7 million bear interest of *Cesta de Moedas* (Currency Basket) + 5.5 p.a. With this tranche, we have raised a total of R\$ 742.4 million from BNDES in 2004.**

**Net Debt**

**Net debt totaled R\$2,883.7 million, a 2.2% increase from September 2004, due to a R\$201.1 million reduction in the cash and cash equivalent. In 2004, the net debt decreased by 19.2%.**

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**Table 14: Indebtedness by Currency**

Debt BTM (R\$ Million)	Dec 2003	Sep 2004	Dec 2004	Δ Quarter	Δ Year
<b>Short Term</b>	<b>1,990.3</b>	<b>1,442.9</b>	<b>1,103.1</b>	<b>-23.6%</b>	<b>-44.6%</b>
In R\$	1,865.3	1,316.0	962.3	-26.9%	-48.4%
In US\$	46.4	51.0	62.6	22.6%	34.9%
In Yen	0.0	0.8	4.0	391.9%	N.A.
In Currency Basket	55.0	53.5	50.4	-5.8%	-8.3%
Hedge Adjustment	23.6	21.6	23.8	10.2%	1.1%
<b>Long Term</b>	<b>2,645.6</b>	<b>3,978.8</b>	<b>4,178.4</b>	<b>5.0%</b>	<b>57.9%</b>
In R\$	2,271.0	2,410.3	2,596.6	7.7%	14.3%
In US\$	189.4	751.4	692.8	-7.8%	265.7%
In Yen	0.0	562.7	561.4	-0.2%	N.A.
In Currency Basket	154.0	190.4	225.2	18.3%	46.2%
Hedge Adjustment	31.1	63.9	102.3	60.1%	228.8%
<b>Total Debt</b>	<b>4,635.8</b>	<b>5,421.8</b>	<b>5,281.5</b>	<b>-2.6%</b>	<b>13.9%</b>
(-) Cash	1,465.8	2,598.9	2,397.8	-7.7%	63.6%
<b>Net Debt</b>	<b>3,170.1</b>	<b>2,822.9</b>	<b>2,883.7</b>	<b>2.2%</b>	<b>-9.0%</b>
(-) Inter Company with BRP	1,497.8	1,014.7	1,046.5	3.1%	-30.1%
<b>Net Debt Ex-Inter Company with BRP</b>	<b>1,672.2</b>	<b>1,808.2</b>	<b>1,837.2</b>	<b>1.6%</b>	<b>9.9%</b>

**Long term debt**

**As of December 2004, 79.1% of the total debt was long-term debt**, compared to 57.1% in December 2003, **reflecting the Company's success in increasing debt maturity**. Brasil Telecom's debt had the following amortization schedule:

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**Table 15: Amortization Schedule of Long Term Debt**

Maturity	% Long Term Debt
2006	29.6%
2007	18.9%
2008	9.2%
2009	19.0%
2010	7.0%
2011 and after	16.3%

**Foreign currency Denominated Debt**

**As of December 2004, debt exposed to exchange variation amounted to R\$1,576.5 million, of which R\$755.4 million were denominated in US dollars, R\$275.6 million were currency basket denominated and R\$565.5 million were denominated in yens.**

As of December 30, 2004, Brasil Telecom S.A. had 48.1% of the debt exposed to exchange rate variation hedged.

**Cost of Debt**

Brasil Telecom's consolidated debt had a **year-to-date cost of 11.4% p.a. , equivalent to 70.7% of CDI.**

**Financial Leverage**

**As of December 30, 2004, Brasil Telecom's financial leverage - net debt to shareholders' equity ratio - was equal to 44.5%, compared to 47.6% in December 2003.**

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**INVESTMENTS IN PERMANENT ASSETS**

**Table 16: Breakdown of Investments in Permanent Assets**

R\$ Million	4QO3	3QO4	4QO4	Δ Quarter	Δ 12 Months	12MO3	12MO4	Δ Year
<b>Network Expansion</b>	<b>159.0</b>	<b>107.2</b>	<b>240.5</b>	<b>124.4%</b>	<b>51.3%</b>	<b>674.3</b>	<b>571.5</b>	<b>-15.3%</b>
Conventional Telephony	62.7	20.0	95.4	378.2%	52.3%	302.8	179.7	-40.7%
Transmission Backbone	5.4	10.3	22.2	116.0%	308.9%	57.3	49.2	-14.2%
Data Network	61.2	74.1	108.7	46.7%	77.7%	264.9	300.0	13.2%
Intelligent Network	19.8	0.6	5.2	702.6%	-73.8%	28.8	26.3	-8.8%
Network Management Systems	7.6	0.1	2.9	2039.3%	-62.3%	14.7	4.3	-70.7%
Other	2.3	2.0	6.0	198.0%	160.0%	5.9	12.0	104.9%
<b>Network Operation</b>	<b>68.2</b>	<b>71.9</b>	<b>85.3</b>	<b>18.6%</b>	<b>25.0%</b>	<b>251.6</b>	<b>270.2</b>	<b>7.4%</b>
<b>Public Telephony</b>	<b>0.2</b>	<b>0.7</b>	<b>0.9</b>	<b>37.2%</b>	<b>434.8%</b>	<b>8.3</b>	<b>3.1</b>	<b>-63.1%</b>
<b>Information Technology</b>	<b>81.8</b>	<b>41.2</b>	<b>106.0</b>	<b>157.5%</b>	<b>29.6%</b>	<b>210.1</b>	<b>216.1</b>	<b>2.8%</b>
<b>Expansion Personnel</b>	<b>18.5</b>	<b>19.8</b>	<b>19.1</b>	<b>-3.7%</b>	<b>3.5%</b>	<b>83.0</b>	<b>80.5</b>	<b>-3.0%</b>
<b>Other</b>	<b>23.0</b>	<b>13.4</b>	<b>162.0</b>	<b>1110.7%</b>	<b>605.2%</b>	<b>367.9</b>	<b>541.9</b>	<b>47.3%</b>
<b>Expansion Financial Expenses</b>	<b>(0.2)</b>	<b>(17.6)</b>	<b>6.5</b>	<b>N.A.</b>	<b>N.A.</b>	<b>61.3</b>	<b>8.0</b>	<b>-86.9%</b>
<b>Total - Fixed Telephony</b>	<b>350.4</b>	<b>236.5</b>	<b>620.3</b>	<b>162.2%</b>	<b>77.0%</b>	<b>1,684.8</b>	<b>1,691.2</b>	<b>0.4%</b>

  

R\$ Million	4QO3	3QO4	4QO4	Δ Quarter	Δ 12 Months	12MO3	12MO4	Δ Year
<b>Brasil Telecom GSM</b>	<b>39.3</b>	<b>486.4</b>	<b>415.2</b>	<b>-14.6%</b>	<b>956.3%</b>	<b>72.3</b>	<b>1,099.6</b>	<b>1421.0%</b>
<b>Expansion Financial Expenses PCS</b>	<b>9.2</b>	<b>16.3</b>	<b>2.7</b>	<b>-83.5%</b>	<b>-70.9%</b>	<b>36.9</b>	<b>76.1</b>	<b>106.4%</b>
<b>Total - Mobile Telephony</b>	<b>48.6</b>	<b>502.7</b>	<b>417.9</b>	<b>-16.9%</b>	<b>760.7%</b>	<b>109.2</b>	<b>1,175.7</b>	<b>977.1%</b>

  

<b>Investimento Total</b>	<b>398.9</b>	<b>739.2</b>	<b>1,038.2</b>	<b>40.4%</b>	<b>160.2%</b>	<b>1,794.0</b>	<b>2,866.9</b>	<b>59.8%</b>
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### Investments in permanent assets

**Brasil Telecom investments totaled R\$1,038.2 million in 4QO4**, of which R\$470.5 million relate to fixed telephony, R\$417.9 million to mobile telephony, and R\$149.8 million to the acquisition of iG.

**In 2004, Brasil Telecom invested R\$2,866.9 million**, an increase of 59.8% compared to 2003, due to the implementation of the mobile network and acquisitions. **Regarding fixed-line telephony, investments were 8.7% lower than in 2003**, totaling R\$1,215.1 million in 2004. **Investments in mobile telephony amounted to R\$1,175.7 million in 2004 (of which R\$171 million relate to pre-operational costs and expenses)**; since part of 2005's investments were spent in 2004, so as to offer a wide GSM coverage in Region II. **Lastly, R\$476.1 million were invested in the acquisitions of MetroRed, Vant, and iG.**

### CASH FLOW

Table 17: Consolidated Cash flow

R\$ Million	4Q03	3Q04	4Q04	12M03	12M04
<b>OPERATING ACTIVITIES</b>					
(+) Net Income of the Period	(311.2)	103.9	19.5	(25.3)	277.0
(+) Minority Participation	(0.0)	(0.0)	6.3	(0.0)	6.3
(+) Items with no Cash Effects	1,528.8	946.0	1,069.2	4,205.4	4,231.6
Depreciation and Amortization	535.3	657.9	671.1	2,205.4	2,589.6
Losses with Accounts Receivable from Services	67.8	95.5	69.0	268.8	353.8
Provision for Doubtful Accounts	34.8	5.7	50.0	29.3	56.6
Provision for Contingencies	309.5	51.6	124.2	361.4	252.2
Deferred Taxes	50.5	(52.0)	90.8	126.7	270.0
Result from the Write-off of Permanent Assets	329.9	17.8	(25.7)	347.9	54.4
Financial Expenses	211.2	158.7	85.0	869.9	649.0
Other Expenses/Revenues with no Cash Effects	(10.0)	10.8	4.7	(3.9)	6.0
(-) Equity Changes	239.7	232.0	409.9	935.7	1,369.5
(=) Cash Flow from Operating Activities	977.8	817.9	685.1	3,244.4	3,145.4
<b>INVESTMENT ACTIVITIES</b>					
Financial Investments	(1.2)	(0.5)	3.9	3.7	3.4
Investment Suppliers	56.7	416.6	299.4	13.6	765.8
Funds from Sales of Permanent Assets	2.2	2.3	1.3	19.1	7.4
Investments in Permanent Assets	(361.9)	(756.8)	(930.5)	(1,662.4)	(2,754.1)
Other Investment Flows	0.0	(0.4)	5.0	(4.0)	0.0
(=) Cash Flow from investment Activities	(304.2)	(339.0)	(620.8)	(1,630.0)	(1,977.5)
<b>FINANCING ACTIVITIES</b>					
Dividends/Interests on Shareholders' Equity paid in the Period	(3.9)	(0.5)	(2.2)	(269.1)	(208.1)
Loans and Financing	(345.4)	136.6	(229.2)	(1,268.5)	(1.5)
Loans Obtained	0.8	804.1	454.4	84.6	2,427.0
Loans Paid	(175.1)	(522.0)	(544.4)	(574.0)	(1,826.3)
Interest Paid	(171.1)	(145.5)	(139.2)	(779.0)	(602.2)
Change in Shareholders' Equity	(0.0)	5.5	5.2	(0.0)	11.6
Acquisition of Own Shares	-	(2.0)	(35.6)	(33.0)	(37.6)
Other Financing Flows	3.0	9.7	(3.6)	(1.0)	(0.2)
(=) Cash Flow from Financing Activities	(346.3)	149.2	(265.4)	(1,571.5)	(235.8)
<b>CASH FLOW OF THE PERIOD</b>					
	327.3	628.2	(201.1)	42.8	932.0
<b>Cash and Cash Equivalents - current balance</b>					
	1,465.8	2,598.9	2,397.8	1,465.8	2,397.8
<b>Cash and Cash Equivalents - previous balance</b>					
	1,138.4	1,970.7	2,598.9	1,422.9	1,465.8
<b>Variation in Cash and Cash Equivalents</b>					
	327.3	628.2	(201.1)	42.9	932.0
<b>OPERATING CASH FLOW</b>					
	977.8	817.9	685.1	3,244.4	3,145.4
<b>(-) Investments on Permanent Assets (includes Investment Suppliers)</b>					
	(304.2)	(339.0)	(620.8)	(1,630.0)	(1,977.5)
<b>(-) Interest Paid</b>					
	(171.1)	(145.5)	(139.2)	(779.0)	(602.2)

(=) FREE CASH FLOW	502.5	333.5	(74.8)	835.4	565.6
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**Operating Cash Flow in the 4Q04 was of R\$685.1 million**

**Brasil Telecom generated operating cash flows of R\$685.1 million in 4Q04 and R\$3,145.4 million in 2004.**

**Free cash flow**

**Brasil Telecom s free cash flow in 4Q04 was of negative R\$74.8 million.** Excluding acquisitions, the free cash flow in the quarter would have been R\$75.0 million.

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**STOCK MARKET**

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**Table 18: Stock Performance**

	Closing Price as of Dec/31/04	Performance		
		In 4Q04	In 12 months	In 24 months
Common Shares (BRT03) (in R\$/1,000 shares)	14.37	17.8%	-9.9%	27.2%
Preferred Shares (BRT04) (in R\$/1,000 shares)	13.70	20.5%	-9.9%	16.8%
ADR (BTM) (in US\$/ADR)	15.30	27.6%	-2.9%	46.8%
Ibovespa (points)	26,196	12.7%	17.8%	132.5%
Itel (points)	919	14.8%	3.5%	72.7%
IGC (points)	2,545	22.1%	37.9%	147.8%
Dow Jones (points)	10,783	7.0%	3.1%	29.3%

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**Graph 8: Performance in the 4Q04 Bovespa and NYSE**  
(Base 100 = September 30, 2004)

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**Table 19: Weight in the Theoretical Portfolio**

	Ibovespa	Itel	IGC
BRT03	-	-	0.019%
BRT04	2.293%	7.640%	1.343%

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## SHAREHOLDING STRUCTURE

### Share Buyback Program

In a meeting held on September 13, 2004, the Board of Directors of Brasil Telecom S.A. approved a Share Buyback Program of Preferred Stock issued by the Company, whether for the purpose of cancellation or otherwise, or future sale. In 4Q04, Brasil Telecom S.A. repurchased 3,079,600,000 preferred shares.

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Table 20: Shareholding Structure

Dec 2004	Common Shares	%	Preferred Shares	%	Total	%
Brasil Telecom Participações	247,276,380,758	99.1%	112,516,718,089	37.5%	359,793,098,847	65.5%
ADR	-	0.0%	16,083,237,000	5.4%	16,083,237,000	2.9%
Treasury	-	0.0%	8,106,882,322	2.7%	8,106,882,322	1.5%
Other	2,320,668,784	0.9%	163,411,457,990	54.4%	165,732,126,774	30.1%
<b>Total</b>	<b>249,597,049,542</b>	<b>100.0%</b>	<b>300,118,295,401</b>	<b>100.0%</b>	<b>549,715,344,943</b>	<b>100.0%</b>

  

Sep 2004	Common Shares	%	Preferred Shares	%	Total	%
Brasil Telecom Participações	247,276,296,466	99.1%	112,516,802,381	37.5%	359,793,098,847	65.5%
ADR	-	0.0%	19,214,463,000	6.4%	19,214,463,000	3.5%
Treasury	-	0.0%	5,027,282,322	1.7%	5,027,282,322	0.9%
Other	2,320,753,076	0.9%	163,359,747,698	54.4%	165,680,500,774	30.1%
<b>Total</b>	<b>249,597,049,542</b>	<b>100.0%</b>	<b>300,118,295,401</b>	<b>100.0%</b>	<b>549,715,344,943</b>	<b>100.0%</b>

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## AWARDS

### I-Gov Corporate Governance Index

Brasil Telecom was featured among the top Brazilian companies with regards to corporate governance best practices, and was designated a constituent of the Igov (Corporate Governance Index), as reported by *Valor Economico* in an article published on January 18, 2005.

I-Gov evaluated 159 companies, selecting companies with significant liquidity in the period between 1998 and 2002, before making a final decision based on 20 strict criteria, including the degree to which the company gives access to important information, the content of available information, its transparency policy, and the structure of its Board of Directors and Corporate Governance.

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## RECENT DEVELOPMENTS

### Pula-Pula de Verão

In response to our customers' and commercial partners' requests, **Brasil Telecom GSM launched the Pula-Pula de Verão (Summer Pula-Pula)**. This new promotion allowed a greater number of people to subscribe to our Pula-Pula promotion and was guaranteed until 2009. The Pula-Pula de Verão was valid for all handsets that were activated between January 1 and February 8, 2005.

### Brasil Telecom GSM and Oi agree to exchange SMSs

Since January 19, 2005, **Brasil Telecom GSM and Oi have enabled their networks to offer the exchange of SMSs between their clients**. As a result, clients in the ten states covered by Brasil Telecom GSM and the 16 states covered by Oi can communicate via text messages.

Currently, SMS is the favored communication method used by the youth, due to its price attractiveness and user friendliness. Additionally, people of all ages are increasingly adopting the technology as a fast and discrete way to communicate. Offering SMS between different operators significantly encourages traffic, as was already observed in the Brazilian market.

Brasil Telecom GSM clients who activated their handsets during the Pula-Pula or Pula-Pula de Verão promotions will also be able to enjoy SMSs further. In the post-paid plans, the amount billed in one month is added as credits to be used in the following month, including for SMSs. For pre-paid phones, the amount of minutes received in one month is credited in the following month, whether for talk time or text messaging. Brasil Telecom GSM is also the only operator to offer SMS credits every time clients purchase calling cards, regardless of the face value or type of the card.

Every handset used by a Brasil Telecom GSM or Oi client is enabled to offer text messaging between the two operators, as both operators use GSM technology in 100% of their networks.

### Brasil Telecom launches integrated Corporate IP Telephony solution

**On February 1<sup>st</sup>, we began offering our corporate and government clients, world-class voice and data integrated solutions based on IP technology**. Our services range from IP equipment rental to the installation and maintenance of the client's IP telephony solution, including on-line management tools. A monthly subscription fee is charged for the service and our clients do not have to pay for IP calls made within their own private network. Other benefits include cost reduction, mobility, flexibility, and security. Quality, of course, is guaranteed.

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## 2005 SCENARIO (GUIDELINES)

### Disclaimer

This press release contains forward-looking statements. Such statements are not statements of historical fact, and reflect the beliefs and expectations of the Company's management. The words "anticipates," "believes," "estimates," "expects," "forecasts," "intends," "plans," "predicts," "projects" and "targets" and similar words are intended to identify these statements, which necessarily involve known and unknown risks and uncertainties. Accordingly, the actual results of operations of the Company may be different from the company's current expectations, and the reader should not place undue reliance on these forward-looking statements. Forward-looking statements speak only as of the date they are made, and the Company does not undertake any obligation to update them in light of new information or future developments.

### Broadband

We expect to have **1.0 million ADSL accesses in service by the end of 2005**, virtually doubling our client base in this period.

### Mobile Operations

We anticipate that **Brasil Telecom GSM's client base will total 1.7 million at the end of 2005**, of which 77% will be pre-paid. We expect to **achieve an 8% market share**. We also expect to have an average ARPU of R\$22 and an average SAC of R\$220 by the end of 2005.

### Revenues

We anticipate a healthy growth in revenues from data, mobile, internet and value-added services throughout 2005. Consequently revenues in 2005 should experience a similar growth pattern as the one observed in 2004.

**Costs**

**Cost control will continue to be one of the strengths of our management in 2005.** We expect a nominal increase in fixed-line telephony costs in-line with the Brazilian inflation rate.

**Provision for Doubtful Accounts**

We expect to report relatively lower provisions for doubtful accounts compared to 2004, as internal controls improve and economic conditions continue to thrive, positively impacting income and employment figures. We anticipate below industry average delinquency rates in our mobile operations in 2005.

**EBITDA Margin**

**The EBITDA margin for the fixed-line segment should remain in-line with 2004** and we expect a negative impact of 6 p.p. from mobile telephony on the consolidated figure.

**Debt**

We expect to overcome the challenge of extending our debt maturity further, as well as to optimize our capital structure, and maintain a conservative leverage ratio and a rich liquidity, so as to participate in possible consolidation opportunities in the sector, and to meet all of our obligations during the year.

**CAPEX**

2005's fixed-line Capex should be in-line with 2004's Capex, excluding expenditures associated with the Universalization Targets established by Anatel for the year 2005. Mobile telephony Capex will be marginal, focusing on the increase of our coverage in Region II.

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**SELECTED DATA**

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**Table 21: Selected Data**

<b>PLANT</b>	<b>4Q03</b>	<b>1Q04</b>	<b>2Q04</b>	<b>3Q04</b>	<b>4Q04</b>
Lines installed (thousand)	10,686	10,701	10,712	10,725	10,737
Additional lines installed (thousand)	9	14	11	14	12
Lines in service - LIS (thousand)	9,840	9,724	9,647	9,604	9,503
Residential (thousand)	7,166	6,988	6,840	6,685	6,445
Non-residential (thousand)	1,566	1,468	1,451	1,451	1,433
Public phones (thousand)	296	296	296	296	296
Pre-paid (thousand)	266	282	276	285	297
Hybrid (thousand)	11	59	159	267	408
Other (including PBX) (thousand)	546	631	624	620	624
Additional lines in service (thousand)	33	(127)	(77)	(42)	(101)
Average lines in service (thousand)	9,824	9,782	9,685	9,626	9,554
Utilization rate	92.1%	90.9%	90.1%	89.5%	88.5%
Teledensity (LIS/100 inhabitants)	23.4	23.1	22.9	22.7	22.4
ADSL lines in service (thousand)	281.9	324.9	382.5	456.1	535.5
<b>TRAFFIC</b>	<b>4Q03</b>	<b>1Q04</b>	<b>2Q04</b>	<b>3Q04</b>	<b>4Q04</b>



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Exceeding local pulses (million)	2,927	2,586	2,715	2,730	2,773
Domestic long distance - OLD (million minutes)	1,559	1,534	1,624	1,638	1,437
Fixed-mobile (million minutes)	991	1,037	1,036	1,098	1,180
VC-1 (million minutes)	909	879	869	902	906
VC-2 (million minutes)	66	125	119	132	178
VC-3 (million minutes)	16	34	48	64	97

<b>PRODUCTIVITY</b>	<b>4Q03</b>	<b>1Q04</b>	<b>2Q04</b>	<b>3Q04</b>	<b>4Q04</b>
# of employees - Fixed Telephony	5,189	5,206	5,386	5,503	5,799
Average # of employees	5,231	5,198	5,296	5,445	5,651
LIS/employee	1,896	1,868	1,791	1,745	1,639
Net revenue/average # of employees/month (R\$ thousand)	132.1	133.0	136.1	144.5	145.5
EBITDA/average # of employees/month (R\$ thousand)	36.9	57.7	58.0	60.7	45.6
Net earnings/average # of employees/month (R\$ thousand)	(19.8)	8.5	1.3	6.4	1.2
Exceeding local pulses/average LIS/month	99.3	88.1	93.4	94.5	96.7
OLD minutes/average LIS/month	52.9	52.3	55.9	56.7	50.1
Fixed-mobile minutes/average LIS/month	33.6	35.3	35.6	38.0	41.2
Net revenue/average LIS/month (R\$)	70.3	70.6	74.4	81.8	83.9
EBITDA/average LIS/month (R\$)	19.6	30.6	31.7	34.3	27.0
Net earnings/average LIS/month (R\$)	(10.6)	4.5	0.7	3.6	0.7

<b>QUALITY</b>	<b>4Q03</b>	<b>1Q04</b>	<b>2Q04</b>	<b>3Q04</b>	<b>4Q04</b>
Quality goals achieved	35/35/35	33/35/35	35/35/35	35/35/35	35/35/35
Digitization rate	99.0%	99.5%	99.5%	99.6%	99.7%

<b>PROFITABILITY</b>	<b>4Q03</b>	<b>1Q04</b>	<b>2Q04</b>	<b>3Q04</b>	<b>4Q04</b>
EBITDA margin	27.9%	43.3%	42.6%	42.0%	31.3%
Net margin	-15.0%	6.4%	1.0%	4.4%	0.8%
Return on equity - ROE	-4.7%	2.0%	0.3%	1.6%	0.3%

<b>CAPITAL STRUCTURE</b>	<b>4Q03</b>	<b>1Q04</b>	<b>2Q04</b>	<b>3Q04</b>	<b>4Q04</b>
Cash and cash equivalents (R\$ million)	1,466	2,344	1,971	2,599	2,398

## Edgar Filing: BRASIL TELECOM SA - Form 6-K

Total debt (R\$ million)	4,636	5,061	5,155	5,422	5,281
Short term debt	42.9%	38.7%	28.6%	26.6%	20.9%
Long term debt	57.1%	61.3%	71.4%	73.4%	79.1%
Net debt (R\$ million)	3,170	2,717	3,184	2,823	2,884
Debt with BRP (inter-company + debenture) (R\$ million)	1,498	1,420	1,475	1,015	1,047
Net debt excluding debt with BRP (R\$ million)	1,672	1,297	1,709	1,808	1,837
Shareholders' equity (R\$ million)	6,663	6,558	6,591	6,698	6,482
Net debt/shareholders' equity	47.6%	41.4%	48.3%	42.1%	44.5%
Net debt excluding debt with BRP/shareholders' equity	25.1%	19.8%	25.9%	27.0%	28.3%

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### COMING EVENTS

#### Teleconference: 4Q04 Earnings Result

**Tel:** (1 719) 457-2727

**Date:** February 17, 2005 (Thursday)

**Time:** 09:00 a.m. (New York); 12:00 p.m. (Brasília); 02:00 p.m. (London)

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### IR CONTACTS

Marcos Tourinho (Diretor)	(55 61) 415-1052	<a href="mailto:marcos.tourinho@brasiltelecom.com.br">marcos.tourinho@brasiltelecom.com.br</a>
Renata Fontes (Gerente)	(55 61) 415-1256	<a href="mailto:renatafontes@brasiltelecom.com.br">renatafontes@brasiltelecom.com.br</a>
Flávia Menezes	(55 61) 415-1411	<a href="mailto:flaviam@brasiltelecom.com.br">flaviam@brasiltelecom.com.br</a>
Cristiano Pereira	(55 61) 415-1291	<a href="mailto:cpereira@brasiltelecom.com.br">cpereira@brasiltelecom.com.br</a>
Alex Veloso	(55 61) 415-1122	<a href="mailto:alex.veloso@brasiltelecom.com.br">alex.veloso@brasiltelecom.com.br</a>

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### MEDIA CONTACT

Ivette Almeida	(1 212) 983-1702	<a href="mailto:ivette.almeida@annemcbride.com">ivette.almeida@annemcbride.com</a>
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This press release contains forward-looking statements. Such statements are not statements of historical fact, and reflect the beliefs and expectations of the company's management. The words "anticipates," "believes," "estimates," "expects," "forecasts," "intends," "plans," "predicts," "projects" and "targets" and similar words are intended to identify these statements, which necessarily involve known and unknown risks and uncertainties. Accordingly, the actual results of operations of the company may be different from the company's current expectations, and the reader should not place undue reliance on these forward-looking statements. Forward-looking statements speak only as of the date they are made, and the company does not undertake any obligation to update them in light of new information or future developments.

