

BRASIL TELECOM SA
Form 6-K
March 30, 2005

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

FORM 6-K

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

THROUGH MARCH 30, 2005

(Commission File No. 1-15256)

BRASIL TELECOM S.A.

(Exact name of Registrant as specified in its Charter)

BRAZIL TELECOM COMPANY

(Translation of Registrant's name into English)

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

(Address of Registrant's principal executive offices)

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

Form 20-F Form 40-F

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

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

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

Yes No

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

BRASIL TELECOM S.A.

Management Report

2004

Management Report

To Shareholders:

In compliance with legal and statutory provisions, the Board of Directors of Brasil Telecom S.A. submits the Management Report, the Financial Statements for the Company and the Consolidated Financial Statements and the Opinion of the Independent Auditors to the appreciation of its Shareholders, related to fiscal year ending on December 31, 2004.

Macroeconomic Environment

2004 was a peculiar year due to the recovery of the Brazilian economy, which was leveraged by the increase in exports and by the economic policy implemented by the Federal Government.

This scenario, together with the deterioration of the monetary and fiscal indicators in the US, led to the appreciation of the real compared to the dollar, whose exchange rate by the end of the year was R\$2.65, a 8.1% drop in relation to 2003.

The inflation rate has been a major concern in Brazil, pressured by the economic recovery and by the increase of commodities prices, such as petroleum. In the last years, the Brazilian Central Bank has used the interest rate as a monetary policy tool, showing the importance of inflation control and suggesting a gradual drop of this rate in the coming years. In 2004, the accumulated IGP-DI (General Price Index - Internal Availability) was 12.14%, against 7.67% in 2003, pushed up by the IPA (Price Index in Wholesale). The Selic (Special System for Liquidity and Custody) rate ended the year at 17.75% p.a., compared to 16.50% in 2003.

Brasil Telecom is working with the maintenance of the growth scenario and the steady inflation fall for the next years. The international context observed in 2004 suggests world growth recovery, despite the uncertainties associated to the Middle East and to the review of the U.S. interest rates. Brazilian economic growth is forecasted to have an average increase of GDP above 3% p.a. during 2005/2006.

The Telecommunications Sector

In 2004, the search for new fixed telephones was limited, mainly due to income insufficiency in classes C and D. Despite the recovery of the economy and the employment rates which had no effect on the income levels and the development of new market solutions, the inventories of unused terminals in the concessionaries plant remained high.

Brasil Telecom intensified the actions focused on traffic increase and improvement of the ARPU - Average Revenue per User, by offering new products and services, expanding the base of broadband subscribers, managing customer loyalty and acquiring the control of MetroRED, Vant and iG, Brazil's biggest dial up Internet service provider.

As for the mobile telephony market, it continued to experience significant growth rates, due to the interest raised by the prepaid mobile phone, which allows the user to control his expenses. The mobile plant reached an expressive number of 65.6 million accesses, which represents a 41.5% growth compared to 2003.

One of the most important events related to the mobile telephony market was Brasil Telecom GSM's launch, which took place by the end of September. Na advertising campaign presented the Company to the customers, where the benefits of the strategy were demonstrated: convergent offers of products and services. Brasil Telecom GSM introduced a differential in the market, exploiting the existent synergies among its fixed and mobile networks and operations. After three months of operation, Brasil Telecom GSM has covered 81,2% of the population of Region II and has sold 622.3 mobile accesses in service.

Regulatory Environment

The expectation of the approval of a bill that would give the regulatory agencies a new role in 2004 has not been fulfilled. The Executive Body withdraw its initial request for urgent procedure on the project, which is currently being analyzed by the House of Deputies. Anyway, debates with regard to the new attributions of the agencies and ministers proceed in several segments of society, and it is impossible to anticipate how this issue will affect the regulated sectors.

On July 1st, 2004 the STJ (High Court of Justice) decided on the merit of the appeal filed in Federal Court against the tariff readjustment granted by Anatel based on the IGP-DI, as established by the concession agreements. The terms of the agreements prevailed. During the decision process, the operators requested to the STJ that the IGP-DI would only be applied after the publishing decision date, what brought benefits to the users.

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Several judicial actions questioned the charging of the basic PSTN (Switched Fixed-Line Telephone System) subscription. Fundamental to the economic-financial balance of the service, the basic subscription is not only legal, but also a right granted by the Concession Agreements established with the Grantor. The basic subscription allows the telecommunications system to work properly, especially, the accomplishment of the universalization goals and the maintenance of a complex network infra-structure that makes possible the connection between users and switching centers, as well as among other users located throughout the Brazilian territory. Besides, the basic subscription is charged so the STFC service can be provided continuously and without interruptions.

In January 27, 2005, the President of the STJ, Minister Edson Vidigal, granted an injunction in the conflict of competence judicious by Anatel, determining the suspension of the collective processes where it is discussed the validity of the basic subscription charged by the operators of the PSTN, and determining that in as temporary, the Court of the 2nd Federal Court of the Judiciary Section of the Federal District, solves the urgent measures until the conflict of competence be judged, once all consumers of Brazil are interested and also because Anatel is part of the passive pole of the actions.

In the middle of 2003, after a time period of public hearing, a new regulation was issued, reducing the number of local areas all over the country, altering the extension of local areas to the limits of the municipality district, finishing with conurbated areas in metropolitan regions and redefining several neighbor areas situated in different municipalities as local areas.

During 2004, public hearings concerning the rules for mean-reverting properties, splitting and allocation of accounts and interconnection has been published and discussed. These new regulations shall align with the requirements stated in Concession Agreements to be effective as of January 1st, 2006.

The concessionaries and Anatel continued to discuss the transition process from the current PGMU – General Plan of Universalization Goals – to those established by the new PGMU, to become effective as of January 1st, 2006. These understandings concern the number and the distribution of public telephones, AICE (Individual Access of Special Class) provision and offering conditions and PST (Telephone Service Outlets) implementation.

The Group

Brasil Telecom's Group is formed by companies, which operate in the telecommunications sector, specifically in the local and domestic and international long distance wireline telephony, data transmission, data center, mobile telephony and Internet.

Corporate Structure as of 12/31/2004

Brasil Telecom S.A.

The company in charge of providing fixed line telephony, not only local, but long distance services is Brasil Telecom S.A., public concessionaire that operates in Region II, as established by PGO – Plano Geral de Outorgas (General Concession Plan), which comprehends the states of Acre, Rondônia, Mato Grosso, Mato Grosso do Sul, Tocantins, Goiás, Santa Catarina, Paraná and Rio Grande do Sul, as well as the Federal District. This Region has four metropolitan areas with a population over one million inhabitants and borders Peru, Bolivia, Paraguay, Argentina and Uruguay, and can be considered a corridor to Mercosur.

During the last three years, Brasil Telecom S.A. acquired important telecommunications assets, seizing wonderful opportunities. The main goal was to turn the Company into a complete multi-provider of telecommunications services, where convergence is the basic assumption. It is not solely the offering of integrated products and services, but this offering being supported by a single network infrastructure and information technology systems. Currently, no other company in Brazil has the ability to offer each and every product within the telecommunications value chain.

Brasil Telecom is already operating throughout Brazil, especially in the three main metropolitan areas, not being restricted anymore to its concession area, which allows the Company to provide services to the corporate market, thereafter improving its share in the data transmission market, which has the best growth rates of the industry.

Brasil Telecom also acquired an optical fiber sub-sea cable system that connects Brazil to Venezuela, Bermuda and United States, enabling the Company to have the autonomy to carry its international traffic of voice and data.

The five million clients served by iG, iBest and BrTurbo made Brasil Telecom Group the largest ISP within Latin America and one of the 15 largest Internet providers of the world in numbers of clients.

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Brasil Telecom completed its strategy with the launching of its mobile operation, which took place in September 2004, when the Company developed some innovative offers initially advertised to the 10 million users of Brasil Telecom's wireline network, who also subscribe 535.5 thousand broadband accesses.

BrT Serviços de Internet S.A.

Throughout the year of 2004, BrTurbo, a portal dedicated exclusively to broadband content, has been reformulated and given new functionalities and layout. Platform alteration brought technical and visual improvement, allowing for better navigation and interactivity. *BrT Serviços de Internet*, parent company of BrTurbo, established new partnerships during the year to review and manage the content, adding value to the portal.

In March, with the commercial launching of the *BrTurbo Empresas*, our efforts were also directed towards the small and medium enterprises segment. In order to meet the demands of a growing market, we launched many products: *Presença Web*, *Webmail Empresarial*, *Comprova*, *Video Conference* and *BrTurbo VIP*. The value added services enabled a 12% increase in 2004 ARPU (Average Revenue per User) when compared to 2003, despite the competition and the service penetration in classes with lower purchasing power.

In October, we were ahead with the launching of *Turbo Video*, a service that brought a new concept of video on demand, making it possible to rent a movie with a single mouse click without leaving home.

The *BrTurbo Asas* offering, that uses Wi-Fi technology to provide high-speed internet access to occasionally mobile users, was extended to new localities with the expansion of the hotspots network. At present, *BrTurbo Asas* has national coverage, *BrT Serviços de Internet* has an owned network of 37 hotspots. Aiming at sales leverage, partnerships have been established with computer and Wi-Fi plate resale stores, which commissioned by access commercialized, conferred more capillarity to BrT's sales points.

As a result, BrTurbo consolidated its leadership in Region II, reaching 266 thousand customers in 2004, a 146% increase when compared to the previous year. This performance represents a 50% share of Brasil Telecom's Turbo customers.

Grupo BrT Cabos Submarinos

BrT's system of submarine cables (ex-GlobeNet) is formed by the following companies: *Brasil Telecom Cabos Submarinos (Holding) Ltda.*, *Brasil Telecom Cabos Submarinos Ltda.*, *Brasil Telecom of America Inc.*, Brasil Telecom Subsea Cable System (Bermuda) Ltd. and Brasil Telecom Venezuela S.A., all of them 100% directly or indirectly controlled by Brasil Telecom S.A.

BrT Submarine Cables Group consists of an optical fiber network of 22 thousand kilometers, with an installed capacity of 80 Gbps that can be expanded up to 1,360 Gbps, connecting the United States of America, Bermuda, Venezuela and Brazil.

During 2004, BrT Submarine Cables Group reduced operational costs, renegotiated agreements and developed new businesses in Venezuela, the Caribbean, the United States, Brazil and other Mercosur countries. In addition, the submarine cables granted Brasil Telecom the necessary autonomy to carry its international traffic of voice and data (including IP traffic), reducing interconnection and transport costs. Over 2004 only, Brasil Telecom saved US\$ 8 million in renting expenses of international capacity. For 2005, the cost saving estimate is US\$ 16 million.

MetroRED

In May, Brasil Telecom became the holder of 100% of *MTH Ventures do Brasil Ltda.* (MTH), with the signature of a US\$ 51 million sale/purchase contract of the remaining 80.1% capital stock of MTH. The latter, in turn, controls 99.9% of the social capital of *MetroRED Telecomunicações Ltda.* (MetroRED).

MetroRED provides *data center*, Internet and data transmission services, being the first company in Brazil to bring the high quality performance and security of the optical fiber technology into offices. MetroRED's current 1,600 km of long-distance network connects São Paulo, Rio de Janeiro and Belo Horizonte, besides 343 km of local network in those cities, reaching 636 buildings, with potential to reach into five thousand other buildings.

The integration process between MetroRED and Brasil Telecom, which occurred throughout 2004, led to synergies that resulted in opportunities of joint services sales, as well as in cost reduction, with the lease of facilities outside Region II, and in general, administrative and information technology expenses. The integration process made services more competitive in the remaining regions of the country, which perfectly matched Brasil Telecom's strategy of expanding out of Region II. This process will be continued in 2005, and MetroRED will be marketed under the Brasil Telecom brand.

With a transport network technologically advanced and complementary to that of Brasil Telecom, MetroRED enabled the direct access to main corporate customers in the country, providing differentiated national and international coverage assistance, together with BrT Submarine Cables

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Group.

Vant

In May, Brasil Telecom became the holder of 100% of Vant's capital, with the signature of a R\$ 15.6 million sale/purchase contract of the remaining 80.1% capital stock of Vant Telecomunicações S.A.

Vant was the first Brazilian operator to offer services with a network totally based in IP – Internet Protocol technology. Present in the main Brazilian capital cities, Vant operates nationwide, offering a vast portfolio of voice and data products.

Like MetroRED, Vant had its processes integrated to those of Brasil Telecom throughout 2004, allowing for the exploitation of synergies.

iBest

iBest, 100% directly or indirectly controlled by BrT, has registered an expressive growth, mainly in Region II, where it is the market leader with an estimated market share of 43% at the end of 2004. With 1.6 million active users, iBest ranks as the second biggest dial-up access provider in Brazil. Throughout 2004, the provider generated 16.6 billion minutes and organized the most important Brazilian Internet award, with more than 25 thousand sites registered.

iBest plays a fundamental role for Brasil Telecom, by reducing the risk represented by the interconnection regime effective in the country, by fostering the traffic due to dial-up connection and as a channel for Brasil Telecom to commercialize data and voice services. It is worth mentioning the importance of dial-up Internet connection for the development of future broadband users.

iG

In November, Brasil Telecom concluded the acquisition of 24,467,923 shares from iG, representing about 63% of its total capital, for US\$ 104.9 million. Since Brasil Telecom Participações S.A. already held, indirectly, about 10% of iG's total capital, the Group assumed control of approximately 73% of iG, consolidating Brasil Telecom as the leading Internet provider in Latin America.

iG was the first Brazilian portal to offer free Internet access. Over the last years, iG's business model evolved in a significant manner, and the portal started to generate revenues in publicity, e-commerce, broadband, content commercialization, traffic development and paid services, such as Internet connection accelerator, telephone support, premium e-mail, hosting services, among others.

iG is the biggest dial-up Internet provider in Brazil, with a market share of over 30%. In addition, it is also the biggest wireless content portal in the country. iG counts on more than three million active Internet access service users and 7.7 million active e-mail accounts.

The clients' base of iG, together with iBest's and BrTurbo's, strengthened Brasil Telecom's positioning in Region II, but also in Regions I and III. The five million clients served by these portals make Brasil Telecom the largest ISP of Latin America and one of the 15 biggest worldwide providers in number of customers. Additionally, those clients represent an opportunity of growth outside Brasil Telecom's concession area with the sale of value added services. Just like iBest, iG plays a fundamental role in the development of future broadband customers.

Brasil Telecom GSM

In 2004, all the processes necessary for Brasil Telecom GSM's start up were concluded, comprehending mainly the installation of network equipment and the integration of mobile telephony with the rest of Brasil Telecom Group's products.

Brasil Telecom became then the biggest integrated telecommunication network in its concession area, which allowed for a vast offering of solutions in telecommunications, including fixed telephony, broad and narrow band accesses, dial up Internet, data transmission and mobile telephony.

The full launching of the mobile operations to the public occurred on September 26, with the publication of the benefits derived from the convergence – *Único, Bônus Todo Mês, Amigos Toda Hora, Fale por Menos and Bumerangue 14* were widespread – and a smashing launching promotion: the *Pula-Pula*.

At the time of the launching, Brasil Telecom GSM already counted on 18 thousand monthly post-paid clients from *Nosso Celular* (our mobile phone) campaign, created in January, 2004, for the Group's employees and people they recommended, which were allowed to purchase mobile phones under special conditions.

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Products and Services

Brasil Telecom GSM offers three plan options: post-paid, pre-paid and control. In the latter, the customer pays a predetermined monthly amount, and purchases pre-paid credits when he/she needs a surplus of consumption.

Besides voice services, Brasil Telecom GSM's clients can also count on value added services, such as data transmission via GPRS, and brand new services in the market, such as *Mobile Banking*, where a partnership between Brasil Telecom GSM and several banks, such as *Banco do Brasil*, allows for the access to balances, extracts and transfers between checking accounts. Among the main voice and data services and products offered by Brasil Telecom GSM are 102 online, calling ID, voice mail, integrated virtual answering machine, M-meeting, SMS, chat, messenger, news, entertainment, games, multimedia card, virtual album, WAP, ring tones, wallpapers and screensavers.

Launching Promotion

Unique and revolutionary, *Pula-Pula* was Brasil Telecom GSM's launching offering. In its post-paid version, the amount of one monthly invoice is credited on the customer's next month's invoice, while in the pre-paid version the incoming traffic is converted into outgoing traffic to be used in the following month, provided one card per month is purchased. *Pula-Pula* is granted until 2010 for the clients that accepted the offering until the end of December.

With the convergence offerings and *Pula-Pula*, Brasil Telecom GSM became the first company in Brazil to offer a loyalty program in real time. The customer needs not to enroll in a program, or accumulate points, consult catalogues, order prizes. All he/she needs is to purchase a mobile phone from Brasil Telecom GSM to immediately start taking advantage of the convergence offerings and of *Pula-Pula*. Brasil Telecom GSM arrived to change the concepts of telecommunications in Brazil.

Owned Stores – One Stop Shop

Brasil Telecom GSM's 16 owned stores, most of them located in malls in Region II, adopted an innovative concept in the Brazilian telephony market: one stop shop. This means that the Group's entire portfolio of products and services is available at these stores: fixed telephony, ADSL, phone bill, CDs for free Internet installation, intelligent services, alternative packages with national and international tariffs (DDD and DDI), accessories, modem and even PCs. This initiative matches the wishes of the customers and explores the competitive differentials of an integrated telephony operation.

Sales Points

By the end of the year, Brasil Telecom GSM had 2,109 sales points, including 16 owned stores, 48 kiosks, 800 exclusive, non-exclusive and corporate authorized agents and 1,300 resellers in the main retail chains.

Roaming

The mobility of Brasil Telecom GSM's customers is not limited to Region II, but also extended to the other regions of the country. In the states of Minas Gerais, Rio de Janeiro, Espírito Santo, Amazonas, Amapá, Pará, Roraima, Bahia, Sergipe, Alagoas, Pernambuco, Paraíba, Rio Grande do Norte, Ceará, Piauí and Maranhão, no additional is charged for calling and more advantageous tariffs are available, thanks to an operational agreement signed by Brasil Telecom GSM with one of the mobile operators in that concession area.

Risk Factors

Regulatory Risk

Brasil Telecom operates in conformity with the concession agreements and authorization terms settled with Anatel, the Brazilian communications agency, as well as with the sector's legal and regulatory, general and specific provisions, some of which require the compliance of universalization and quality targets, while others establish the conditions for tariff adjustments and the relationship between the operators. Any change in the rules originally established can negatively affect the business. Therefore, Brasil Telecom follows the regulation evolution, acting pro-actively in order to minimize the regulatory risk.

Market Risk

Brasil Telecom has 36.9% of its total gross revenue proceeding from local service. The trend of partial fixed-mobile traffic substitution is a reality Brasil Telecom is duly dealing with. Several actions are underway, such as the creation of new products and services aiming at the maintenance of local traffic. Furthermore, Brasil Telecom has launched its mobile operation to guarantee that part of the fixed traffic that is expected to be substituted by mobile traffic continue to be routed by Brasil Telecom's network.

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Competition Risk

The telecommunications sector becomes more and more competitive each year, particularly in long-distance telephony, mobile telephony and data transmission. Brasil Telecom has an expressive share in the local and long-distance fixed line markets. With regard to the mobile telephony, the Company launched its operation by the end of September, and in only 3 months of operation it reached a 3.2% market share in Region II, a result both of a strategy based in convergence and of the launching of revolutionary products. In so doing Brasil Telecom intends to reduce the effects of the fixed-mobile migration.

The technological evolution, basically related to the introduction of voice services based on IP protocol (Voice over IP or VoIP), also increases competition as new entrants operate in this market. Therefore, Brasil Telecom owns IP services technology and offers solutions as PABX Virtual Net and Vector to the corporate market. Additionally, the investments in infrastructure made by Brasil Telecom in the last years put the Company ready to provide the most sophisticated services to all segments of clients. Besides, commercial and administrative actions were taken by Brasil Telecom before Anatel in order to avoid illegal practices that could be adopted by companies, which are not authorized to operate in this sector.

The Company permanently seeks operational efficiency and excellence in customer relationship, which are fundamental factors to consolidate its prominent position in Region II.

Financial Risk

Brasil Telecom carried a consolidated debt of R\$ 5,281.5 million at the end of December, out of which 79.1% were allocated in the long term. Independently from expanding cash generation, the Company adopts a conservative policy in the use of third party resources, mainly foreign currency denominated debt. From the total debt, R\$ 1,722.6 million was U.S. dollar, yen and currency basket denominated debt, but Brasil Telecom uses hedging operations to protect 48.1% of this amount.

With regard to the interest rate paid on its loans, Brasil Telecom is placed in a privileged position, considering that the average annual cost of its debt is equivalent to 70.7% of the Domestic Interbank Rate.

Operational Risk

With the purpose of protecting its assets, Brasil Telecom buys specific insurances, such as the Insurance on Operational Risks and Disruption to Earnings. The Operational Risk Insurance provides coverage to all assets against material damage caused by fire, lightening, explosion, windstorm, theft, flooding, water damage, etc. In order to assure the replacement of its assets, the Company monthly updates the amount of lines installed by branch and their respective value.

Losses resulting from interruption or interference in the running of the business, caused by any possible material damage, are covered by the Disruption to Earnings policy.

The civil responsibilities of the directors and officers of Brasil Telecom Group are covered by the D & O (Directors and Officers) policy, contracted by Brasil Telecom Participações S.A., which indemnifies third parties up to the maximum limit amount insured, in case of a failure of the Company's management is confirmed.

Policy	Insured Assets	Covered Amount (million)
Operational risks	Buildings, machinery, equipment, premises, call centers, towers, infrastructure, information technology equipment	R\$ 11,745
Disruption to Earnings	Fixed expenses and net earnings	R\$ 7,371
Guarantee of contractual obligations	Compliance with concession agreements	R\$ 121
General Civil Responsibility	Material and personal damages to third parties	R\$ 10
General Civil Responsibility	Moral damages to third parties	R\$ 2

Competition

Six years after the privatization of the Brazilian Telecommunications sector, lines in service have doubled and competition for more attractive customers became even more driven. Against this scenario, where companies act in a similar way, the competitive differential lies on the capacity to provide customers with complete solutions. For that reason, Brasil Telecom became a multi-provider of telecommunications services, aiming to be recognized as a Company that anticipates market opportunities and fully meets its customers' needs.

Local Fixed Telephony

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Brasil Telecom's dominant position in local fixed telephony market is due to the network capillarity, to the quality of products and services provided, and to the competitive prices. Although the expansion of the mobile plant provokes a dispute for local traffic, Brasil Telecom's predominance was maintained all over the year, while the market share reached 95%.

Domestic Long Distance Fixed Service

Today we are the leader in domestic long-distance intra-regional telecommunications market. In the last quarter of 2004, we achieved an estimated average market share of 91.2% in the intra-sector segment and of 82.3% in the intra-region segment.

After entering the inter-regional and international long-distance markets, on January 19, 2004, Brasil Telecom has continuously increased its share in these markets, due to the vast advertising campaign of its carrier selection code, the strength of its brand and the competitive price policy. This allowed us to reach a 48.9% average market share in the inter-regional segment and approximately a 26.6% average market share in the international one in the last quarter of 2004. Competing in long distance services, both national and international, is a difficult task, as Anatel grants many authorizations and licenses to newcomers.

Data Transmission

The data transmission market has shown to be promising, awakening more and more the interest among companies. Brasil Telecom's stake in this market has grown mainly due to the sales of ADSL access and network services. It is worth mentioning that Brasil Telecom achieved the goals established for the year, reaching 535.5 thousand ADSL accesses in service by the end of December, thus allowing us to keep our leadership in our concession area.

Mobile Telephony

In spite of being the last one to arrive in Region II, Brasil Telecom GSM bets in its success due to the synergies existing between mobile and fixed operations. Brasil Telecom is the only Company in the Region with capacity to develop a strategy based on convergence, the prevailing movement worldwide. Moreover, we have a renowned brand, we count on a team with expertise in the mobile market, and we offer innovative products.

Strategic Priorities

Through the acquisition of assets, investments in technological evolution and launching of innovative products, Brasil Telecom consolidates the basis necessary to convergence, a strategic priority of the Company. Thus, in order to strengthen its positioning as an integrated telecommunications provider, the Company invests in a differentiated relationship with the customer, as well as in operational excellence.

Our national leadership in dial up Internet has recently been consolidated through the acquisition of iG, Latin America's largest ISP in number of users. The portal has the largest audience in the Brazilian Internet market. With this, Brasil Telecom gains content and expertise in e-commerce and hosting.

In Region II, digital inclusion is a reality since 98% of Brasil Telecom's lines in service allow for dial up Internet access, and the addition of approximately one thousand new ADSL accesses per day has practically doubled Brasil Telecom's base of broadband subscribers.

In data transmission, the integration of MetroRED operations assured the continuous growth of our market share. The Cyber Data Centers and BrT Submarine Cables Group's international infrastructure strengthened Brasil Telecom's positioning as a telecommunications multi-provider. At present, the Company is a reference in telecommunications integrated solutions.

Once more Brasil Telecom has led a market revolution, pioneering the launching of a mobile operation totally integrated to the fixed one, surprising the market by conquering 622.3 thousand customers in only three months of operation.

Internally, the endeavors towards excellence in customer relationship continue and restructuring the customer service channels is one of the main tools to increase users' satisfaction. Actions such as improvement of operational processes, cost reduction and gradual evolution of the network, aiming at optimizing the existing infrastructure supplement Brasil Telecom's priorities.

To remain ahead of competition and to keep providing the Brazilian market with the most advanced telecommunications technology, Brasil Telecom will continue to innovate in the development of products based on new technologies as VoIP and in network integration. With this strategy, the Company intends to increase its ARPU, while shielding the market against competition.

Network

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Brasil Telecom's network infrastructure is a model of operational efficiency that assures flexibility and quality in services rendered by using last generation technological resources.

The evolutionary process of the network infrastructure was based on a converging model of services and applications following the concept of sole network, with the necessary flexibility to render different services of fixed or mobile telephony, voice, data or image to any customer, anywhere, anytime.

In this sense, Brasil Telecom hired a revolutionary structure of services and applications development in 2004 that will mark its entry into a new era of telecommunications services. It is about the Service Creation Environment, the final element that definitely supplements Brasil Telecom's Next Generation Network. In this new structure, whose operation is forecasted for 2005, the new services will be implemented in a centralized way and will be homogeneously and fast available to any user of the telecommunications network. Furthermore, as this structure works with open market standards, services may be developed and implemented by a much larger range of suppliers. One should point out that in this type of architecture there is no need of different networks for different services, which allows for shared and consequently optimized use of network resources.

The transport and access layer to Brasil Telecom's network continues to develop in terms of capillarity of broadband accesses as well as in traffic capacity. In 2004, equipment with larger processing capacity was implemented in the core of the network, which will allow for the launching of broader band services. At the same time, the access network will have its own satellite platform, thus enabling the offer of voice and data services in locations that are remote or non-accessible to the owned conventional networks in and out of Region II.

In 2004, Brasil Telecom initiated the implementation of the first DSLAM IP/Ethernet, equipment that concentrates the ADSL accesses. The network is prepared to provide support to technologies such as ADSL 2+, which will permit the offering of faster services. The implementation of MetroEthernet access network was initiated to fulfill new demands.

During 2004, Brasil Telecom added security systems to its IP network in order to avoid and void the effect of attacks and increase the network reliability.

One of the major challenges for Brasil Telecom in 2004 was to implement in a short time period its mobile network, which uses the most advanced cellular technology, integrated with the fixed network. In this project the following assumptions were considered:

- 1,800/900MHz GSM technology for voice;
- GPRS/EDGE technology – General Packet Radio Service/Enhanced Data rates for GSM Evolution for data;
- guarantee of technological evolution;
- sole voice core distributed in an initial topology of three MSCs – Mobile Switching Center divided in regions according to each region's level of interest on traffic;
- HLRs – Home Location Register geographically separated, assuring security and flexibility;
- sole data core;
- access network distributed in 626 locations served by 1,632 Base Radio Stations;
- GPRS coverage in 100% of served locations;
- sharing of the existing infrastructure;
- integration with the fixed network platforms.

As a result of the discerning plan for convergence between fixed and mobile networks, Brasil Telecom is launching exclusive and value added converging services, with competitive differential.

Universalization Targets

During 2004, Brasil Telecom accomplished all universalization targets established in the General Plan of Universalization Targets, including one-week activation of individual access.

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Quality Targets

Brasil Telecom met or surpassed the quality targets established by Anatel in the 420 measurements occurred throughout the year, except the rate of originated local calls completed night and the rate of originated local calls not completed night, once there was a congestion in January, due to problems of the route crossing point of the network of mobile operators, as shown in the table below:

Quality Goals

Indicators	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
QUALITY OF SERVICE												
Rate of obtaining dialing tone with a maximum waiting period of 3 seconds (target of 98%) - Morning	99.96	99.96	99.97	99.97	99.96	99.98	99.98	99.95	99.92	99.96	99.95	99.96
Rate of obtaining dialing tone with a maximum waiting period of 3 seconds (target of 98%) - Evening	99.97	99.96	99.97	99.97	99.97	99.97	99.98	99.96	99.95	99.96	99.96	99.95
Rate of obtaining dialing tone with a maximum waiting period of 3 seconds (target of 98%) - Night	99.97	99.96	99.97	99.98	99.97	99.98	99.99	99.95	99.98	99.96	99.97	99.97
Rate of local calls completed (target of 70%) - Morning	73.24	73.58	72.38	72.03	72.22	73.25	72.88	71.91	72.19	71.41	71.55	71.10
Rate of local calls completed (target of 70%) - Evening	73.73	73.74	72.36	72.47	72.63	73.37	72.66	72.33	72.61	71.89	71.60	71.02
Rate of local calls completed (target of 70%) - Night	68.84	71.99	71.22	71.17	71.23	72.36	71.83	71.73	71.36	70.80	71.22	70.45
Rate of local calls not completed (target of 70%) - Morning	1.23	0.89	0.90	1.07	1.38	0.67	0.77	0.99	0.81	1.04	0.99	0.90
Rate of local calls not completed (target of 70%) - Evening	1.48	1.05	1.39	0.97	1.08	0.76	0.66	0.97	0.85	1.03	1.05	1.26
Rate of local calls not completed (target of 70%) - Night	5.82	3.09	2.51	2.31	2.74	1.19	1.37	1.88	1.24	2.43	1.73	1.75
Rate of DLD calls completed consolidated amount - (target of 70%) - Morning	71.79	71.98	70.93	71.04	72.26	72.05	72.21	72.28	72.49	71.61	71.46	72.02
Rate of DLD calls completed consolidated amount - (target of 70%) - Evening	71.97	72.09	71.82	71.65	72.53	72.98	72.71	72.34	72.56	72.84	71.22	72.14
Rate of DLD calls completed consolidated amount - (target of 70%) - Night	70.06	71.20	71.15	71.15	71.74	72.14	70.87	71.68	71.41	71.41	71.83	71.11
Rate of DLD calls not completed due to congestion consolidated amount - (target of 4%) - Morning	2.04	1.64	2.71	2.18	1.88	1.94	1.51	1.47	1.39	1.76	2.23	1.66
Rate of DLD calls not completed due to congestion consolidated amount - (target of 4%) - Evening	1.61	1.90	1.63	1.45	1.64	1.21	1.27	1.92	1.87	1.33	2.47	1.79
Rate of DLD calls not completed due to congestion consolidated amount - (target of 4%) - Night	3.33	2.27	2.77	2.15	1.68	1.34	3.03	1.85	1.41	2.57	1.43	1.79
REPAIR REQUESTS												
Rate of repair requests per 100 accesses of PSTN (target of 2%)	1.40	1.31	1.45	1.44	1.46	1.35	1.38	1.42	1.51	1.55	1.47	1.42
Rate of attending repair requests from residential users within 24 hours (target of 97%)	99.62	99.61	98.60	97.85	99.50	99.54	99.56	99.59	99.62	99.30	99.39	99.37
Rate of attending repair requests from non-residential users within 8 hours (target of 97%)	99.34	99.27	98.31	98.04	99.20	99.38	99.22	99.03	98.99	98.65	98.73	98.43
Rate of attending repair requests from public utility service providers in up to 2 hours (target of 98%)	100	100	100	100	100	100	100	100	100	100	100	100
CHANGE OF ADDRESS REQUESTS												
Rate of attending change of address requests from residential users in up to 3 working days (target of 97%)	99.88	99.88	99.82	99.88	99.90	99.90	99.75	99.87	99.89	99.89	99.63	99.76
Rate of attending change of address requests from non-residential users in up to 24 hours (target of 97%)	99.31	99.43	99.52	99.09	99.34	99.40	99.18	99.39	99.35	99.30	98.97	98.96
Rate of attending change of address requests from public utility service providers in up to 6 hours (target of 98%)	100	100	100	100	100	100	100	100	100	100	100	100
ATTENDANCE BY PHONE												
Rate of attending by phone a PSTN user in up to 10 seconds (target of 94%) - Morning	99.56	99.53	98.48	97.35	99.70	99.71	99.70	99.57	99.24	99.09	97.99	99.69
Rate of attending by phone a PSTN user in up to 10 seconds (target of 94%) - Evening	99.70	99.59	99.27	99.29	99.54	99.64	99.68	99.60	99.77	99.49	99.23	99.47
Rate of attending by phone a PSTN user in up to 10 seconds (target of 94%) - Night	99.21	98.99	99.07	98.83	99.85	99.67	96.77	99.53	99.79	99.91	99.88	99.70
PUBLIC PHONE QUALITY												
Number of repair requests for public phones per 100 public phones (target of 10%)	8.06	7.06	7.19	6.86	7.62	6.69	6.93	6.49	6.34	5.32	4.31	7.45
Rate of attending public phones' repair requests in up to 8 hours (target of 97%)	99.45	99.58	99.28	98.87	99.26	99.47	99.57	99.49	99.30	99.25	99.01	98.70
ACCESS INFORMATION CODE TO THE USER												

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Rate of access information code to user answered in up to 30 seconds (target of 97%)	98.03	98.02	98.03	98.19	98.31	98.74	98.94	99.08	99.22	99.17	98.59	98.78
ATTENDANCE TO USER CORRESPONDENCE												
Rate of attending correspondence from users in up to 5 working days (target of 100%)	100	100	100	100	100	100	100	100	100	100	100	100
CUSTOMER CARE												
Rate of providing personal attendance to user in up to 10 minutes (target of 95%)	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
BILL ISSUANCE												
Number of bills with error complaints per 1,000 bills issued local calls (target of 2%)	1.74	1.61	1.90	1.81	1.92	1.78	1.91	1.93	1.91	1.93	1.94	1.96
Number of bills with error complaints per 1,000 bills issued DLD calls (target of 2%)	0.29	0.26	0.44	0.47	1.37	1.59	1.65	1.57	1.56	1.55	1.54	1.55
Number of bills contested with refunds to users local calls (target of 97%)	100	100	100	100	100	100	100	100	100	100	100	100
Number of bills contested with refunds to users DLD calls (target of 97%)	100	100	100	100	100	100	100	100	100	100	100	100
NETWORK MODERNIZATION												
Digitisation rate (target of 95%)	99.19	99.27	99.29	99.30	99.31	99.52	99.60	99.60	99.60	99.72	99.72	99.72
Total number of targets met (target of 35)	33	35	35	35	35	35	35	35	35	35	35	35

N.A= Not Applicable

Information Technology (IT)

Agility, flexibility and availability are technological strategic guidelines that lead IT actions in the search for convergent solutions that meet business needs. The implementation of new systems during 2004 was driven towards the following corporate targets:

- customer relationship, acquisition and loyalty;
- commercialization of new products and alternative plans;
- integrated offering;
- value added solutions;
- loss reduction; and
- operation optimization.

Besides supporting the fixed telephony operations and the other business segments of Brasil Telecom, such as Internet and Cyber Data Center, the IT systems started to support the mobile telephony operation, accomplishing the technological convergence.

Another item in last year's corporate schedule was to integrate of the companies acquired by Brasil Telecom. Thus, part of the IT actions consisted of extending the systems that assist Brasil Telecom, such as ERP - SAP, billing and CRM - Customer Relationship Management, to MetroRed and the other companies.

The main IT projects developed in 2004 are summarized below:

Launching Brasil Telecom GSM

The launching of Brasil Telecom GSM was the largest project carried out by IT in 2004. Unique in Brazil, its objective was to prepare the mobile telephony operation to be performed from the platforms previously used in fixed telephony, considering services and products convergence.

All activities of the project were directed by a Plan of Releases, focused initially on the launching of the operations and, then, on the incremental inclusion of functionalities. Based on this Plan, business management systems (commission, subsidies, business portal, ERP, logistics), relationship with customers (assistance, sales, agreements), revenue processing (billing and collection) and network management (provisioning, failure and performance management) were adapted.

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Due to the peculiarities of the mobile telephony market, systems that did not exist in the fixed telephony operation were implemented: logistics, distribution and sales of mobile telephones. In this process, it is worth mentioning the implementation of the stores system, built to support 16 owned stores and 37 kiosks in fast sales, daily activity and cash operation activities, besides retail and corporate channels.

The complexity of this project reflects on some numbers: 223 processes mapped, more than 5,000 functional requirements and 62 agreements managed. A total of 57 systems were developed or modified to meet the needs of the new operation, including the implementation of platforms of convergent services as MMS, SMS and pre-paid.

It was also part of this project the structuring of the new call center in Campo Grande, with 400 positions to assist the mobile telephony operation. An integrated infrastructure was made available with the other call centers, using VoIP technology, with the objective to guarantee a sole and differentiated assistance.

This project was crowned with the absolute success in the launching of integrated products and daring plans by BrT GSM. The stabilization of the platform that supports BrT GSM was carried out in a very short time period between the launching and the large sales volume at the end of the year, what made possible the surpassing of the objectives.

To guarantee this stabilization and the necessary adjustments and, still, reduce the time inherent to the learning curve of a team in using new processes and systems, two actions showed to be fundamental: the qualification of the personnel from the call center and stores and the monitoring in real time of the performance of all implemented applications.

Convergent Invoicing

Brasil Telecom is committed to introducing a new invoicing solution, since greater speed and flexibility in the configuration of products, services and tariff plans will permit the Company to operate with agility and efficiency in different business and market segments.

The strategy adopted does not discard the existing systems, but combines the best features of the two worlds. While the new solution assists the valuing and invoicing processes, part of the system inherited will continue to exist to fulfill specific requirements of the Brazilian legislation.

During 2004, the new solution was introduced to the Corporate, SOHO and Government markets, making the collection process more flexible. In 2005, the solution will be extended to customers from the Entrepreneur and Residential market.

The functionalities of the invoicing solution were also fundamental to allow for the launching of differentiated plans and convergence, both strategic items in the launching of Brasil Telecom GSM.

CRM (Customer Relationship Management)

Seen as an essential project for a service provider, CRM aimed at improving customer relationship on the basis of the excellence in assistance. At BrT, the introduction of CRM includes assistance and sales modules, besides the whole catalogue of products.

During 2004, investments in CRM were directed towards the introduction of new products and functionalities. CRM also provides assistance to mobile customers in a convergent way, as well as to Corporate, Entrepreneur and Government segments.

The full functioning of CRM will make possible a unique view of the customers' needs. Thus, Brasil Telecom guarantees customer's satisfaction and consequently reaches better efficiency in sales and lower churn rates.

Provision

The system concerns optimization of the provision processes and guarantee of the service delivery.

In 2004, the efforts were directed towards the introduction of the new version of the system, which led to a gain in performance of more than six times. Additionally, the automation of the IP products family, Frame Relay, ATM, SLDD and Frame Relay Interlan, has been concluded. Compared to the moment right before its implementation, the time to install the Frame Relay was reduced by 17.8 hours (47.1%); as for the ATM, by 6 hours (22.5%); and for the SLDD by 7.5 hours (30%).

All GSM platforms were connected to Provision and from then on started to use the same automated process of service delivery.

Business Intelligence

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Aiming at supporting the Company's initiatives in customers' retention, marketing actions and campaigns were reinforced in 2004, based on the improvement of the BI features. Throughout the year, BI's techniques were focused on:

- the identification of clients to advertise ADSL, value added services (caller ID, virtual answering machine) and mobile accesses;
- the identification of customers to develop retention actions, like the *Ligue-Ligue 14* and DLD offers;
- the analysis of customer behavior to support the development of new products, as *PABX Virtual Net* and *TvFone*;
- the identification of competitors' customers in order to offer products and services.

Service Quality Guarantee

Brasil Telecom has been steadily investing in systems that aim at improving the monitoring level and the treatment of network failures, which guarantee the quality of services provided. Nowadays, the Company counts on the following assistance features:

- failure management system covering 100% of the data network;
- management of the entire life cycle of the failure in the network and/or customers' claim (FIX), already available for Frame Relay, ATM, SLDD and EILD products;
- solution to guarantee compliance with the service level requirements agreed with the customer (SLA/SLM). The customers have access to detailed information on the quality level of the service purchased, on a web portal;
- monitoring of optical network degradation and failure (SGRO), covering the whole of Brasil Telecom's operation in its concession area, resulting in advantages such as the reduction of the time needed to find a fiber rupture from 3 hours to 3 minutes and the time to perform a repair from 24 hours to 5 hours and 40 minutes.

Call Center

In 2004, Brasil Telecom elected Customer Relationship as a priority, which resulted in the modernization and expansion of call centers. The greatest challenge was to implement the concept of a convergent call center, able to respond, in a transparent manner, to any customer (wireline, mobile, broadband) independently of the location he/she calls and of the phone he/she uses (public, mobile or fixed phones). The investments carried out made the following results possible:

- implementation of a new call center to support Brasil Telecom GSM;
- expansion of the platforms to unify 800 and the multi-skill assistance;
- updating the call centers;
- checking the assistance by the Audible Answering Unit, improving the customer interface and making available new functions of self assistance, thus increasing the number of users assisted automatically by the unit. At present, 40% of the total calls originated from mobile and fixed customers are automatically answered.

Revenue Assurance

In 2004, the acquisition of the FMS - Fraud Management System allowed the evolution in the activities of fraud prevention and monitoring which enabled include two new more acting fronts. The first one was based on the identification of fraud events through configurable rules and limits to recognize the traffic behavior changes. The second one involved a tool that enabled a real time monitoring of calls and public phones with fraud profile.

Those tools allowed the intensification of actions to combat frauds in public phones and a significant reduction in interconnection costs due to fraud.

File Reconciliation

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The improvements implemented in the process of traffic reconciliation guarantee Brasil Telecom a loss reduction. The processing capacity has been increased from 200 to 800 million CDRs (Call Detailed Records) and the extraction time of CDR samples has also been reduced from 15 days to 24 hours, due to the hiring of new features. This action supported and facilitated the negotiation of interconnection liabilities with other operators.

SOC (*Security Operation Center*) IT and Network Security

Several benefits were achieved since the actions carried out were focused on IT and network security, especially with the implementation of a security operation center:

- permanent monitoring of BrTurbo and iBest. No attempt of invasion in those providers succeeded in 2004;
- worm and virus minimization in BrTNet and *Multiserviço* data networks thanks to anti-virus and traffic control and due to the users actions of prevention and awareness;
- identification and reduction of losses occurred due to SPAM practices;
- combating crime and bank frauds committed against BrT's and subsidiaries' users;
- checking and monitoring of vulnerabilities in providers and elements of the network; and
- fast and effective response to the misuse of BrT's resources, brand and image on the Internet.

Operational Improvements

To provide services with quality and efficiency, one of the strategic goals of Brasil Telecom motivated a group of actions carried out in 2004:

- implementation of the best practices in IT operational procedures, based on ITIL model - IT Infrastructure Library. This action resulted in improvements in the internal quality of the data center services, acknowledged by the users;
- implementation of the VoIP system, connecting more than one thousand lines in BrT's headquarters in Brasilia, offices in Rio de Janeiro, São Paulo, Minas Gerais and in the call center of Mato Grosso do Sul.

Marketing

Entrepreneur and Residential Markets

Creating the concept of customer-entrepreneur, for liberal professionals and micro-entrepreneurs, has placed Brasil Telecom in a unique position in the telecommunications sector, providing adequate solutions for each customer profile. Brasil Telecom's actions in the Residential and Entrepreneur segments had the increase of the average ticket and the retention of customers as goals, via differentiated assistance, traffic incentive and new services offering.

In 2004, plans of additional franchising were launched (50, 100 and 150 pulses), where the client expands the value of its franchising, acquiring packages of pulses. In this way, Brasil Telecom encourages the local traffic consumption and guarantees additional revenue. The traffic was also stimulated with the expansion of partnerships with content providers, via voice chat, *Ligue Serviços*, and with local radio stations and television networks.

The intelligent services offering resulted in an 18.1% increase in revenues compared to 2003. It is worth to point out the caller ID, that presented a growth of 47.7% compared to 2003, reaching a base of 1.4 million active services.

For low-income customers, LigMix offering has been consolidated. LigMix permits the customer to control his/her expenses with fixed telephony. By the end of 2004, there were 408.3 thousand LigMix service at Brasil Telecom's plant.

In order to make customers from both Entrepreneur and high consumption Residential markets loyal, a differentiated assistance was implemented in the call centers, with teams, offerings and scripts adequate to the profile of this type of customer.

Small and Medium Enterprise Markets

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During 2004, Brasil Telecom carried out actions that brought significant results to the SME market. The stake in the long distance market grew, with prominence for the inter-regional segment, whose goal defined for the year was surpassed by September. The data transmission products sold reached a 30% penetration, with increase of the number of accesses in InterLAN and IP Turbo services. Promotional actions resulted in sales of over one thousand units of *PABX 14* in 2004.

The positive results show that Brasil Telecom was right in keeping and improving partnerships with its Authorized Agents. During the year, qualification systems were developed so as to guarantee speed, precision and quality in assisting this market. The Authorized Agents increased sales volume by 33% in 2004, being responsible for about 70% of total sales to the SME market, compared to 60% in the previous year.

Public Telephony Market

It is a fundamental market to assist low-income people. Brasil Telecom had a growth of 21.4% in the gross revenue of public telephony. The better performance resulted from the acquisition of market share in long distance traffic out of Region II, the consolidation and improvement of the card distribution system, and the adjustment of distribution channels.

Corporate and Government Markets

Brasil Telecom kept its aggressive policy with the corporate and government market, obtaining a 15% growth in gross revenue in 2004, especially regarding data center, voice and data transmission services. Remaining as market leader is mainly due to developing and offering new products. The Company sought to emphasize relationships and to develop customized solutions, which led to earning customer's loyalty. In the same spirit of leadership consolidation, Brasil Telecom participated in 1,140 bid competitions and was the successful bidder in 83% of them.

The integration of MetroRED provided a better customers' assistance in São Paulo, Rio de Janeiro and Minas Gerais. Willing to increase its presence in the national territory, BrT implemented new points in the Northeast region, more specifically in Fortaleza, Recife and Salvador. We should point out the international connectivity made available through the acquisition of GlobeNet system.

CyDC (*Cyber Data Center*)

According to the concept of full corporate solution provider, Brasil Telecom Group maintained its policy to offer data center services through its six CyDCs, located in Porto Alegre, Curitiba, São Paulo, Rio de Janeiro and Brasília.

Differently from what happened in the recent past, when the market unduly bet on the growth of the data center, based on applications mainly focused on the Internet, BrT planned its expansion in this market, consciously, aiming at assisting Corporate and Government market's demand for solutions to reduce IT costs, offering services such as outsourcing, site backup, hosting and collocation, exploring capillarity, connectivity and convergence.

Seeking to offer data center services and products in Brasilia, Brasil Telecom implemented Latin America's most advanced data center with a final capacity of 10 thousand square meters, matching the strictest international standards for security and joint availability. The new CyDC provides very high speed connections for Internet, redundant energy sources, anti-fire systems and surveillance structure.

Broadband

Following the world market trends, Brasil Telecom pays special attention to the Broadband market, developing offerings that enable the fast expansion of the subscriber base. Therefore, Brasil Telecom has constantly invested in the improvement of service quality, network support, coverage and mainly in the expansion of the narrow-band customers' base, the future broadband customers.

As a result of this strategy, Brasil Telecom reached 535.5 thousand ADSL accesses in service, in 1.117 locations, which represented a 89.9% growth in the number of ADSL accesses in service of 2003.

New Products and Services

Número Único Nacional: allows the receiving of calls in one sole access number, in 4002-MDCU format, in up to 23 locations of Brazil. Launched in April, the *Número Único Nacional* is meant for customers that need distributed or centered telephonic assistance with phone sales, phone banking, cards validation among others. The service also assists customers that make available remote dial-up access in their data bases for consulting or updating information.

PABX Virtual Net: Brasil Telecom developed new facilities in the *PABX Virtual Net*, using NGN, network that allows for the integration of handsets from different technologies, regardless of their location, into one extensive and sole virtual network, with all the facilities a PBX can offer. This service, meant to companies of any size and segment, allows its users to completely outsource telephony services, assuring the access

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to last-generation technologies, flexibility in assistance and reduced telecommunications investments and expenses.

Ligue Ligue Brasil: a HCD - Home Country Direct service, that allows anyone traveling abroad to make collect calls to Brazil. The access is made through toll free numbers available in countries where the service was launched. The objective is to deliver the same level of service provided domestically by Brasil Telecom, yet reinforcing the presence of the Company as an ILD provider.

IPL - International Private Line: dedicated line service with international coverage, which grants maximum security and efficiency in data transmission, voice and multimedia, at any speed and for any amount of information. This solution was launched in November, being directed to the Corporate, Government and SME markets that demand connectivity between Brazil and the United States.

Turbo Vip: product developed to assist small and medium enterprises that operate critical internet applications via residential access networks. Realizing the lack of products for small enterprises, Brasil Telecom developed a lower-cost product with both band and SLA - Service Level Agreement compatible with the needs identified, thus increasing its stake in this market in about 40% in terms of monthly sales volumes.

TVFone: as an alternative to *TVFone Flat*, Brasil Telecom service that enables the integration between telephones and TV sets by means of the ADSL technology, the new service, launched in October, seeks to assist customers with lesser needs of connections and talking time. This grants a lower monthly subscription fee compared to that of *TVFone Flat*.

Bônus Todo Mês: launched by Brasil Telecom GSM, allows the customer to choose a fixed line from Brasil Telecom to earn up to 200 minutes of free calls to any other local fixed line every month.

Bumerangue 14: allows the Brasil Telecom GSM customer to earn every month the minutes used in long-distance calls with the CSC 14, to be used in local calls originated in BrT GSM's mobile accesses to Brasil Telecom's fixed lines or mobile accesses.

Amigos Toda Hora: allows the Brasil Telecom GSM customer to select up to 14 numbers, in the post-paid version, to call from his mobile, at any time, day and night, for only R\$ 0.10/minute, net of taxes. The numbers selected can be either any operator's fixed-line phones or Brasil Telecom GSM mobile phones. In the pre-paid version, seven numbers can be chosen, provided one of them is a fixed line number.

Único: pre-paid integrating mobile phone, fixed line and public phone. The customer purchases pre-paid credits to his pre-paid mobile phone, but can also use them to make calls from fixed lines, including public phones, by calling an 800 number and informing the destination number. The cost of the call is subtracted from the credits and the tariff charged is cheaper than that from the pre-paid phone. It is also the only one that offers free credits in SMS for each recharging, in all cards.

Fale Por Menos: this promotion, valid for up to 14 months, allows the Brasil Telecom GSM customer to pay less, when calling from a Brasil Telecom fixed line to a Brasil Telecom GSM mobile phone. To call other operators' mobile phones, the cost for the customer is at least 60% higher at anytime.

Tariff Readjustment

On June 30, 2004, Anatel authorized the tariff readjustment for the PSTN companies, according to the criteria and conditions established by the Local and DLD Concession Agreements, effective as of July 2, 2004. The Basic Local Plan had an average readjustment of 6.89%, whereas for the DLD Basic Plan the tariffs had an average readjustment of 3.20%.

In addition, in the second semester of 2004 the recovery of the difference concerning the readjustment not fully applied in 2003, due to the temporary decision issued by the Public Federal Ministry's, was authorized. After the final judgment, two other readjustments were applied in 2004, aiming at recovery, as shown in the table below.

Average Tariff Readjustments - Basic Plan

Plan	07/02/04	09/01/04	11/01/04	2004
Local	6.89%	4.35%	4.17%	16.19%
DLD	3.20%	4.78%	4.56%	13.06%

Customer Relationship

Giving continuity to the improvement and expansion project of the relationship channels, Brasil Telecom elected 2004 as the year of customer relationship. For that, Brasil Telecom put together each of its employees in the *Conte Comigo* campaign, with the objective of making them sensible to the main premises that guided the Company's business plan: Each contact is seen as an opportunity to add value to the customer and to BrT and The relationship with the customer is a competitive differential.

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Innumerable actions were developed in 2004, such as:

- unification of different access numbers to call centers;
- general review of the processes and procedures in customer relationship, focusing on the solution of problems presented in the first contact;
- implementation of a weekly satisfaction survey panel in the call centers, assessing the quality of assistance in a systematic and continuous manner;
- review of the call centers attendants monitoring procedure, allowing better assessment of the quality of assistance;
- expansion and improvement of self-assistance channels: Unit of Audible Response, website and self-assistance terminals;
- release of *Canal Brasil Telecom* magazine with the objective of sending the customers quality information on telecommunications market trends and product and service portfolio of the Group;
- promotion of meetings with customers of the most different segments of the Corporate and Government markets, with the objective to understand the value chain of each one;
- creation of a differentiated assistance for Entrepreneur market and small enterprises in the call centers;
- qualification of the Authorized Agents through an Agent Certification program, which includes the validation of their facilities, as well as, the qualification of their employees.

Throughout the year, 499 million contacts were made through many relationship channels.

Face-to-face Assistant

Brasil Telecom offers 2.4 thousand points of face-to-face assistance in its concession area, distributed in own stores, authorized agents, post offices and lottery houses.

With the launching of its mobile operation, Brasil Telecom became pioneer in adopting convergent assistance in its stores, i.e., assist the customer of wireline and mobile telephony or the broadband subscriber in a single place, guaranteeing better comfort and agility to all users.

Investments have been made in the opening of new points of assistance, as well as in the improvement of the existing ones, through refurbishing the stores, adaptation of the infrastructure system, qualification of the assistants and standardization of the assistance processes.

Throughout the year, more than 12.5 million on-line consultations and 9 million payments were made in 1,787 lottery houses that operate in partnership with Brasil Telecom. 2.1 million assistance processes were carried out in stores, authorized agents and post offices.

During 2005, 1.6 thousand new points of assistance will be implemented, which will guarantee to Brasil Telecom to close the year with approximately 4.0 thousand points of face-to-face assistance.

Call Center

In the call centers, located in five states and in the Federal District, work some 6.2 thousand professionals, who were responsible for 26.5 million monthly contacts in 2004, of which 24.3 million corresponded to inbound calls and the remaining to outbound calls. The review of the assistance platforms architecture contributed to the 6.3% increase in productivity of the call centers.

Receptive Sales Centers

Throughout the year, the receptive sales centers underwent a deep change, whose goal was to make out of each contact an opportunity to add value to the customer and to Brasil Telecom. As part of this process, the Company implemented a series of actions:

- review of the assistance scripts, making them more flexible and focused on the negotiation and on the sales of products and services according to the customer needs;
- review of the monitoring criteria of quality, emphasizing the attitude and precision of sales;
- review of the recruiting, selection, remuneration criteria, as well as of the training of the attendants;
- intensification of the motivational campaigns; and
- improvement of control tools and management systems.

As a result, the monthly sales of lines in service and intelligent services by attendant increased in 40.5%, while the ratio between sales and calls answered increased in 86.9%.

Active Sales Centers

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The active sales centers commercialized more than 1.2 million products and services in 2004, which represents 35% of the sales made by the call center, reflecting improvement in the mailing generation process, the flexibility of the scripts, the plan of variable remuneration, the training of the attendants and the intensification of the motivational campaigns. It is worth pointing out the increase of 56.4% in monthly sales of ADSL access by attendant.

Active and Receptive Collection Centers

As of July, a process is underway to transform the collection centers in credit recovery units. For that purpose, Brasil Telecom:

- created a vertical structure entirely oriented towards business;
- centralized the active actions in Curitiba;
- reviewed and made flexible the attendants scripts, focusing on argumentation and negotiation;
- implemented the CCA_Wedo collection system in Brasil Telecom GSM;
- implemented a new collection procedure for customers with 75 to 105-day-late bills;
- redesigned the collection cell mission;
- revised the quality monitoring criteria;
- trained the supervisors for a more pro-active and participative management; and
- implemented the blended model, transferring calls from the active to the receptive cells or vice-versa, in cases of idle capacity, thus increasing productivity.

Retention Centers

The centers specialized in retention were responsible for the loyalty of 1.4 million products and services, as a result of intense incentive campaigns to engage attendants, retention segmentation for SOHO (Small Office and Home Office) customers, improvement of the control tools and management systems and implementation of a variable remuneration plan for attendants.

As a result, it is worth mentioning the increase of 52% and 415% in the monthly retention by attendant in ADSL and in intelligent services, respectively.

Assistance to the Directory

A new work philosophy adopted in the call center changed the image of the service in many aspects, bringing greater satisfaction to the customer. More than 94 million pieces of information were supplied, showing an improvement in the service efficiency and broadening the customers' satisfaction.

Following the orientation of better quality and satisfaction to the customer, Brasil Telecom established partnerships with other companies that resulted in the creation of *102 PLUS*, value added service that allows the customer to make differentiated free consultations, sponsored by the company consulted.

Cross Selling

In 2004, the automated control system of receptive centers was implemented, allowing attendants non specialized in sales - billing, service and repair agents to take advantage of the calls received in order to commercialize products and services, without hindering the levels of assistance service. As an example, we can bring the sales of the caller ID by the billing cells.

E-mail

In 2004, 110 thousand e-mails were received and answered by specialists exclusively dedicated to assistance via the Internet. This number represents an increase of 13% in relation to the previous year, a result of Brasil Telecom customers' receptiveness to the channel and by the launching of the mobile operation.

Web

The Internet once more demonstrated its importance in Brasil Telecom's customer relationship strategy:

- 560 thousand customers registered on the website, an increase of 42% in comparison to 2003;
- 175 million consultations to the directory on line, representing a 54% of total consultations to the service;
- 1 million accesses to on-line services.

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The customers' base allowed for an array of e-mail marketing actions, such as sending approximately 120 thousand monthly electronic newsletters, thus reducing the costs of communication directed to the customer.

The section *Sua Conta* (e-billing) was responsible for most of the registrations made and became the website's most important relationship tool:

- 1.5 million services ordered;
- 32 thousand phone bills sent by e-mail in December. The customer receives a secure digital bill ticket, which allows him to either pay it through Internet banking or print it;
- 15 thousand users joined the "Bill without paper" service, diminishing the printing and postage costs.

Brasil Telecom launched a new homepage in August, aligning the web channel to its business strategy, based in the offering of complete and convergent solutions in telecommunications.

Operational Performance

Fixed Telephony

Fixed Telephony Data

PLANT	2002	2003	2004
Lines Installed (Thousand)	10,548	10,687	10,737
Additional Lines Installed (Thousand)	533	139	50
Lines in Service - LIS (Thousand)	9,465	9,851	9,503
Additional LIS (Thousand)	827	386	(348)
Avg. LIS (Thousand)	9,052	9,658	9,677
LiS/100 Inhabitants	23.1	23.4	22.4
Public Phones/1,000 Inhabitants	7.2	7.0	7.0
Public Phones/100 Lines Installed	2.8	2.8	2.8
Utilization Rate	89.7%	92.2%	88.5%
Digitisation Rate	99.0%	99.0%	99.7%

Brasil Telecom S.A.'s installed plant reached 10.7 million lines, reflecting the addition of approximately 50 thousand lines. This performance is explained by the fact that the demand for fixed lines was satisfied, if we consider the purchasing power of the Brazilian population.

With regard to the plant in service, that totaled 9.5 million lines at the end of December, Brasil Telecom carried out a debugging process of its customers' base, canceling 348 thousand lines in 2004. As part of this process, the Company concentrated efforts in the analysis of some customers' usage profile, mainly those subscribing to alternative plans. This meant the migration of alternative plans to hybrid ones, known in Brasil Telecom as LigMix.

Lig Mix offers the customers the possibility to control their expenses with fixed telephony, as long distance or fixed-to-mobile calls require the purchase of a card. For Brasil Telecom, LigMix, besides being more profitable than many alternative plans, avoids default. At the end of 2004, the Company had 408.3 thousand hybrid terminals in service in its plant.

The stability of the installed plant, combined with the reduction of the plant in service, resulted in a utilization rate of 88.5% in 2004.

Mobile Telephony

At the end of 2004, approximately 622.3 thousand customers had Brasil Telecom GSM mobile phones, which represent a 3.2% market share attained in three months of operation. Of this total, the stake of post-paid customers stands out, reaching 33%, which is above market average. That result reflects the market knowledge acquired by Brasil Telecom Group, the presence of the brand in the corporate segment and the perception by the customers of the convergence benefits.

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Data Transmission

Brasil Telecom continued to expand its market share in data transmission in 2004, despite the strong competition. The performance of the Company in the offering of ADSL access was one of the hallmarks of the year.

Compared to 2003, ADSL accesses in service grew 90%, reaching 535.5 thousand at the end of 2004. In the last two years there has been a 281% growth. The ADSL access is fundamental in Brasil Telecom's strategy, since besides allowing for better ARPU it enables the Company to shield its base of high purchasing power customers against competitors.

ADSL Access in Service

With respect to the other data transmission services – ATM, Frame Relay, IP – there was a 5.7% increase of installed ports in relation to 2003. The Dial Net service grew from 150.2 thousand installed ports in December 2003 to 192.2 thousand at the end of 2004, which represents an increase of 28%.

Consolidated Financial Performance

Revenue

2004

2003

In 2004, the consolidated gross revenue amounted to R\$ 12,763.4 million, 15.2% above 2003 revenue. The revenue growth of R\$ 1,686.1 million is basically due to the following factors:

- BrT introduction in the inter-regional and international long-distance segments contributed with additional revenue in 2004;
- the plant expansion of ADSL accesses in service leveraged the data transmission revenue;
- the startup of Brasil Telecom GSM;
- the 7.9% growth in the fixed-mobile traffic; and
- the tariff readjustment authorized by Anatel for the fixed-mobile calls as well as for the local and long-distance basic plans.

The consolidated net revenue totaled R\$ 9,064.9 million, exceeding in 14.5% that of 2003.

The consolidated revenue of local service amounted to R\$ 4,710.8 million in 2004, an increase of 6.3% in relation to 2003. The rise in revenues from the local service reflects the local traffic drop together with the tariff readjustment. It is important to mention that during the year BrT promoted a debugging of the defaulter lines, disconnecting those that would no longer be active in the medium term, thus reducing the plant in service.

The consolidated revenue of long distance calls amounted to R\$ 1,726.1 million in 2004, an increase of R\$ 275.6 million or 19.0% superior to the one booked in 2003. This performance reflects the success of Brasil Telecom in providing inter-regional and international long distance calls, after the certification obtained from Anatel for the accomplishment with the 2003 goals, which added R\$ 248.9 million to the long distance revenue of the Company. The marketing campaigns developed for the launching of the CSC 14 outside of Region II together with the dominant position of BrT in its concession area were fundamental for the Company to attain, by the end of 2004, an average market share of 48.9% and 26.6% in the inter-regional and international long distance segments, respectively.

In the inter-networks calls the consolidated revenue amounted to R\$ 3,097.7 million in 2004, an increase of 22.2% in relation to the previous year. The increase in the fixed-mobile traffic and the 7% readjustment for the VC-1, VC-2 and VC-3 tariffs, authorized by Anatel on February 9, 2004, are the main reasons of the increase in revenues.

Concerning interconnection, the consolidated revenue totaled R\$ 731.3 million in 2004, a reduction of 12.5% in relation to 2003, reflecting the increase of market share in the long distance segments and a 10.5% drop in the local network usage tariff, according to what was foreseen in the concession agreements.

The consolidated revenue in public telephony amounted to R\$ 478.8 million, representing 3.8% of the gross revenue in 2004, showing stability compared to the 2003 revenue. In 2004, the public telephony revenue grew 21.4% due to the number of credits sold together with the tariff readjustment.

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The consolidated revenue of supplementary and value added services amounted to R\$ 421.0 million, an increase of 18.1% in relation to 2003, reflecting mainly a 23.4% increase in the number of intelligent services activated – Virtual Voice Mail, Follow-me, Call-Waiting and caller ID which totaled 7.1 million at the end of the year.

The data transmission segment generated consolidated gross revenue of R\$ 1,237.4 million, representing an increase of 49.1% in comparison to 2003. The best performance reflects the increase of 89.9% in the number of ADSL accesses in service in the year and proved that BrT was right in its strategy of intensifying efforts on a market until 2001 unexplored by the telecommunications industry.

In 2004, precisely, in an only three-month operation, BrT GSM contributed with a gross revenue equivalent to R\$87.9 million by reaching 622.3 thousand mobile accesses, which exceeded the projections of the Group. The total ARPU accumulated in the year was R\$35, being R\$64 the ARPU of the post-paid clients and R\$16 the ARPU of the pre-paid.

Operational Costs and Expenses

The operational costs and expenses, excluding depreciation and amortization, amounted to R\$ 5,479.7 million in 2004, the equivalent of 42.9% of the gross revenue compared to 41.5% in 2003. This increase is explained, mainly, by the launching of BrT GSM.

The costs and expenses with personnel totaled R\$ 414.9 million, a drop of 1.9% in relation to 2003, due to the changes in the accounting methodology of profit sharing, reclassified in costs and expenses with personnel in 2003 results. The costs and expenses with personnel booked in 2003 were exceeded in 9.0%, excluding the effect of the accounting reclassification. The increase in personnel costs and expenses was due to the consolidation, in 2004, of MetroRED, Vant, iG and Brasil Telecom GSM, plus the collective labor agreement.

The interconnection costs reached R\$ 2,297.5 million, representing 41.9% of total cost in 2004 (38.5% in 2003), reflecting the fixed-to-mobile traffic growth as a consequence of the expansion of the mobile plant in Region II, together with the readjustment of 9.17% in the tariff of use of the mobile network, authorized by Anatel, that came in effect on February 9, 2004.

In 2004, the costs and expenses with sub-contracted services, excluding advertising and marketing expenses, amounted to R\$ 1,570.5 million, the equivalent to 28.7% of total cost, compared to 28.0% in 2003.

The advertising and marketing expenses totaled R\$ 133.6 million at the end of 2004, an increase of 56.2% in relation to 2003. The marketing actions focused on the Christmas campaign of BrT GSM and on the extension of CSC 14 operations outside of Region II explain that variation.

Provisions for doubtful accounts amounted to R\$ 410.3 million in 2004, 37.7% above the R\$ 298.0 million booked in the previous year. This increase was the result of the increase in default, implementation of the co-billing and by the consolidation of the companies acquired during 2004. In this way, the losses with accounts receivable represented 3.2% of 2004 gross revenue, 0.5 p.p. above the ratio observed in 2003.

The provisions for contingencies totaled R\$ 252.2 million in 2004, compared to R\$ 359.9 million in the previous year. In 2003, the Company registered provisions for contingencies of R\$ 246 million, related to Rio Grande do Sul branch, former Companhia Riograndense de Telecomunicações (CRT), including labor, civil, tax liabilities and procedural costs.

Brasil Telecom completed negotiations with Embratel related to existing commercial disputes, resulting in an agreement settlement of R\$ 124.5 million, which was booked in other operational revenues. The ending of the disputes will permit a substantial improvement in the commercial relationship between Brasil Telecom and Embratel, eliminating at once the administration cost of those disputes.

Still in 2004, other negotiations made possible a gain of R\$ 117.2 million, registered in other operational revenues: expenses recovery.

EBITDA

In 2004, Brasil Telecom's consolidated EBITDA amounted to R\$ 3,585.2 million, 8.2% higher than the R\$ 3,314.0 million reported in 2003.

EBITDA margin was 39.6% in 2004, compared to 41.9% in 2003. The drop in EBITDA margin reflects mainly the impact deriving from the startup of BrT GSM.

Financial Result

The consolidated net financial result in 2004 was negative in R\$ 1,024.0 million, consisting of R\$ 493.3 million income, R\$ 1,072.8 million in expenses and R\$ 444.5 million in interest on shareholders' equity. In 2003, the financial result was R\$ 1,091.0 million negative, consisting of R\$ 302.6 million income, R\$ 1,147.4 million in expenses and R\$ 246.2 million in interest on shareholders' equity.

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Non-operating Result

The Company's non-operating result was negative in R\$ 160.1 million, basically consisting of:

- R\$ 124.0 million in amortization of a goodwill regarding CRT acquisition; and
- R\$ 40.0 million in asset write-down.

Net Income

In 2004, Brasil Telecom reached a net income of R\$ 277.0 million, reverting 2003 net loss, which had been affected by provisions for contingencies and asset write-downs.

CAPEX

The Group invested R\$ 2,866.9 million in 2004, against R\$ 1,794.0 million in 2003. The increase was mainly due to the mobile network build-out and to the acquisitions of MetroRED, Vant and iG.

In the fixed telephony side, CAPEX was 8.7% lower than in comparison to 2003, reaching R\$ 1,212.4 million in 2004. It is important to mention the greatest portion directed to the data network, which represented a 24.7% stake from the fixed telephony total, against 19.9% in the previous year.

The CAPEX in the mobile telephony totaled R\$ 1,175.7 million in 2004, directed mainly in the network build-out, acquisition of the equipment and IT platforms, refurbishing and installation of 16 owned stores, pre-operational expenses and acquisition of an additional 900 MHz license, which improves the quality of the services provided. A stake of the investments forecasted to 2005 was brought forward to 2004, once the Company decided to offer a GSM coverage similar to the competitors, then reaching 626 locations and 81.2% of the Region II population.

Besides that, R\$ 159.0 million were invested in the acquisition of the remaining 80.1% of the social capital of MetroRED, R\$ 15.6 million were invested in the acquisition of the remaining 80.1% of the social capital of Vant and R\$ 301.5 million in the acquisition of 63% of the social capital of iG.

2004

2003

Indebtedness

R\$ Million	2004	2003	2004/2003
Short Term	1,103	1,990	-44.6%
In R\$	962	1,865	-48.4%
In US\$	63	46	34.9%
In Currency Basket	50	55	-8.3%
In Yenes	4	-	N.A.
Hedge Adjustment	24	24	1.1%
Long Term	4,178	2,646	57.9%
In R\$	2,597	2,271	14.3%
In US\$	693	189	265.7%
In Currency Basket	248	154	46.2%
In Yenes	561	-	N.A.
Hedge Adjustment	102	31	228.8%
Total Debt	5,281	4,636	13.9%
(-) Cash	2,398	1,466	63.6%
Net Debt	2,884	3,170	-7.4%
(-) Inter-Company	1,047	1,498	-30.1%
Net Debt (Ex Inter-Company)	1,837	1,672	9.9%

At the end of 2004, the net debt stood at R\$ 2,883.7 million, a drop of R\$ 286.4 million in relation to the observed in 2003. It is important to mention that, out of the net debt, R\$ 1,047 million were borrowed from Brasil Telecom Participações S.A. Out of the total debt, R\$ 755.4 million were dollar denominated debt, R\$ 275.6 million were currency basket denominated debt, and R\$ 565.5 million were yen denominated debt, but 48.1% were hedged against exchange variation.

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At the end of the year, the total debt stood at R\$ 5,281.5 million, whose accumulated average cost in the year was 11.4%, or 68.7% of CDI (Domestic Interbank Rate) in the same period.

The average term of the debt was 54 months on December 31, 2004, compared to 36 months at the end of the previous year. The increase in the average term of the debt was a reflect of the Company's management focus on financing alternatives to improve the debt profile, combining stretched terms and attractive costs. In 2004, Brasil Telecom raised R\$ 2.4 billion, amount equivalent to the forecast of the payment of the debt service existing in the beginning of 2004, where R\$ 1.8 billion were the principal and R\$ 600 million interest.

- Bond: Brasil Telecom's first issuance in the international market totaled US\$ 200 million. With maturity on February 18, 2014, the issuance pays semester interest of 9.375% p.a. and has a PRI (Political Risk Insurance) issued by OPIC (Overseas Private Investment Corporation), an institution that has payment guarantee from the US government.
- Loan with JBIC (Japan Bank for International Cooperation) guarantee: credit line granted by a bank union, led by SMBC (Sumitomo Mitsui Banking Corporation), which is guaranteed by JBIC, an institution of the Finance Ministry of Japan, in the amount of ¥ 21.6 billion, or R\$ 577.2 million. The financing term is seven years, with a two-year grace period for the payment of the principal. After the grace period, the principal shall be paid off in 10 semester installments. The debt cost is Yen Libor + 1.92 p.a.
- Non-convertible debentures: a R\$ 500 million operation, with a five-year duration and payment of the principal in a single amount at maturity. The interests are CDI + 1.0% p.a. and should be paid every six months. This was the first CDI five-year transaction in the Brazilian market that did not have a combination of a series of price index. Demand reached R\$ 800 million, demonstrating the Company's credibility with investors.
- BNDES (National Bank for Economic and Social Development): on August 13, 2004, the Company signed a new financing agreement of R\$ 1.27 billion with BNDES. The financing is direct with BNDES and the cost is equivalent to TJLP (Long-Term Interest Rate) + 5.5% p.a., with total duration of 6 years and 8 months, of which 1 year and 8 months of grace period for 80% of the total raised. For the remaining 20%, the cost is equivalent to a Currency Basket + 5.5% p.a. and has total duration of 6 years and 6 months, of which 1 year and 6 months of grace period. The amount disbursed by BNDES in 2004 reached R\$ 742.4 million.

The ratio net debt/net equity was 44.5% at the end of 2004, compared to 47.6% at the end of 2003. Excluding the debt with the parent company, the ratio was 28.3% at the end of 2004.

Corporate Governance

Brasil Telecom's corporate governance practices are guided by its bylaws and by the Manual for the Disclosure and Use of Information and Trading of Securities, and they are aimed at ensuring quality and transparency of the information disclosed to the market while protecting the interests of the investors. For that reason, the controlling shareholders, board members, officers and employees that have access to material information sign terms of compliance to the rules of the Manual.

On May 9, 2002, Brasil Telecom joined the Corporate Governance Level 1 of Bovespa. It started then representing the telecommunications sector within the Index of Corporate Governance (IGC), comprised by a group of publicly-held companies that adopt policies aimed at assuring quality and accuracy in information disclosed to the market.

Strengthening of the Processes and of the Internal Control Environment

The strengthening of the processes and of the internal control environment at Brasil Telecom is a common commitment to all areas. The processes are permanently evaluated by the management according to the business routine, the financial reports and the fulfillment and conformity requirements. In parallel, the internal audit department directs its activities to the areas of greatest importance and impact on the operations, reviewing models and controls from the perspective of the best practices in risk management.

In this sense, and anticipating the current regulatory requirements, Brasil Telecom has brought the Corporate Governance and the activities of control closer to each other, implementing mechanisms to assure the integrity of the major operational processes and creating the Risk Management Division to, among other activities, disseminate methodologies and concepts, thus consolidating a uniform risk management language in the Company.

During 2004, all Brasil Telecom's officers, assisted by a specialized consulting company, dedicated special attention to the assessment of the Company's risks and controls environment. From 2005 on, Brasil Telecom will implement a structured process of monitoring and self-assessment regarding the mechanisms used, where it will work with worldwide known methodology and supporting tools that will enable compliance with the requirements of the Sarbanes-Oxley Law.

Share Buyback Program

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In a meeting held on September 13, 2004, Brasil Telecom S.A.'s Board of Directors approved the share buyback program of preferred shares issued by the Company, to be kept in treasury or to be canceled, or for future sale. According to the program, the Company may purchase up to 18,760,149,302 preferred shares, which represent 10% of the total preferred outstanding shares in the market, over a period of 365 days. On December 31, 2004, Brasil Telecom S.A. had 8,106,882,000 preferred shares in the treasury department.

Independent Auditors

Under the terms of CVM Instruction no. 381/03, Brasil Telecom S.A. adopts a procedure to submit to the approval of its Board of Directors the fees and types of services to be provided by its independent audit firm. The hiring policy adopted meets the principles that preserve the independence of the auditor, according to internationally accepted criteria: the auditor should not audit its own job nor perform managerial positions to its client or even promote the interests of the latter. On October 29, 2004, KPMG Independent Auditors was contracted for the rendering of pre-agreed services related to the procedures carried out by the Company for internal control evaluation concerning the preparation of the collection processes of fixed and public telephony financial reports, which fee amounted R\$ 98.5 thousand. These pre-agreed services should not exceed one year.

General Shareholders Meeting

According to the Bylaws, the General Shareholders Meeting is the most important body of the Company, entitled to deliberate on all matters related to the social object and to take the measures necessary to defend and develop such object.

The General Shareholders Meeting of Brasil Telecom S.A. is summoned by the Chairman of the Board of Directors, with a minimum 15-day advance notice for the first convening and 10-day for the second convening.

The Ordinary General Shareholders Meeting takes place in the first four months after the end of each fiscal year, to (i) examine, discuss and vote the financial statements; (ii) deliberate on the destination of the net earnings and the distribution of dividends; (iii) elect the members of the Fiscal Council and, if necessary, the members of the Board of Directors. Extraordinary General Shareholders Meetings are held whenever required.

Board of Directors

The Company's Board of Directors must be composed by seven effective members and equal number of alternates. The Board normally meets every two months and may meet at the call of the Chairman or of two Board members, with 10-day minimum advance notice. Decisions are made on the basis of simple majority vote, provided the majority of members attend. In 2004, the Board of Directors met 12 times.

Fiscal Council

According to the Bylaws, the Fiscal Council, the body responsible for auditing the management of the Company, must be composed of three to five effective members and equal number of alternates. The Fiscal Council generally meets quarterly and decisions are taken on the basis of simple majority vote, provided the majority of members attend. The Fiscal Council met ten times during 2004.

Remuneration Policy for Shareholders

Brasil Telecom's shareholders are remunerated through dividends or the payment of interest on equity, with a minimum of 25% of net adjusted earnings for the year, in accordance with the terms of Law 6.404/76 and the Company bylaws. The Company's bylaws assure priority in the distribution of a minimum dividend of 3% of the net worth of each share, for the holders of preferred shares, always when the amount calculated according to this criterion exceeds a dividend equal to 6% of the value of the paid-up capital per share. The Company has been adopting a policy to equally remunerate the holders of common and preferred shares, attributing to them a minimum remuneration of 3% of the net equity of each share.

Dividends and Interest on Shareholders Equity (JSCP)

Fiscal Year	Type	Date of the credit	Brazilian ex-date	Payment date	Gross amount (R\$/1,000 shares)	Net amount (R\$/1,000 shares)
2004	JSCP	01/30/2004	02/11/2004	01/14/2005	0.441267654	0.375077506
2004	JSCP	12/31/2004	01/03/2005	01/14/2005	0.381087103	0.323924038

Stock Market

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Bovespa (São Paulo Stock Exchange) once again presented a positive performance in 2004, represented by an appreciation of 17.8% in comparison to 2003. The Ibovespa (Bovespa's index) closed with 26,196 points, a new historic record, reflecting the economic growth, the political stability, the positive perception by foreign investors concerning Brazil and the market reliability regarding the Brazilian Central Bank economical policy. The total volume negotiated increased 48.6% in 2004, totaling R\$ 304.1 billion, the highest amount registered in the history of the Stock Exchange.

The common (BRTO3) and preferred (BRTO4) shares of Brasil Telecom S.A. ended 2004 quoted at R\$ 14.37 and R\$ 13.70 per thousand shares, respectively. The common shares traded R\$ 4.5 million throughout the year, while the preferred shares totaled R\$ 4,1 billion.

Dow Jones ended on the rise of 3.1% with 10,783 points. The ADR of Brasil Telecom S.A. (BTM) ended the year quoted at US\$ 15.30. BTM traded US\$ 95 million in 2004.

Shares Performance

	Closing as of Dec/31/04	In December	In 2004	In 24 months	In 36 months
Common Shares (BRTO3) (R\$/1,000 shares)	14.37	0.1%	-9.9%	27.2%	36.9%
Preferred Shares (BRTO4) (R\$/1,000 shares)	13.70	3.5%	-9.9%	16.8%	3.9%
ADR (BTM) (in US\$)	15.30	5.0%	-2.9%	46.8%	-13.8%
Ibovespa (points)	26,196	4.2%	17.8%	132.5%	92.9%
Itel (points)	919	14.9%	14.9%	72.7%	37.6%
IGC (points)	2,545	11.2%	37.9%	147.8%	151.7%
Dow Jones (points)	10,783	3.4%	3.1%	29.3%	7.6%

SOCIAL REPORT

Brasil Telecom, as a modern and competitive Company, participates actively in the social development of the Country. This does not only mean to give generous donations for good causes. To support social, cultural and sports projects represents a signal of responsibility. Furthermore, it is a way to share with the Country and its citizens the results achieved.

As the social responsibility is still a priority in Brasil Telecom, the Company continued to support social, cultural and sports projects in 2004. We spent R\$ 17.3 million in 29 social projects, which benefited 70 thousand people, besides sponsoring 77 cultural projects and about 100 athletes.

Social Projects

To stimulate the society development, the Company created the Programa Brasil Telecom de Apoio a Projetos Sociais (Brasil Telecom's Support to Social Projects Program), which promotes initiatives that foster social cohesion and citizenship, making more efficient existing entities. Since its origin, Brasil Telecom supported more than 90 social projects in Brazil.

The program finances projects focused on the development of the health system, education of children, youngsters and even teachers, to extinguish poverty and social exclusion, to reduce the illiteracy rate in the Country, to promote the digital inclusion, to recover the citizenship, offering them the necessary conditions for their personal and professional growth and for the sustainable development of the Brazilian society.

Cultural Projects

No other Brazilian company invests more in culture than Brasil Telecom. Since its establishment, the Company is committed in keeping and developing culture, which is the best of the human assets. We have sponsored more than 500 cultural projects all over the Country. Our cultural sponsorship policy aims at promoting Brazilian socio-cultural diversity, strengthening new production centers and pushing out the cultural demand.

Brasil Telecom de Estímulo à Cultura Program aims at discovering new talents, valuing the artistic potential of renowned personalities and democratizing the access to cultural assets. This program has allowed for the expansion of artistic manifestations and for a closer relationship with people involved in arts and the community.

Sports Projects

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Brasil Telecom is one of the biggest private sponsors to the Brazilian Olympic sports. There are more than 100 olympic sports athletes (triathlon, athletics, volleyball, artistic gym, swimming) and radical sports athletes (adventure racing, parachuting and ultra-marathons) displaying the logo of one of the main telephone operators in the Country. Among them there are new talents and awarded athletes as the gymnast Daiane dos Santos, placed world fifth in floor exercises in the Olympic Games and first in the World Championship, last November in England. In athletics, our 4x100m relay-race team was finalist in the Olympic Games in Athens. Another bet of Brasil Telecom in relay-race is the support given to the Brasil Telecom Athletics Team, in Presidente Prudente, where the athletes are trained.

Brasil Telecom is the official sponsor to the Brazilian Triathlon since December 2001. This sponsorship was essential for Brazil to be among the six countries that classified a whole triathlon team for the Olympic Games in Athens.

The Olympic Games show the interest of Brasil Telecom in contributing to the evolution of the sport over the last three years. Brasil Telecom sponsored 25 athletes out of 245 participants of the Brazilian Delegation, which represents more than 10% of the Brazilian athletes. Concerning the Para-Olympics, also held in Athens, Brasil Telecom sponsored two participants: André Ramos, a visual handicapped athlete that conquered one gold and one silver medal in athletics; and Rivaldo Martins, competing in the category of amputated with prothesis, was placed sixth in cycling.

For the third year we sponsored Ironman Brasil Telecom, in Florianópolis, the only phase held in Latin America. The number of athletes that participate in this competition increases every year. In 2004, 1,002 athletes represented 36 countries. Brasil Telecom was placed third in the 1st Ranking of Concept and Image, sponsored by Running Brasil. The Company is acknowledged as one of the most outstanding sponsors to athletics, triathlon and adventure race.

Brasil Telecom also started sponsoring the Brasil Telecom Women's Volleyball Team led by two Olympic medals: William de Carvalho as a coach and Renan Dal Zotto as project advisor. With only two months of training the team won the Brasília Championship in 2004.

Quality of Life Program Viva Mais

The Quality of Life Program Viva Mais is based on four key elements: sports, health, leisure and citizenship and has been improved during 2004 following suggestions from employees.

The main objective of the Company with Viva Mais is to encourage its workforce to adopt a healthier life style by practicing sports and better managing their free time.

Viva Mais Esporte

Brasil Telecom promoted the Breakfast Run for nine thousand participants, employees and their families, in four events during the year. We supported six employees in the New York Marathon as part of the Maratonistas Daqui Program and we also organized adventure trips.

The Running and Walking Program introduced My First Medal Program, where 245 employees were enrolled in running races of the official calendar within Brasil Telecom's concession area.

The 3rd Internal Games of Brasil Telecom count on the participation of 300 employees during two weeks.

Viva Mais Saúde

Viva Mais Saúde offers the prevention and alternative health plan Viver Plus and the dental plan Viver Odonto. The employees participate in vaccination campaigns, medical check-ups, stretching and massage in the work place.

We created the Viva Mais Saúde space, where specialists offer acupuncture, RPG, physiotherapy, lymphatic drainage, orthopedic, psychology, iridology and floral treatment.

Viva Mais Lazer

The Viva Mais Lazer promotes raffles for shows, theater plays and other events sponsored by Brasil Telecom, promotes several art craft and wine courses and supports the Viva Mais Cantando choir, with the participation of 150 employees in the III Choir Festival held at the headquarters of Brasil Telecom at the end of the year. Furthermore, Viva Mais Lazer made agreements with movie theaters, inns, country farm hotels, water parks and dancing clubs.

Volunteer Program

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Brasil Telecom's volunteer program, Viva Mais Cidadania fosters volunteer projects, campaigns and actions involving employees and their families. In this way, Brasil Telecom promotes social responsibility and citizenship among its employees. During 2004, a great job has been performed at Cristo Vivo orphanage, an institution that assists 100 children up to 18 years old. The volunteer initiatives included contests, vegetable garden planting and orientation about personal hygiene. About 550 employees have dedicated themselves to volunteer activities during this year.

Quality in HR

Aware that people are responsible for the success and the overcoming of challenges, mainly in a sector that goes through constant changes and in a market where quality of service is fundamental, Brasil Telecom developed programs focused on success recognition and on support to achieve results.

Integrated System of People Management

Brasil Telecom started to structure the Integrated System of People Management based on Competence. The System criteria will be defined by a group of managers aligned with the expectations of the Company derived from its strategic guidelines.

The main outcomes allowed by this System are the alignment of the employees towards the targets of the Company and people's management based on flexibility of the model adopted, in order to facilitate constant adaptations to changes in structure, internal processes and technologies.

For the employees, the System implies the consolidation of a self-developing culture, the broadening of their operating and assessing area, the development of individual qualifications and the definition of objective and transparent criteria for decision in people's management.

Outstanding People

The Program Outstanding People aims at recognizing the employees who, individually or in a team, implemented projects that outstood in terms of innovation and creativity, as well as in results achieved.

At each edition, the Company reviews the categories and prizes so they can be aligned to its strategy. The 2004 cycle represented the sixth edition of the Program and consisted of seven categories and 32 prizes.

The Program becomes stronger each year, thanks to the participation of employees and the quality of the projects submitted. In 2004, there were more than 900 registrations, being the number of projects registered the previous year exceeded in 50%. To consolidate the Outstanding People Program, Brasil Telecom has adopted assessment criteria based on the PNQ - National Quality Award.

TOR - Result Optimization Teams

The Result Optimization Teams Program provides conditions for the development and full use of the workforce's potential as a way to achieve goals and overcome challenges.

Created in 2000, the Program consists of multifunctional teams involved in meeting challenges associated to the Company's strategies, promoting interaction, learning, integration and experience exchange throughout the organizational levels. During 2004, about 60 teams were constituted, directly involving more than 400 employees, as well as partners and suppliers.

Sales Boost Program - Your best

In its third edition, the Sales Boost Program chose the motto "Your best" to motivate the employees. In addition to encouraging sales, the objective was to prompt the sales force to think of things and moments that drove them to overcome challenges. Based on the samurais' wisdom, the third edition of this Program showed the salespeople that talent and work lead someone towards results and success.

In 2004, more than 800 employees were encouraged and motivated to look after and to surpass results, compared to 515 in 2003. The program assigns monthly awards to the three salespeople that best succeed in each market and branch, plus an award assigned to the best team in residential and public telephony markets.

Young Salesman Program

The Program was launched in January 2003 with the objective of identifying and developing young and recent communications graduates with a feeling for the business - a perfect combination that benefits both Company and customers. In the Young Salesman Program, one learns by

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practice and is ready and prepared at any time to hold positions in Brasil Telecom's commercial area. This initiative assures the renovation of the commercial force of the Company. In 2004, 2,060 candidates participated in the selection process and 44 were hired.

Junior Company

The program consists of partnerships with Junior Companies inserted in universities or colleges of the major cities where Brasil Telecom operates. The objective is to develop new product and service sales channels, focusing on business, entrepreneurial and residential markets, and to value the curricula of young talents that might hold a position in Brasil Telecom.

HR Strategy

Brasil Telecom workforce is formed by professionals of several organizational and social cultures. The selection and recruitment processes are either carried out locally or on a nationwide basis, depending on the position available. Brasil Telecom manages its intellectual capital, valuing internal talents and providing carrier and professional development.

Young Professional Assessment

The assessment is made via professional assessment tools that identify his/her present stage of delivery concerning the needs of the organization. In Brasil Telecom, the Assessment was implemented for interns and employees with ages between 20 and 30 with outstanding potential and performance, in order to identify those capable of contributing or developing more complex activities with a higher degree responsibility. In 2004, 113 interns and 158 employees participated in the program, and 20 interns and 44 employees stood out for their performance.

The expected results are:

- to gather information for specific actions of development, carrier flexibility, retention and succession plans;
- to align carrier expectations, Company and individual objectives of employees and interns.

Internship Program

With the Internship Program, the young students selected, in contact with the Company's culture, may act as agents of renewal and as sources of new ideas as well. Brasil Telecom creates learning opportunities and contributes to the development of young professionals' technical and behavioral abilities. At the end of 2004, there were 378 interns and throughout the year 117 were hired.

Trainee Program

The Trainee Program occurs at each two years and has the objective to recruit youngsters up to two years of graduation, with outstanding potential and willing to work in the telecommunications industry. The success of the Program is testified by the first results of the Assessment, when 30% of the outstanding performers were former trainees. The results attained by Brasil Telecom since privatization, the favorable economic-financial situation, growth opportunities and intellectual capital are factors that every year attract more interested people in search of a place in the Trainee Program.

Summer Internship Program

The Summer Internship Program aims at identifying potential Brazilian executives currently attending MBA courses in renowned institutions in the United States, such as Harvard, Wharton, Stanford, Darden, Berkeley, Michigan, Kellogg, Chicago, Columbia, among others, and also in Europe, such as the London Business School.

The program attracts professionals with multicultural and integrated vision of the global scenario, a taste for learning and the ability to analyze processes from multiple perspectives. The interns that worked in 2004 achieved excellent results in their projects, thus raising Brasil Telecom's interest in hiring some of the professionals, at the end of their respective courses, in June 2005.

The applications for the fourth edition of the Summer Internship Program started in December 2004, when up to five new students may be selected.

Compensation Strategy to Employees

Brasil Telecom's compensation policy aims at encouraging the achievement of strategic objectives of the Company, attracting and retaining qualified professionals committed to the business excellence. In addition to the salary, the annual compensation consists of the profit sharing,

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based on the achievement of previously agreed targets.

Profit Sharing Program

In March 2004, Brasil Telecom paid approximately R\$ 13 million to its employees, in profit sharing related to 2003 fiscal year. The amounts related to the results obtained in 2004 are to be paid at the end of the first quarter of 2005.

From the managerial level on, Brasil Telecom pays annual bonuses, which vary between two and eight times the monthly remuneration, depending on the performance evaluation and the fulfillment of previously defined goals.

Variable Compensation to Sales Force

For the sales force professionals, Brasil Telecom adopts variable compensation linked to the fulfillment of goals, aiming at encouraging the employees in the government, corporate and entrepreneurial markets to keep improving their results, as well as to promote customer's loyalty.

In 2004, the program was scheduled for the customers' service cell, which assists the entrepreneurial market and consists of 40 phone consultants with activities directly linked to active sales.

Collective Labor Agreement

The Collective Labor Agreement for 2003/2004 defined a salary readjustment between 7.0% and 11.0%, according to the salary bracket. The benefits granted by Brasil Telecom remain the same.

Benefits

Health Plan

The coverage and the quality of the health plan are fundamental in Brasil Telecom. The Company offers health insurance that provides medical, hospital and dental care to all employees in the Brazilian territory. The senior management have health insurance abroad.

The employee is responsible for 20% of all medical expenses. The discount in the Company's payroll is limited to the ceiling established by the health plan chosen. As for dental expenses, the employee pays 30% of the total and the discount on the payroll is limited to 20% of the salary. Brasil Telecom also offers an alternative health plan, including specialties such as nutrition, physiotherapy, acupuncture, psychotherapy and massage, among others.

Meals

Brasil Telecom distributes monthly meal benefits in form of an electronic card for the purchase of food at supermarkets, restaurant tickets for use in establishments accredited by the supplier, as well as via the Worker's Meal Program.

Group Life Insurance

Brasil Telecom has a group life insurance policy that guarantees life indemnity to the employees and their dependents, with coverage for natural and accidental death, total disability resulting from disease and total or partial disability resulting from accidents. The indemnity amount for natural death is 30 times the employee's nominal salary. In case the spouse of the insured dies, the indemnity is 15 times the nominal amount. If the death results from an accident, then the amount of indemnity is doubled. In case of disability, the amount can be proportional or 100% of the indemnity covered by natural death. The payout in all cases is limited to a maximum of R\$ 900,000.00.

Private Pension Plan

In 2004, the Company continued the reorganization of its private pension plans. In this context, the following outcomes are worth noting: the approval by SPC (Private Pension Plan Department) of the constitution of Fundação 14 de Previdência Privada, the agreement regarding the entry of two new sponsoring companies linked to the economic group and about 1,750 new active participants joining BrTPrev.

At the end of the year, the assets of the four pension plans sponsored by the Company totaled about R\$ 1.2 billion and had approximately 6,400 active participants and 5,450 retired and pensioners. The contributions of BrT reached a monthly average of R\$ 1.7 million and the benefits to retired and pensioners represented a monthly payment of approximately R\$ 9.7 million.

Training

The Training Program gave priority to the sales force qualifications, in view of the launching of Brasil Telecom GSM, as well as to the customers' service area, so as to assure excellence and satisfaction in customer's relationship.

Training

Brasil Telecom	Trainees	Hours of Training	Cost(R\$ thousand)
Fixed Telephony	786	31,895	3,518
Mobile Telephony	553	131,847	3,014
Total	1,339	163,742	6,532

The e-learning tool, which allows for distance learning, enabled 55 new courses, preparing employees and partners in areas such as IT, products and services, technologies (GSM, IP and ATM), English and Clarify and PeopleSoft systems.

For the second consecutive year, Brasil Telecom was awarded by Micropower - an e-learning solution supplier - and ABRH/SP (Brazilian Association of Human Resources of the State of São Paulo) as a national reference in distance training.

Health, Safety and Environment

In 2004, Brasil Telecom started to implement several processes with the objective of consolidating the SSMA (Health, Safety and Environment) policy, adopted by all employees and hired companies. Among several improvements, we may list the following:

- the SIG (Integrated System of Health, Safety and Environment Management) consists of tactic and operational teams composed by employees of BrT and of hired companies that are part of the management of SSMA.
- Brasil Telecom coordinated the creation of the SSMA Telecom Group with the participation of companies that provide fixed or mobile telecommunications services.
- Brasil Telecom developed a partnership with its third parties, aiming at improving the SSMA procedures and training standardization.
- PCMSO - Occupational Health Medical Control Program, managed by a medical coordinator at of BrT headquarters, implemented a standard procedure extended to all employees.
- Brasil Telecom has been recognized by UNAIDS (Joint Program of the United Nations to prevent DST/AIDS in Brazil) in view of the implementation of a project to prevent DST/AIDS in the workplace.
- BrT implemented PST - Safety in Driving and Ergonomic Programs. The effects of several processes could already be felt in 2004. The number of lost working days due to work accidents and occupational diseases reached 821 and 2,909 respectively, representing a reduction of 34% and 44% compared to the previous year and showing productivity gain and better health of employees.

Workforce

Brasil Telecom ended the year with 6,476 direct employees, an increase of 23.1% compared to the previous year, mainly due to the startup of BrT GSM operation. During this year, 1,696 were admitted and 618 were dismissed. Furthermore, BrT incorporated 17 employees from Vant and 121 from MetroRed.

By the end of December, 881 people integrated Brasil Telecom GSM's workforce, allocated in the commercial, new businesses and management and sales planning areas. In the other areas, synergy was fully adopted and the fixed operation team is assisting the necessities of the mobile operation, with no negative impact in the quality of the services provided.

Number of employees per company

Company	2004	2003	Variation
Brasil Telecom S.A. (BrT)	5,313	5,064	4.9%
BrT Serviços de Internet S.A. (BrTSI)	50	22	127.3%
Brasil Telecom GSM (BrT GSM)	881	71	1,140.8%
BrT Cabos Submarinos Group	23	23	0.0%
iBest	71	80	-11.3%
MetroRED	121	0	-
Vant	17	0	-

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Total	6,476	5,260	23.1%
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With regard to the distribution by function, the main change in the direct workforce was related to the marketing and sales areas, whose staff has been increased by 69.3%. However, the IT, general and administrative areas hired people to support the launching of BrT GSM.

Out of the 6,476 employees, 107 were of licensed status at the end of 2004, not belonging to the effective workforce of Brasil Telecom. One should point out the effort developed to discontinue the licensed personnel, obtaining a reduction of 26% on the specific workforce in relation to 2003.

Number of employees by function

Function	2004	2003	Variation
Marketing and Sales	2,045	1,208	69.3%
Call Centers	425	404	5.2%
Network	2,186	2,084	4.9%
Expansion	543	546	-0.5%
Operation	1,643	1,538	6.8%
Information Technology	514	424	21.2%
General and Administrative	1,199	996	20.4%
Corporate Management	263	237	11.0%
Materials and Services	250	229	9.2%
Human Resources	113	100	13.0%
Financial	573	430	33.3%
Licensed	107	144	-25.7%
Total	6,476	5,260	23.1%

Employees Profile

Distribution by age group

In 2004, the average age of Brasil Telecom's workforce changed from 37 to 36 years, as shown in the following table:

Distribution by Age Group

Age (years old)	2004	%	2003	%	Relative Variation
Up to 22	215	3.3%	122	2.3%	1.0 p.p.
From 23 to 27	1,256	19.4%	814	15.5%	3.9 p.p.
From 28 to 32	1,318	20.3%	947	18.0%	2.3 p.p.
From 33 to 37	1,038	16.0%	834	15.9%	0.1 p.p.
From 38 to 42	856	13.2%	836	15.9%	-2.7 p.p.
From 43 to 47	882	13.6%	916	17.4%	-3.8 p.p.
From 48 to 52	699	10.8%	622	11.8%	-1.0 p.p.
From 53 to 57	183	2.8%	150	2.9%	-0.1 p.p.
Over 58	29	0.4%	19	0.4%	0.0 p.p.
Total	6,476	100%	5,260	100%	-
Average Age		36		37	

Distribution by Time of Service

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The increase of the workforce due to hiring or due to the acquisition of new companies concentrated in three specific age groups: employees until two years of work, employees with time of service between 3 and 5 years and employees between 6 and 10 years in Brasil Telecom. The average time of service in Brasil Telecom was reduced from 11 years in 2003 to 9 years in 2004.

Distribution by Time of Service

Time of Service (years)	2004	%	2003	%	Relative Variation
Up to 2	2,408	37.2%	1,438	27.3%	9.9 p.p.
From 3 to 5	1,280	19.8%	919	17.5%	2.3 p.p.
From 6 to 10	742	11.5%	781	14.8%	-3.3 p.p.
From 11 to 15	361	5.6%	365	6.9%	-1.3 p.p.
From 16 to 20	505	7.8%	536	10.2%	-2.4 p.p.
From 21 to 25	578	8.9%	741	14.1%	-5.2 p.p.
From 26 to 30	529	8.2%	437	8.3%	-0.1 p.p.
Over 31	73	1.1%	43	0.8%	0.3 p.p.
Total	6,476	100%	5,260	100%	-
Average Time of Service		9		11	

Distribution by Gender

Brasil Telecom employs 2,136 women working for Brasil Telecom, which represented 33.0% of the workforce at the end of 2004. Of this total, 98 women have a leading position, which represents 16.7% of the leaders of the Company, stable if compared to 2003.

Distribution by Gender

Gender	2004	%	2003	%	Relative Variation
Male	4,340	67.0%	3,643	69.3%	-2.3 p.p.
Female	2,136	33.0%	1,617	30.7%	2.3 p.p.
Total	6,476	100%	5,260	100%	-

Distribution by Educational Level

The table below shows that 58.6% of the workforce in 2004 has a University degree, compared to 55.8% in the previous year.

Distribution by Educational Level

Educational Level	2004	%	2003	%	Relative Variation
Incomplete elementary education	27	0.4%	31	0.6%	-0.2 p.p.
Complete elementary education	31	0.5%	39	0.7%	-0.2 p.p.
Incomplete high school education	42	0.6%	42	0.8%	-0.2 p.p.
Complete high school education	1,425	22.0%	1,391	26.4%	-4.4 p.p.
Incomplete undergraduate education	1,160	17.9%	823	15.6%	2.3 p.p.
Complete undergraduate education	2,967	45.8%	2,266	43.1%	2.7 p.p.
Specialization	742	11.5%	596	11.3%	0.2 p.p.
Masters Doctorate Post-doctorate	82	1.3%	72	1.4%	-0.1 p.p.

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Total	6,476	100%	5,260	100%	-
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Disabled and rehabilitated staff

Considering direct staff, Brasil Telecom ended 2004 with 107 disabled and rehabilitated employees, compared to 118 in the previous year.

Outsourced

The companies that provide services to Brasil Telecom in areas such as call centers, maintenance and operation of internal and external plants, cleaning, surveillance, corporate security and IT maintenance employed 26,650 people at the end of 2004.

Value Added Statement

The value added to be distributed by Brasil Telecom in 2004 totaled R\$ 8,856.4 million, exceeding in 11.9% the one registered in the previous year. The main changes in relation to the distribution of value added can be summarized as follows:

- 80.5% increase in dividends/JSCP distribution, reflecting Brasil Telecom's commitment with the shareholders;
- 22.8% increase in the stake related to the government;
- 9.4% increase in the stake related to wages, due to the increase in the number of employees working for the Group due to the acquisitions of companies during 2004.

Consolidated Value Added

R\$ Million	2004		2003	
(+) Revenues	12,624.9	142.6%	10,897.8	137.7%
Revenues of services	12,693.8	143.3%	11,077.4	139.9%
Other revenues	461.5	5.2%	238.2	3.0%
Discounts, Provisions and Losses with Accounts Receivable	(530.3)	-6.0%	(417.7)	-5.3%
(-) Materials acquired from third parties	(4,265.1)	-48.2%	(3,285.7)	-41.5%
Materials	(208.7)	-2.4%	(89.7)	-1.1%
Services	(4,004.4)	-45.2%	(3,146.5)	-39.8%
Other	(52.1)	-0.6%	(49.5)	-0.6%
(=) Value Added	8,359.8	94.4%	7,612.1	96.2%
Value added from third parties (financial revenue, equity pick up and dividends received)	496.6	5.6%	303.5	3.8%
(=) Value Added to be Distributed	8,856.4	100.0%	7,915.6	100.0%
(=) Distribution of Value Added	(8,856.4)	-100.0%	(7,915.6)	-100.0%
(+) Compensation for work (salaries and benefits)	(411.9)	-4.7%	(376.4)	-4.8%
(+) Government (taxes, contributions and pension contributions)	(3,879.8)	-43.8%	(3,158.6)	-39.9%
(+) Rented property (interest, rent and leasing)	(1,396.9)	-15.8%	(1,490.4)	-18.8%
(+) Shareholders (dividends/remaining profit)	(444.5)	-5.0%	(246.2)	-3.1%
(+) Minority stake	(6.3)	-0.1%	0.0	0.0%
(+) Retained value (depreciation, amortization and retained profits)	(2,717.1)	-30.7%	(2,644.1)	-33.4%

Brasília, March 29, 2005.

The Management

BRASIL TELECOM S.A
BALANCE SHEETS
December 31, 2004 and 2003
(In thousands of Brazilian reais)

	Notes	Parent Company		Consolidated	
		12/31/04	12/31/03	12/31/04	12/31/03
ASSETS					
CURRENT ASSETS		4,834,911	3,918,130	5,802,014	3,985,525
Cash and Cash Equivalents	18	1,963,524	1,413,334	2,397,810	1,465,765
Trade Accounts Receivable	19	1,976,376	1,850,940	2,111,579	1,859,713
Inventories	20	6,097	8,042	174,033	8,042
Loans and Financing	21	1,065	1,963	2,540	2,446
Deferred and Recoverable Taxes	21	560,558	492,745	735,700	501,281
Judicial Deposits	22	144,260	40,363	144,770	40,367
Other Current Assets	23	183,031	110,743	235,582	107,911
NONCURRENT ASSETS		1,253,526	1,304,969	1,299,476	1,363,061
Inventories	20	-	19,053	-	19,053
Loans and Financing	21	96,823	7,513	8,204	7,513
Deferred and Recoverable Taxes	22	602,803	732,010	729,695	736,367
Judicial Deposits	23	473,980	417,610	476,228	417,610
Advances for future Capital Increase		0	6,965	0	6,965
Other non-current Assets	24	79,920	121,818	85,349	175,553
PERMANENT ASSETS		9,959,513	9,773,929	10,301,014	9,977,418
Investments	25	2,028,522	540,975	477,607	286,418
Property, Plant and Equipment	26	7,358,314	8,632,200	8,897,226	9,045,955
Deferred Charges	27	572,677	600,754	926,181	645,045
TOTAL		16,047,950	14,997,028	17,402,504	15,326,004
LIABILITIES					
CURRENT LIABILITIES		3,839,933	3,902,759	4,808,710	3,957,807
Payroll and Related Charges	28	57,316	59,417	73,238	61,550
Accounts Payable and Accrued Expenses	29	1,134,097	945,798	1,883,699	987,403
Indirect Taxes	30	647,644	435,782	750,759	439,215

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Taxes on Income	31	40,898	21,357	47,964	22,663
Dividends/Interest on Shareholders' Equity and Profit Sharing	32	464,197	293,484	472,071	296,248
Loans and Financing	33	1,103,131	1,990,276	1,103,133	1,990,276
Licenses	34	-	-	44,056	-
Provision for Contingencies	7	290,727	48,509	327,643	48,509
Provision for Pension Plan	35	29,497	28,022	29,497	28,022
Other Current Liabilities	37	72,426	80,114	76,650	83,921
NONCURRENT LIABILITIES		5,718,678	4,423,451	6,074,179	4,697,372
Payroll and related charges	28	4,834	7,850	4,834	7,871
Accounts Payable and Accrued Expenses	29	3,504	860	3,504	860
Indirect Taxes	30	601,572	582,495	604,942	583,194
Taxes on Income	31	34,630	26,491	35,206	27,005
Loans and Financing	33	4,151,535	2,645,563	4,178,365	2,645,563
Licenses	34	-	-	261,548	211,847
Provision for Contingencies	7	400,717	647,826	411,202	650,236
Provision for Pension Plan	35	471,949	478,068	471,949	478,068
Advances from Customers	36	7,150	9,044	73,978	11,431
Other non-current Liabilities	37	42,787	25,254	28,651	81,297
MINORITY INTEREST		-	30,276	7	
SHAREHOLDERS' EQUITY AND FUNDS FOR CAPITALIZATION		6,489,339	6,670,818	6,489,339	6,670,818
SHAREHOLDERS' EQUITY	8	6,481,365	6,662,844	6,481,365	6,662,844
Capital		3,401,245	3,373,097	3,401,245	3,373,097
Capital Reserves		1,552,125	1,579,823	1,552,125	1,579,823
Profit Reserves		1,620,445	1,785,572	1,620,445	1,785,572
Legal Reserve		287,672	273,244	287,672	273,244
Retained Earnings		1,332,773	1,512,328	1,332,773	1,512,328
Treasury Stock		(92,450)	(75,648)	(92,450)	(75,648)
FUNDS FOR CAPITALIZATION	38	7,974	7,974	7,974	7,974
TOTAL		16,047,950	14,997,028	17,402,504	15,326,004

See the accompanying notes to the financial statements.

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BRASIL TELECOM S.A.
STATEMENTS OF INCOME
 Years ended December 31, 2004 and 2003
 (In thousands of Brazilian reais)

	Notes	Parent Company		Consolidated	
		2004	2003	2004	2003
GROSS REVENUE	9	12,519,508	11,063,096	12,763,442	11,077,381
Revenue Deductions	9	(3,609,723)	(3,140,943)	(3,698,586)	(3,162,187)
NET REVENUE	9	8,909,785	7,922,153	9,064,856	7,915,194
Cost of Services Rendered and goods sold	10	(5,557,599)	(4,752,516)	(5,828,012)	(4,853,373)
GROSS PROFIT		3,352,186	3,169,637	3,236,844	3,061,821
OPERATING INCOME (EXPENSES)		(2,028,630)	(1,935,216)	(2,116,558)	(1,830,226)
Selling Expenses	11	(1,097,478)	(947,010)	(1,085,777)	(819,937)
General and Administrative Expenses	12	(902,015)	(770,883)	(961,586)	(788,242)
Management Remuneration		(7,103)	(6,748)	(7,998)	(7,094)
Other Operating Income (Expenses)	13	(22,034)	(210,575)	(61,197)	(214,953)
OPERATING INCOME BEFORE FINANCIAL EXPENSES AND EQUITY IN SUBSIDIARIES		1,323,556	1,234,421	1,120,286	1,231,595
Financial Expenses, Net	14	(1,003,417)	(1,091,538)	(1,024,014)	(1,091,002)
Equity in Subsidiaries	25	(137,402)	(8,625)	-	-
OPERATING INCOME		182,737	134,258	96,272	140,593
Non-operating expenses, net	15	(182,892)	(471,721)	(160,078)	(469,045)
INCOME (LOSS) BEFORE TAXES AND PROFIT SHARING		(155)	(337,463)	(63,806)	(328,452)
Income and Social Contribution Taxes	16	(103,393)	65,946	(43,671)	58,017
INCOME (LOSS) AFTER TAXES AND BEFORE PROFIT SHARING		(103,548)	(271,517)	(107,477)	(270,435)
Employees and Management Profit Sharing	17	(52,400)	-	(53,783)	(1,076)
Minority interest	-	(6,276)	14		
INCOME (LOSS) BEFORE REVERSAL OF INTEREST ON SHAREHOLDERS' EQUITY	8	(155,948)	(271,517)	(167,536)	(271,497)
Reversal of Interest on Shareholders' Equity		444,500	246,200	444,500	246,200
NET INCOME (LOSS) FOR THE YEAR		288,552	(25,317)	276,964	(25,297)
Number of shares outstanding at year-end (in millions)		541,608	539,447	541,608	539,447
Earnings (Loss) per thousand shares (in Reais - R\$)		0.53	(0.05)	0.51	(0.05)

See the accompanying notes to the financial statements.

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BRASIL TELECOM S.A.
STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
 Years ended December 31, 2004 and 2003
 (In thousands of Brazilian reais)

	Capital Reserves						Profit Reserves			Treasury Stock	Total
	Capital	Premium on Subscription of Shares	Special Goodwill Reserve from Merger	Donations and Subvention for Investments	Interest on Work in Progress	Special Monetary Restatement Law - 8200/91	Other	Legal Reserve	Retained Earnings		
Balances at December 31, 2002	3,335,770	341,551	252,121	123,274	745,756	31,287	119,317	273,244	1,802,044	(60,829)	6,963,535
Capital Increase											
Tax Benefit on Amortization of Goodwill from Merger	37,327	27,045	(64,372)								
Additions to Capital Reserves											
Tax Incentives - FINAM							3,844				3,844
Other Changes in Retained Earnings											
Loss for the Year									(25,317)		(25,317)
Proposed Allocation of Income											
Dividends/Interest on Shareholders' Equity									(246,200)		(246,200)
Other Changes in Shareholders' Equity											
Reduction in Treasury Stock (CRT)									(18,199)	18,199	
Stock Repurchase										(33,018)	(33,018)
Balances at December 31, 2003	3,373,097	368,596	187,749	123,274	745,756	31,287	123,161	273,244	1,512,328	(75,648)	6,662,844
Capital Increase											
Tax Benefit on Amortization of Goodwill from Merger	28,148	36,223	(64,371)								
Additions to Capital Reserves											
Donations and subsidies				277							277
Tax Incentives - FINAM							173				173
Other Changes in Retained Earnings											
Net income for the Year	288,552	288,552									
Forfeited dividends	11,569	11,569									
Proposed Allocation of Income											
Transfers to reserves								14,428	(14,428)		-
Dividends/Interest on Shareholders' Equity									(444,500)		(444,500)
Other Changes in Shareholders' Equity											
Reduction in Treasury Stock (CRT)									(20,748)	20,748	-

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Stock Repurchase										(37,550)	(37,550)
Balances at December 31, 2004	3,401,245	404,819	123,378	123,551	745,756	31,287	123,334	287,672	1,332,773	(92,450)	6,481,365

See the accompanying notes to the financial statements.

BRASIL TELECOM S.A.
STATEMENTS OF CHANGES IN FINANCIAL POSITION
 Years ended December 31, 2004 and 2003
 (In thousands of Brazilian reais)

	Parent Company		Consolidated	
	2004	2003	2004	2003
SOURCES FROM OPERATING ACTIVITY				
Net Income (Loss) for the Year	288,552	(25,317)	276,964	(25,297)
Minority interest	-	-	6,276	(14)
Items not affecting working capital	2,976,057	3,132,985	2,973,566	3,137,927
Depreciation and Amortization	2,457,592	2,195,376	2,589,649	2,206,422
Deferred Direct Taxes	146,909	23,720	146,909	23,720
Deferred Indirect Taxes	8,094	154,019	8,094	154,019
Equity in Subsidiaries	137,402	8,625	-	-
Investments Losses	866	-	23,772	5,168
Provision for Contingencies	110,901	299,196	97,400	299,141
Monetary Variation and Interest on Long-Term Items	58,304	105,086	54,863	105,146
Write-off of Permanent Assets	59,005	350,552	54,389	347,885
Other Expenses (Income)	(3,016)	(3,589)	(1,510)	(3,574)
Total Sources from Operating Activity	3,264,609	3,107,668	3,256,806	3,112,616
SOURCES FROM THIRD PARTIES				
Loans and Financing	2,426,589	23,731	2,427,008	23,731
Licenses - Wireless Services	-	-	28,624	-
Advances from customers	-	-	22,900	-
Transfer from Noncurrent to Current Assets	194,690	45,167	195,358	48,413
Transfer from Permanent to Current Assets	-	14,430	-	14,430
Sale of Permanent Assets	7,330	19,063	7,367	19,063
Other sources	22,793	90	32,988	5,043
Total Sources from Third Parties	2,651,402	102,481	2,714,245	110,680
TOTAL SOURCES	5,916,011	3,210,149	5,971,051	3,223,296
USE OF FUNDS				
Increase in Noncurrent Assets	299,286	151,986	327,189	155,666
Judicial Deposits	76,718	91,021	76,863	91,021
Tax carryforwards - ICMS on Acquisition of Fixed Assets	87,908	56,359	207,195	59,416
Prepaid Expenses	23,614	-	24,401	7

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Capitalizable Investments	8,827	4,000	-	4,000
Financial Investments - Loans	88,619	606	1,180	606
Other Investments	13,600	-	17,550	616
Increase in Permanent Assets	2,814,515	1,670,705	2,818,820	1,757,201
Investments	1,635,454	357,589	478,015	349,410
Property, Plant and Equipment	977,312	1,155,533	1,841,247	1,211,751
Deferred Charges	201,749	157,583	499,558	196,040
Accrued Dividends/Interest on Shareholders' Equity	444,500	246,200	444,500	246,200
Treasury Stock Repurchase	37,550	33,018	37,550	33,018
Transfer from Noncurrent to Current Liabilities	1,340,553	1,832,082	1,374,418	1,832,877
Transfer from Current to Noncurrent Assets	-	53,674	-	53,674
Other	1,097	2,059		
TOTAL USES	4,936,404	3,988,762	5,002,477	4,080,695
Increase (Decrease) in Net Working Capital	979,607	(778,613)	968,574	(857,399)
CHANGES IN WORKING CAPITAL REPRESENTED BY				
Final working capital				
Current Assets	4,834,911	3,918,130	5,802,014	3,985,525
Current Liabilities	3,839,933	3,902,759	4,808,710	3,957,807
	994,978	15,371	993,304	27,718
Less - Initial working capital				
Working Capital on December 31 of Prior Year	15,371	793,984	27,718	845,817
Merged working capital	-	-	(2,988)	39,300
INCREASE (DECREASE) IN NET WORKING CAPITAL	979,607	(778,613)	968,574	(857,399)

See the accompanying notes to the financial statements.

BRASIL TELECOM S.A.
STATEMENTS OF CASH FLOWS
Years ended December 31, 2004 and 2003
(In thousands of Brazilian reais)

	Parent Company		Consolidated	
	12/31/04	12/31/03	12/31/04	12/31/03
OPERATING ACTIVITY				
Net Income (Loss) for the year	288,552	(25,317)	276,964	(25,297)
Minority Interest	-	6,276	(14)	
Items that do not Affect Cash Flows	4,187,131	4,196,089	4,231,583	4,205,398
Depreciation and Amortization	2,457,592	2,195,376	2,589,649	2,206,422
Losses on Trade Accounts Receivable	350,505	267,835	353,750	268,787
Provision for Doubtful Accounts	54,024	28,821	56,594	29,256
Provision for Contingencies	247,523	361,453	252,200	361,399
Deferred Taxes	213,634	124,174	270,013	126,655
Write-off of Permanent Assets	59,005	350,552	54,389	347,885
Financial Charges	668,025	869,797	648,966	869,857
Equity in Subsidiary	137,402	8,625	-	-
Other	(579)	(10,544)	6,022	(4,863)
Changes in Assets and Liabilities	(939,960)	(939,531)	(1,369,460)	(935,693)
CASH FLOW FROM OPERATING ACTIVITY	3,535,723	3,231,241	3,145,363	3,244,394
FINANCING				
Dividends/Interest on Shareholders' Equity Paid				
During the Period	(208,089)	(268,537)	(208,089)	(269,051)
Loans and Financing	(11,228)	(1,268,452)	(1,502)	(1,268,452)
Borrowing	2,426,589	84,565	2,427,008	84,565
Loans Paid	(1,826,308)	(574,021)	(1,826,308)	(574,021)
Interest Paid	(611,509)	(778,996)	(602,202)	(778,996)
Increases (Reduction) in Shareholders' Equity	-	-	11,589	(20)
Treasury Stock Repurchase	(37,550)	(33,018)	(37,550)	(33,018)
Other Cash Flows from Financing Activities	-	(186)	(231)	(967)
CASH FLOW FROM FINANCING ACTIVITIES	(256,867)	(1,570,193)	(235,783)	(1,571,508)
INVESTMENTS				
Short-term Financial Investments	(87,575)	(1,043)	3,389	3,743
Suppliers of Investments	159,136	(29,790)	765,779	13,583
Funds Obtained from the Sale of Permanent Assets	7,330	19,063	7,367	19,063
Investments in Permanent Assets	(2,805,553)	(1,609,376)	(2,754,070)	(1,662,409)
Investments	(2,339,839)	(1,609,376)	(2,344,146)	(1,400,678)
Investments for Acquisition of New Companies	(465,714)	-	(409,924)	(261,731)

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Value of Acquisition	(465,714)	-	(465,714)	(295,194)
Cash and Cash Equivalents Aggregated	-	-	55,790	33,463
Other Cash Flows from Investment Activities	(2,004)	(4,000)	-	(4,000)
CASH FLOW FROM INVESTMENTS ACTIVITIES	(2,728,666)	(1,625,146)	(1,977,535)	(1,630,020)
CASH FLOW FOR THE PERIOD	550,190	35,902	932,045	42,866
CASH AND CASH EQUIVALENTS				
At End of Year	1,963,524	1,413,334	2,397,810	1,465,765
At Beginning of Year	1,413,334	1,377,432	1,465,765	1,422,899
CASH AND CASH EQUIVALENTS CHANGES	550,190	35,902	932,045	42,866

See the accompanying notes to the financial statements.

Brasil Telecom S.A.

Financial statements

December 31, 2004 and 2003

(A translation of the original report in Portuguese as published in Brazil containing financial statements prepared in accordance with accounting practices adopted in Brazil)

Brasil Telecom S.A.

Publicly-held company

Financial Statements

December 31, 2004 and 2003

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Independent auditors' report

(A translation of the original report in Portuguese as published in Brazil containing financial statements prepared in accordance with accounting practices adopted in Brazil)

The Board of Directors and Shareholders
Brasil Telecom S.A.
Brasília - DF

We have examined the balance sheets of Brasil Telecom S.A. and the consolidated balance sheets of the Company and its subsidiaries as of December 31, 2004 and 2003, and the related statements of results, changes in shareholders' equity and changes in financial position for the years then ended, which are the responsibility of its management. Our responsibility is to express an opinion on these financial statements.

Our examinations were conducted in accordance with auditing standards generally accepted in Brazil and included: (a) planning of the audit work, considering the materiality of the balances, the volume of transactions and the accounting systems and internal accounting controls of the Company and its subsidiaries; (b) verification, on a test basis, of the evidence and records which support the amounts and the accounting information disclosed; and (c) evaluation of the most significant accounting policies and estimates adopted by Company management and its subsidiaries, as well as the presentation of the financial statements taken as a whole.

In our opinion, the aforementioned financial statements present fairly, in all material respects, the financial position of Brasil Telecom S.A. and the consolidated financial position of the Company and its subsidiaries as of December 31, 2004 and 2003, and the results of its operations, changes in its shareholders' equity and changes in its financial position for the years then ended, in conformity with accounting practices adopted in Brazil.

Our examinations were performed with the objective of expressing an opinion on the financial statements taken as a whole. The statements of cash flows are supplementary information to the aforementioned financial statements, and are presented to facilitate additional analysis. This supplementary information was subject to the same audit procedures as applied to the aforementioned financial statements and, in our opinion, are presented fairly, in all material respects, in relation to the financial statements taken as a whole.

March 29, 2005

KPMG Auditores Independentes
CRC-SP-014.428- S -DF

Manuel Fernandes Rodrigues de Sousa
Accountant CRC-RJ-52.428/O-S-DF

NOTES TO THE FINANCIAL STATEMENTS

Years ended December 31, 2004 and 2003

(In thousands of Brazilian reais)

1. OPERATIONS

BRASIL TELECOM S.A. (Company) is a concessionaire of the Switched Fixed Telephone Service (STFC) and operates in Region II of the General Concessions Plan, covering the Brazilian states of Acre, Rondônia, Mato Grosso, Mato Grosso do Sul, Tocantins, Goiás, Paraná, Santa Catarina, and Rio Grande do Sul and the Federal District. The area is 2,859,375 square kilometers, corresponding to 34% of the Brazilian territory, and the Company holds the local and long distance concessions. The Company's business, the services that it offers and the tariffs charged are regulated by the National Telecommunications Agency - ANATEL.

With recognition of the prior fulfillment of the obligations for universalization stated in the General Plan of Universalization Goals (PGMU), forecasted for December 31, 2003, in accordance with the acts published in the Diário Oficial da União (Official Daily Government Newspaper) on January 19, 2004, the restriction of providing other telecommunications services ceased to exist, permitting the Company, its parent companies, its subsidiaries and associated companies to obtain new authorizations. On the same date ANATEL, issued authorizations for the Company to exploit STFC 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 General Concession Plan (PGO); 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 the new regions, starting on January 22, 2004. In the case of the local service to be provided in regions I and III, as regulated, the Company had a period of 12 months to begin its operations as from the date of the aforementioned authorization. BrT did not provide this service during 2004 and started offer it as from January 19, 2005.

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

The Company is a subsidiary of Brasil Telecom Participações S.A. (BTP), incorporated on May 22, 1998 as a result of the privatization of the Telebrás System.

The Company is registered with the Brazilian Securities Commission - CVM and the Securities and Exchange Commission - SEC in the USA, being its shares traded on the main stock exchanges in Brazil and its ADR on the New York Stock Exchange - NYSE. The Company also adhered to Level 1 of the Corporate Governance classification of the São Paulo Stock Exchange - BOVESPA.

Subsidiaries

a) 14 Brasil Telecom Celular S.A. (BrT Celular): Wholly owned subsidiary formed in December 2002 to operate the Personal Communication Service (PCS), holding a license to serve the same coverage area where the Company operates STFC. BrT Cel was a pre-operational entity until the last quarter of 2004, when it effectively started its operational activities.

b) BrT Serviços de Internet S.A. (BrTI): Wholly owned subsidiary formed in October 2001, engaged in the provision of internet services and related activities. It started its activities in 2002.

During the second quarter of 2003, BrTI made investments in capital interests as a partner or quotaholder, obtaining control of the following companies:

(i) *Grupo BrT Cabos Submarinos (formerly known as GlobeNet)*

This group of companies operates through a system of submarine fiber optics cables, with points of connection in the United States, Bermuda Islands, Venezuela and Brazil, allowing the traffic of data through packages of integrated services, offered to local and international corporate customers. It is comprised by the following companies:

- **Brasil Telecom Cabos Submarinos do Brasil (Holding) Ltda. (BrT CSH):** Company acquired on June 11, 2003, as part of the purchasing program of the GlobeNet Group.
- **Brasil Telecom Cabos Submarinos do Brasil Ltda. (BrT CS Ltda.):** Company acquired on June 11, 2003, in which BrTI has direct control and the full control jointly with BrT CSH, being also part of the purchasing program of the GlobeNet Group.

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- Brasil Telecom Subsea Cable Systems (Bermuda) Ltd. (BrT SCS Bermuda): Company incorporated under the laws of the Bermudas, for which the transfer of resources by BrTI for payment of subscribed capital occurred on May 30, 2003. It is also part of the purchasing program of the GlobeNet Group. BrT SCS Bermuda holds the total shares of Brazil Telecom of America Inc. and of Brasil Telecom de Venezuela S.A.

In November 2004 Brasil Telecom S.A made some additions to capital in BrT SCS Bermuda, becoming the parent company of this company, with 74.16% of its ordinary and total share capital.

IG Group

BrT SCS Bermuda acquired on November 24, 2004 the controlling interest of Internet Group (Cayman) Limited (IG Cayman), with an interest of 63.2% of total shares as of December 31, 2004, a company incorporated under the laws of Cayman Islands. IG Cayman is a holding company which owns the controlling interest of Internet Group do Brasil Ltda. (IG Brasil) and Central de Serviços Internet Ltda., both incorporated in Brazil.

The IG Group started its activities in January 2000 and its operations are based mainly on providing dial up access to the internet. Additionally, the Group also provides internet services to mobile phones, broad band access, webpage hosting and other services related to e-commerce.

(ii) iBest Group

iBest Group concentrate its operations on providing dialed access to the Internet, sales of banners and value added services offering its access accelerator to Internet.

Since February 2002, BrTI has held a minority interest in iBest Holding Corporation (IHC), a company incorporated in the Cayman Islands. Due to a succession of various corporate acts occurring during June 2003 in IHC and its subsidiaries, BrTI began to exercise control over the iBest Group, which is formed by the main companies: (i) iBest Holding Corporation; (ii) iBest S.A.; (iii) Febrão S.A.; and (iv) Freelance S.A. In May 2004 through a corporate reorganization process Freelance fully incorporated Febrão S.A., iBest S.A. and its subsidiary Mail BR Comunicação Ltda. As a result, Freelance S.A. became the owner of iBest's trademark and the main company of this Group.

c) MTH Ventures do Brasil Ltda. (MTH): On May 13, 2004, the Company acquired 80.1% of the voting capital of MTH, in addition to the 19.9% held previously. MTH, in turn, held 100% of the capital of MetroRED Telecomunicações Ltda. (MetroRED).

MetroRED is a service provider for a private telecommunications network through optical fiber digital networks, and operates in São Paulo, Rio de Janeiro and Belo Horizonte and has a long distance network connecting these major metropolitan commercial centers. It also has an Internet Solution Center in São Paulo, which offers co-location, hosting and other value added services.

d) VANT Telecomunicações S.A. (VANT): On May 13, 2004, the Company acquired the remaining 80.1% of the capital of VANT, which is a service provider for corporate network services, founded in October 1999.

Initially focused on a TCP/IP network, VANT started in Brazil with a network 100% based on this technology. VANT operates throughout Brazil, and is present in the main Brazilian state capitals, offering a portfolio of voice and data products.

e) Other service providers entities

The Company acquired at the end of 2004 the entities Santa Bárbara dos Pampas S.A., Santa Bárbara dos Pinhais S.A., Santa Bárbara do Cerrado S.A. and Santa Bárbara do Pantanal S.A. These entities, which were non-operational at the balance sheet date, have the purpose of providing general services, such as asset and real estate management.

2. PRESENTATION OF FINANCIAL STATEMENTS

Preparation Criteria

The financial statements were prepared in accordance with accounting practices derived from the Brazilian Corporation Law, rules of the Brazilian Securities Commission - CVM and rules applicable to Switched Fixed Telecommunications Services concessionaires.

As the Company is registered with the Securities and Exchange Commission - SEC, it is subject to its rules, and should prepare financial statements and other information using criteria that comply with that entity's requirements. To comply with these requirements and aiming to meet the market's information needs, the Company adopts, the practice of publish information simultaneously in both markets in their respective

languages.

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

The accounting estimates were based on objective and subjective factors, based on the judgment of the management for determining the appropriate amount to be recorded in the financial statements. Significant elements subject to these estimates and assumptions include the residual amount of the fixed assets, provision for doubtful accounts, inventories and deferred income tax and social contribution assets, provision for contingencies, valuation of financial instruments, and assets and liabilities related to benefits for employees. The settlement of transactions involving these estimates may result in significant different amounts due to the inherent imprecision to the process of their determination. Company s management reviews the estimates and assumptions at least quarterly.

Consolidated Financial Statements

The consolidation was prepared in accordance with CVM Instruction Nr. 247/96 and includes the Company and the subsidiaries listed in Note 1.

Some of the main consolidation procedures are:

- Elimination of intercompany balances, as well as income and expenses from intercompany transactions;
- Elimination of the balances of the investment accounts and corresponding interests in capital, reserves and retained earnings between the consolidated companies; and
- Segregation of the portions of shareholders equity and income of minority shareholders, presented in specific items.

The reconciliation between the net income/(loss) of the Parent Company and the consolidated figures is as follows:

	2004	2003
Parent Company	288,552	(25,317)
Entries recorded directly in the Shareholders Equity of Subsidiaries		
Prior year adjustment	-	20
Subsidies and others	(11,588)	-
Consolidated	276,964	(25,297)

Statements of cash flows

The Company, voluntarily, is presenting the statements of cash flows prepared in accordance with NPC Nr. 20 - Statement of Cash Flows, issued by IBRACON (Brazilian Institute of Independent Auditors).

Segment reporting

The Company, voluntarily, is presenting, the Report by Business Segment (note 41). A segment is a distinguishable component of the Company that is engaged in providing products or services, which are subject to risks and rewards that are different from those of other segments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

The criteria mentioned in this note refers to the practices adopted by the Company and its subsidiaries that are included in the consolidated balance sheet.

a. Cash and Cash Equivalents: Cash equivalents are short-term, high-liquidity investments, with immediate maturity. They are recorded at cost, plus income earned to the balance sheet date, not exceeding market value.

b. Trade Accounts Receivable: Receivables from users of telecommunications services are recorded at the amount of the tariff in effect on the date the service is rendered. Unbilled services provided to customers at the balance sheet date are also included in trade accounts receivable. Receivables from the sale of mobile phones and accessories are recorded at the original amount of sales. The criteria adopted for making the

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provision for doubtful accounts takes into account the calculation of the actual percentage losses incurred on each range of maturity for accounts receivable. The historic percentages are applied to the current ranges of accounts receivable, also including accounts not yet due and the unbilled portion, thus comprising the amount that could become a future loss, which is recorded as a provision.

c. Inventories: Stated at average cost of acquisition, not exceeding replacement cost. Inventories are segregated into inventories for plant expansion and those for maintenance and also, related to the consolidated financial statements, mobile phones and accessories for resale. The inventories to be used in expansion are classified in property, plant and equipment (construction in progress) and inventories to be used in maintenance are classified as current and non-current assets, in other assets, which breakdown is shown in Note 20. Obsolete items are provided for through an allowance for losses. In the case of mobile phones and accessories, this provision is calculated based on the difference of average cost in relation to the market value.(when the latter is lower).

d. Investments: Investments in subsidiaries were valued by the equity method. The goodwill was calculated based on the expectation of future results and its amortization is related to the volume and of timing forecasted over a period of not more than ten years. Other investments are recorded at acquisition cost, less a provision for losses, when applicable. The investments derived from income tax incentives are recognized at the date of the investment, and result in shares of companies with tax incentives or quotas of investment funds. In the period between the investment date and receipt of shares or quotas, they are classified in the Noncurrent assets. The Company adopts the criteria of using the maximum percentage of tax allocation. These investments are periodically valued at cost or market prices, when the latter is lower, and allowances for losses are recorded if required.

e. Property, Plant and Equipment: Stated at cost of acquisition and/or construction, less accumulated depreciation. Financial charges related to loans used to finance assets and construction in progress are capitalized.

The costs incurred, when they represent improvements (increase in installed capacity or useful life) are capitalized. Maintenance and repair are charged to the profit and loss accounts, on an accrual basis.

Depreciation is calculated using the straight-line method. The depreciation rates used are based on the expected useful lives of the assets and in accordance with the rules of the Public Telecommunications Service. The main rates used are set forth in Note 26.

f. Deferred charges: Segregated between deferred charges on amortization and on formation. Their breakdown is shown in Note 27. Amortization is calculated using the straight-line method, for the period of five years, in accordance with the legislation in force. When the asset no longer generates benefits, it is written off against non-operating income.

g. Income and Social Contribution Taxes: Income and social contribution taxes are recognized on the accrual basis. The taxes levied on temporary differences, tax losses and the negative social contribution basis are recorded under assets or liabilities, as applicable, on the assumption of realization or future, within the parameters established in CVM Instruction Nr. 371/02.

h. Loans and Financing: Updated to the balance sheet date for monetary or exchange variations and interest incurred. Equal restatement is applied to the guarantee contracts to hedge the debt.

i. Provision for Contingencies: Recognized based on management's risk assessment and measured based on economic grounds and legal counselors' opinions on the lawsuits and other contingency factors known as of the balance sheet date. The basis and nature of the provisions are described in Note 7.

j. Revenue recognition: Revenues from services rendered are accounted for on an accrual basis. Local and long distance calls are charged based on time measurement according to the legislation in force. Revenues from sales of payphone cards (Public Telephony), mobile phones and accessories are recorded upon sale. Revenues from pre-paid mobile services are recognized based on the use of the respective credits. A revenue is not accounted for if there is an uncertainty in its realization.

k. Recognition of Expenses: Expenses are recognized on accrual basis, considering their relationship with the realization of revenues. Expenses related to other periods are deferred.

l. Financial Income (Expense), Net: Financial income comprises interest earned on overdue accounts receivable from services, gains on financial investments, exchange variation and hedges. Financial expenses comprise interest incurred and other charges on loans, financing and other financial transactions.

Interest on Shareholders' Equity is included in financial expenses and for financial statement presentation purposes, the recognized amounts are reversed to profit and loss accounts and reclassified as a deduction of the retained earnings, in the shareholders' equity.

m. Research and Development: Costs for research and development are recorded as expenses when incurred, except for expenses with projects linked to the generation of future revenue, which are recorded under deferred assets and amortized over a five-year period after the start-up of operations.

n. Benefits for Employees: Private pension plans and other retirement benefits sponsored by the Company and its Subsidiaries for their employees are managed by SISTEL and FBrTPREV. Contributions are determined on an actuarial basis, when applicable, and recognized on an accrual basis. As of December 31, 2001, in compliance with CVM Instruction Nr. 371/00, the Company recorded the actuarial deficit on the balance sheet date against shareholders' equity, excluding the corresponding tax effects. As from 2002, as new actuarial revaluations determine the need for adjustments to the provision, these are recognized in the profit and loss accounts, in accordance with the CVM deliberation above. Complementary information on private pension plans is described in Note 6.

o. Profit Sharing: The provisions for employee and directors' profit sharing are recognized on an accrual basis. The calculation of the amount, which is paid in the subsequent year after the provision is recognized, is based on the target program established with the labor union, in accordance with Law 10,101/00 and the Company's bylaws.

p. Earnings per thousand shares: Calculated based on the number of shares outstanding at the balance sheet date, which comprises the total number of shares issued net of treasury stock.

4. RELATED-PARTY TRANSACTIONS

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

Operations between the Company and related parties are carried out under normal market prices and conditions. The main transactions are as follows:

Brasil Telecom Participações S.A.

Dividends/Interest on Shareholders' Equity: From the amount provided for in 2004, an amount of R\$294,395 (R\$162,425 in 2003) was paid to the Parent Company. The balance of this liability, net of withheld income tax, is R\$250,236 (R\$138,062 on December 31, 2003).

Loans with the Parent Company: Liabilities arose from the spin-off of Telebrás and are indexed to exchange variation, plus interest of 1.75% per year, amounting to R\$74,523 (R\$89,653 in 2003). The financial gain recognized in 2004, due to the devaluation of the US dollar in relation to the Brazilian real, was R\$4,820 (R\$18,965 in financial gain in 2003).

Debentures: On January 27, 2001, the Company issued 1,300 private debentures non-convertible or exchangeable for any type of share, at the unit price of R\$1,000, totaling R\$1,300,000, for the purpose of financing part of its investment program. All these debentures were acquired by Brasil Telecom Participações S.A. The balance of nominal value of these debentures will be paid in two installments equivalent to 30% and 40% with maturities on July 27, 2005, and 2006, respectively. The debenture remuneration is equivalent to 100% of CDI, paid semiannually. The balance of this liability is R\$972,006 (R\$1,408,190 on December 31, 2003) and charges recognized in profit and loss accounts in 2004 represented R\$175,956 (R\$286,911 in 2003).

Revenues and Accounts Payable: Arising from transactions related to the use of installations and logistic support. On December 31, 2004, the balance payable is R\$184 (R\$157 on December 31, 2003) and the amounts recorded in the statements of results for 2004 are related to operating revenue of R\$2,933 (R\$2,301 in 2003).

BrT Serviços de Internet S.A.

Accounts receivable and payable, revenues and expenses: Ar