

BRASIL TELECOM HOLDING CO  
Form 6-K  
August 06, 2004

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

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**FORM 6-K**

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

**THROUGH AUGUST 5, 2004**

**(Commission File No. 1-14477)**

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**BRASIL TELECOM PARTICIPAÇÕES S.A.**  
*(Exact name of registrant as specified in its charter)*

**BRAZIL TELECOM HOLDING COMPANY**  
*(Translation of Registrant's name into English)*

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**SIA Sul, Área de Serviços Públicos, Lote D, Bloco B  
Brasília, D.F., 71.215-000  
Federative Republic of Brazil**  
*(Address of Registrant's principal executive offices)*

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

Form 20-F  Form 40-F

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

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

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

Yes  No

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

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B RTP3: R\$22.99 / 1,000 shares  
B RTP4: R\$18.29 / 1,000 shares  
B RP: US\$29.81 / ADR  
**Market Value: R\$7,215.1 million**  
Closing Price: August 2, 2004

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

## **Consolidated Earnings Release**

**2<sup>nd</sup> Quarter of 2004**

Non-audited

**Brasília, August 3, 2004.**

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**QUARTER HIGHLIGHTS**

Increase of 17.7% in the ADSL accesses in service

Net revenue grew by 4.2%, reaching R\$2.2 billion

Net revenue/Avg LIS/month reached R\$74.4, a 5.3% growth

Data communications revenues of R\$255.3 million, a growth of 15.8%

EBITDA of R\$921.9 million, a 3.3% growth

EBITDA margin of 42.6%

Total fixed-line CAPEX of R\$294.9 million

PCS CAPEX of R\$200.7 million

Net earnings adjusted by the goodwill of R\$82.1 million

**HIGHLIGHTS**

Brasília, August 3, 2004 - **Brasil Telecom Participações S.A. (BOVESPA: BRTP3/BRTP4; NYSE: BRP)** announces its consolidated earnings for the second quarter of 2004 (2Q04).

As of May 2004 Brasil Telecom has consolidated the results of its new controlled companies, MetroRED and Vant.

Brasil Telecom's success in the long distance segments is verified by the **38.0% market share in the inter-regional segment and 19.6% in the international segment at the end of 2Q04**, the first full quarter of the service's operation.

**Standard & Poor's (S&P) upgraded to brAA+ from brAA** the Brazilian National Scale issuer ratings on **Brasil Telecom S.A. and Brasil Telecom Participações S.A.** With this rating upgrade, **Brasil Telecom is the only telecommunications company in the country assigned this rating.**

**Operating Performance**

The **installed plant** of Brasil Telecom reached 10,712 thousand lines, a growth of 0.1% and 0.5% compared to 1Q04 and 2Q03, respectively.

At the end of 2Q04, the **plant in service** was of 9,647 thousand lines.

At the end of 2Q04, Brasil Telecom reached 382.5 thousand **ADSL accesses in service**, representing a growth of 96.3% compared to the 2Q03.

**Local traffic and long distance traffic** increased by 5.0% and 5.9% compared to the 1Q04. The growth in long distance traffic was leveraged by Brasil Telecom's participation in the inter-regional and international segments.

At the end of 2Q04, Brasil Telecom GSM had 758 **employees** and the fixed telephony operation 5,391.

**Financial Performance**

**Net revenue** in the 2Q04 reached R\$2,162.6 million, a 4.2% and 12.9% growth when compared to the net revenue of the 1Q04 and 2Q03, respectively.

**Net revenue/Avg LIS/month** in the 2Q04 reached R\$74.4, against R\$70.7 in the 1Q04.

**Measured service revenue** increased by 3.9% compared to the previous quarter, reflecting the increase in local traffic, affected by seasonality during the first quarter.

**Long distance revenue** increased by 9.5% compared to the previous quarter, leveraged by the Company's operations in the inter-regional and international segments.

**Inter-network revenues** increased by 5.1% compared to the previous quarter, mainly due to the operation of the CSC 14 in calls originated from mobile users.

**Data communications revenues** reached R\$255.3 million in the 2Q04, an increase of 40.6% compared to the 2Q03.

**Interconnection costs** totaled R\$545.3 million, a 9.9% increase compared to the previous quarter.

**Subcontracted services costs** totaled R\$358.8 million, a reduction of 1.4% compared to the previous quarter. The subcontracted services costs to net revenue ratio has been decreasing over the last quarters.

**LAST TWELVE-MONTH HIGHLIGHTS**

Increase of 96.3% in the ADSL accesses in service

Net revenue grew 12.9%, reaching R\$8.4 billion

Data communication revenues reached R\$888.5 million, a 40.6% growth

1H04 EBITDA of R\$1.81 billion

Net debt is 30.2% lower

Average cost of debt of 14.9% p.a.

Free cash flow of R\$1.3 billion

1H04 Net Earnings of R\$125.4 million

**EBITDA** of R\$921.9 million in the 2Q04. **EBITDA margin** of 42.6% in the quarter.

As of June 2004, Brasil Telecom's **consolidated total debt** was of R\$4,343.6 million, 1.4% higher compared to the 1Q04.

In April 2004, Brasil Telecom S.A. raised 21.5 billion yens (approximately R\$577 million) from JBIC - Japan Bank for International Cooperation, which coincided with the payment of the first issuance of public debentures (R\$500 million), issued in May 2002.

The **dollar-denominated debt** represented 18.9% of the total debt, totaling R\$821.6 million at the end of 2Q04, including the hedge adjustment. **Debt pegged to exchange rate variation** represented 38.1% of the total debt.

Brasil Telecom **hedged** 39.8% of the debt pegged to exchange rate variations.

**The financial result** (excluding Interest on Shareholders' Equity) was of negative R\$86.7 million in the 2Q04, an improvement of R\$9.1 million compared to 1Q04.

**Net Debt**

BT Debt (R\$ Million)	Jun/03	Mar/04	Jun/04	Δ Quarter	Δ 12 Months
<b>Total Debt</b>	<b>3,969</b>	<b>4,283</b>	<b>4,344</b>	<b>1.4%</b>	<b>9.4%</b>
(-) Cash	1,338	2,920	2,506	-14.2%	87.4%
<b>Net Debt</b>	<b>2,631</b>	<b>1,363</b>	<b>1,837</b>	<b>34.8%</b>	<b>-30.2%</b>

The **accumulated cost of debt** in 2004 is of 14.9% p.a.

**Consolidated net debt** was of R\$1,837.3 million as of June.

The **consolidated net debt/shareholders equity ratio** of the Company was of 29.6% at the end of the 2Q04, against 22.2% at the end of the 1Q04.

During the 2Q04, Brasil Telecom generated a positive **operating cash flow** of R\$873.5 million, against R\$751.7 million in the 2Q03.

**The last-twelve-month free cash flow**, computed from the operating cash flow, excluding the investments cash flow and the interest paid, was of positive R\$1,278.4 million.

**Financial Indicators**

Financial Indicators	2Q03	3Q03	4Q03	1Q04	2Q04	Δ Quarter	Δ 12 Months
EBITDA* / Interest Expenses	7.02	5.55	6.59	6.57	6.90	5.1%	-1.7%
Net Debt / EBITDA (x4)	0.73	0.62	0.49	0.38	0.48	26.9%	-33.6%
Total Debt / (EBITDA* + Financial Income) (x4)	0.98	0.96	0.91	1.05	0.95	-9.7%	-3.0%
EBITDA* (x4) / Lines in Service	R\$ 370	R\$ 391	R\$ 381	R\$ 367	R\$ 393	7.1%	6.2%
EBITDA* (x4) / Employees** (thousand)	R\$ 678	R\$ 728	R\$ 723	R\$ 685	R\$ 703	2.7%	3.7%

\* EBITDA without effects of non-recurrent itens.

\*\* Excluding employees from Brasil Telecom GSM.

**CONSOLIDATED INCOME STATEMENT****Table 1 : Consolidated Income Statement**

R\$ Million	2Q03	1Q04	2Q04	Δ Quarter	Δ 12 Months
<b>GROSS REVENUES</b>	<b>2,691.2</b>	<b>2,908.8</b>	<b>3,037.4</b>	<b>4.4 %</b>	<b>12.9%</b>
Local Service	1,032.5	1,114.3	1,115.7	0.1%	8.1%
Public Telephony	103.1	108.2	119.1	10.1%	15.5%
Long Distance Service	356.8	382.2	418.3	9.5%	17.2%
Fixed-Mobile Calls	679.4	702.1	738.1	5.1%	8.6%
Interconnection	193.0	191.2	179.4	-6.2%	-7.1%
Lease of Means	49.6	55.1	63.5	15.2%	27.9%
Data Communication	181.6	220.5	255.3	15.8%	40.6%
Supplementary and Value Added Services	81.3	99.1	104.1	5.0%	28.0%
Other	13.8	36.2	43.9	21.4%	218.8%
Deductions	(776.3)	(833.5)	(874.8)	4.9%	12.7%
<b>NET REVENUES</b>	<b>1,914.9</b>	<b>2,075.3</b>	<b>2,162.6</b>	<b>4.2%</b>	<b>12.9%</b>
<b>COSTS &amp; OPERATING EXPENSES</b>	<b>(1,013.3)</b>	<b>(1,183.2)</b>	<b>(1,240.7)</b>	<b>4.9%</b>	<b>22.4%</b>
Personnel	(97.3)	(95.3)	(101.5)	6.5%	4.3%
Materials	(22.6)	(23.0)	(24.8)	7.8%	10.0%
Subcontracted Services	(308.9)	(363.8)	(358.8)	-1.4%	16.1%
Interconnection	(430.4)	(496.2)	(545.3)	9.9%	26.7%
Advertising and Marketing	(19.1)	(24.1)	(24.5)	1.9%	28.4%
Provisions and Losses	(75.6)	(110.5)	(135.1)	22.3%	78.7%
Other	(59.4)	(70.3)	(50.7)	-27.9%	-14.7%
<b>EBITDA</b>	<b>901.6</b>	<b>892.1</b>	<b>921.9</b>	<b>3.3%</b>	<b>2.2%</b>
Depreciation and Amortization	(526.4)	(598.7)	(599.4)	0.1%	13.9%
<b>OPERATING PROFIT BEFORE FINANCIAL RESULT</b>	<b>375.3</b>	<b>293.4</b>	<b>322.5</b>	<b>9.9%</b>	<b>-14.1%</b>
Financial Result	(192.4)	(251.6)	(86.7)	-65.5%	-54.9%
Financial Revenues	114.8	130.0	199.3	53.3%	73.6%
Financial Expenses	(307.2)	(225.8)	(285.9)	26.7%	-6.9%
Interest on Shareholders' Equity	-	(155.8)	(0.0)	-100.0%	N.A.
<b>OPERATING PROFIT AFTER FINANCIAL RESULT</b>	<b>182.9</b>	<b>41.9</b>	<b>235.8</b>	<b>463.5%</b>	<b>29.0%</b>
Non-Operating Revenues (Expenses)	(29.7)	(51.5)	(93.1)	80.7%	213.8%
Goodwill Amortization - CRT Acquisition	(31.0)	(31.0)	(31.0)	0.0%	0.0%
Other	1.3	(20.5)	(62.1)	202.6%	N.A.
<b>EARNINGS BEFORE INCOME AND SOCIAL CONTRIBUTION TAXES</b>	<b>153.2</b>	<b>(9.7)</b>	<b>142.7</b>	<b>N.A.</b>	<b>-6.8%</b>

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Income and Social Contribution Taxes	(56.3)	(13.9)	(67.5)	384.0%	19.9%
<b>EARNINGS BEFORE PROFIT SHARING</b>	<b>96.9</b>	<b>(23.6)</b>	<b>75.3</b>	<b>N.A.</b>	<b>-22.3%</b>
Profit Sharing	(11.5)	(12.9)	(16.8)	30.6%	46.5%
Minority Interest	(16.7)	(44.9)	(7.4)	-83.4%	-55.4%
<b>EARNINGS BEFORE REVERSION OF INTEREST ON SHAREHOLDERS' EQUITY</b>	<b>68.8</b>	<b>(81.4)</b>	<b>51.0</b>	<b>N.A.</b>	<b>-25.8%</b>
Reversion of Interest on Shareholders' Equity	-	155.8	0.0	-100.0%	N.A.
<b>NET EARNINGS</b>	<b>68.8</b>	<b>74.3</b>	<b>51.1</b>	<b>-31.3%</b>	<b>-25.7%</b>
Goodwill Amortization - CRT Acquisition	31.0	31.0	31.0	0.0%	0.0%
<b>NET EARNINGS ADJUSTED BY GOODWILL AMORTIZATION</b>	<b>99.8</b>	<b>105.4</b>	<b>82.1</b>	<b>-22.1%</b>	<b>-17.7%</b>
Net Earnings (Losses)/1,000 shares - R\$	0.1928	0.2084	0.1418	-32.0%	-26.4%
Net Earnings (Losses)/ADR - US\$	0.3356	0.3599	0.2282	-36.6%	-32.0%

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**OPERATING PERFORMANCE**

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**PLANT**

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**Table 2: Plant**

PLANT	2Q03	1Q04	2Q04	Δ Quarter	Δ 12 Months
<b>Lines Installed (Thousand)</b>	<b>10,656.1</b>	<b>10,700.7</b>	<b>10,711.6</b>	<b>0.1%</b>	<b>0.5%</b>
Additional Lines Installed (Thousand)	47.9	14.2	10.9	-23.7%	-77.3%
<b>Lines in Service - US (Thousand)</b>	<b>9,741.0</b>	<b>9,723.8</b>	<b>9,646.7</b>	<b>-0.8%</b>	<b>-1.0%</b>
Residential	7,107.2	6,988.2	6,840.5	-2.1%	-3.8%
Non-Residential	1,565.3	1,468.5	1,450.7	-1.2%	-7.3%
Public Telephones	296.8	295.9	296.2	0.1%	-0.2%
Pre-paid	217.8	281.9	276.1	-2.1%	26.8%
Hybrid Terminals	0.1	58.7	159.4	171.6%	N.A.
Other (including PBX)	553.8	630.6	623.8	-1.1%	12.6%
Additional LIS (Thousand)	145.9	(127.0)	(77.1)	-39.3%	N.A.
<b>Average LIS (Thousand)</b>	<b>9,668.1</b>	<b>9,787.4</b>	<b>9,685.3</b>	<b>-1.0%</b>	<b>0.2%</b>
LIS/100 Inhabitants	23.5	23.1	22.9	-1.1%	-2.5%



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Public Telephones/1,000 Inhabitants	7.2	7.0	7.0	-0.2%	-1.7%
Public Telephones/100 Lines Installed	2.8	2.8	2.8	0.0%	-0.7%
<b>Utilization Rate</b>	<b>91.4%</b>	<b>90.9%</b>	<b>90.1%</b>	<b>0.0 p.p.</b>	<b>0.0 p.p.</b>
<b>Digitization Rate</b>	<b>99.0%</b>	<b>99.5%</b>	<b>99.5%</b>	<b>0.0 p.p.</b>	<b>0.0 p.p.</b>
<b>ADSL Accesses in Service (Thousand)</b>	<b>194.8</b>	<b>324.9</b>	<b>382.5</b>	<b>17.7%</b>	<b>96.3%</b>

### Installed Lines

**In the 2Q04, Brasil Telecom installed 10.9 thousand lines, ending the quarter with 10.7 million terminals, an increase of 55.5 thousand lines from the same period in 2003.**

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#### Graph 1: Plant - Progression

### Lines in Service

**The plant in service totaled 9.6 million lines in the 2Q04. Brasil Telecom continued the non-paying-lines-detection process, disconnecting lines with no prospects of returning to the active base in the medium term and transferring some of the clients who negotiated their obligations to the hybrid plan (LigMix). As a result, the utilization rate was reduced to 90.1%.**

Additionally, Brasil Telecom encouraged the migration of clients from the pre-paid and economical plans to the hybrid plan. Client base segmentation seeks to match the product to the usage profile of each client and to increase the average ARPU (net revenue/average LIS/month).

### ADSL

**Brasil Telecom virtually doubled its ADSL accesses in service plant in just one year, reaching the mark of 382.5 thousand accesses at the end of 2Q04.**

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#### Graph 2: ADSL Accesses

## TARGETS

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### Quality Targets

**In the 2Q04, Brasil Telecom met all of the quality targets predicted by the General Plan on Quality, established by Anatel for the rendering of the switched fixed telephony service in the local and long-distance segments.**

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### TRAFFIC

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**Table 3: Traffic**

TRAFFIC	2Q03	1Q04	2Q04	Δ Quarter	Δ 12 Months
Exceeding Local Pulses (Million)	2,958.8	2,585.9	2,715.2	5.0%	-8.2%
Long Distance Minutes (Million)	1,743.9	1,533.6	1,624.2	5.9%	-6.9%
Fixed-Mobile Minutes (Million)	1,058.0	1,037.4	1,035.6	-0.2%	-2.1%
Exceeding Pulses/Average US/Month	102.0	88.1	93.4	6.1%	-8.4%

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LD Minutes/Average US/Month	60.1	52.2	55.9	7.0%	-7.0%
Fixed-Mobile Minutes/Average LIS/Month	36.5	35.3	35.6	0.9%	-2.3%

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### Exceeding Local Pulses

The traffic of exceeding local pulses increased by 5.0% compared to the 1Q04, reaching 2.7 billion.

### Long Distance Traffic

In the 2Q04, long distance traffic increased by 5.9% in comparison to the previous quarter, due to **Brasil Telecom's presence in the new long distance segments (inter-regional and international), which in turn leveraged the intra-regional traffic (+6.5%).**

### LD Market Share

**At the end of 2Q04, the first full quarter in which it was possible to use the CSC 14 in all long distance calls, Brasil Telecom reached a 38.0% market share in the inter-regional segment and a 19.6% share in international segment.**

Leveraged by the success of the campaigns developed for the launch of the CSC 14 use outside of the Region, the **DLD market share of Brasil Telecom increased by 2.4 p.p. in the intra-region segment and 0.9 p.p. in the intra-sector segment.** The market share in the intra-sector and intra-region segments reached 91.0% and 81.1%, respectively.

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### Graph 3: DLD Market Share Average Quarter

### Inter-Network Traffic

**Inter-network traffic remained stable in the 2Q04**, due to a reduction of 1.1% in the VC-1 traffic and 5.1% in the VC-2 traffic, partially offset by the increase of 42.3% in the VC-3 traffic.

Of the total inter-network traffic, 83.9% corresponds to VC-1 calls, 11.5% to VC-2 calls and 4.6% to VC-3 calls. **There was a significant increase in the VC-3 traffic as a percentage of total traffic, which represented 3.2% of the inter-network traffic in the 1Q04, explained by the increase in long distance calls using the CSC 14.**

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## TARIFFS

### Tariff Adjustments

**Brasil Telecom was authorized by Anatel to adjust the tariffs for the Local and Domestic Long Distance Services Basic Plans. The authorized average adjustments for the local and domestic long distance baskets were of 6.89% and 3.20%, respectively.** The TU-RL (Local Network Usage Rate) was adjusted by -10.47% and the TU-RIU (Long Distance Network Usage Rate) was adjusted by 3.20%.

The authorized maximum average rates for Brasil Telecom, effective as of July 2, 2004, are shown in the next page.

Note that the following tariffs do not account for the adjustment difference authorized for 2003, according to the decision of the Brazilian Supreme Court (*Superior Tribunal de Justiça - STJ*).

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**Table 4: Local Service Tariffs (in R\$)**

Local Service	Previous Tariff <sup>1</sup>	Adjusted Tariff <sup>1</sup>	Change (%)
Installation Fee	24.45	19.93	-18.50%
Residential Monthly Fee	22.19	23.84	7.40%
Non-residential Monthly Fee	29.06	31.22	7.40%
PBX Monthly Fee	23.89	25.66	7.40%
Local Pulse	0.08938	0.09602	7.40%
Address Change	95.82	102.93	7.40%
Public Telephone Credit	0.09496	0.102	7.40%
<b>Local Basket</b>			<b>6.89%</b>

<sup>1</sup> Tariffs net of taxes, except for the Public Telephone Credit Tariff.

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**Table 5: Domestic Long Distance Service Tariffs (in R\$)**

DLD Service	Previous Tariffs <sup>1</sup>			
	Normal	Differentiated	Reduced	Super Reduced
DC	0.03390	0.06784	0.01694	0.00846
D1	0.09789	0.19580	0.04893	0.02444
D2	0.16317	0.27445	0.08156	0.04076
D3	0.20582	0.31787	0.12236	0.06116
D4	0.26090	0.38930	0.16317	0.08156

<sup>1</sup> Tariffs net of taxes.

DLD Service	Adjusted Tariffs <sup>1</sup>			
	Normal	Differentiated	Reduced	Super Reduced
DC	0.03498	0.06211	0.01748	0.00873
D1	0.10102	0.20207	0.05049	0.02522
D2	0.16839	0.28324	0.08417	0.04206
D3	0.21241	0.32805	0.12628	0.06311
D4	0.27290	0.39351	0.17211	0.08417

<sup>1</sup> Tariffs net of taxes.

DLD Service	Adjustment Percentage Change <sup>1</sup>			
	Normal	Differentiated	Reduced	Super Reduced
DC	3.20%	-8.40%	3.20%	3.20%
D1	3.20%	3.20%	3.20%	3.20%
D2	3.20%	3.20%	3.20%	3.20%
D3	3.20%	3.20%	3.20%	3.20%
D4	4.60%	1.10%	5.50%	3.20%

<sup>1</sup> The readjustment percentage change that refers to D4 considers a weighted average of all States, which have differentiated tariffs.

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**Table 6: Network Usage Tariffs (in R\$)**

Network Usage	Previous Tariff <sup>1</sup>	Adjusted Tariff <sup>1</sup>	Change (%)
TU-RL	0.05285	0.04731	-10.47%
TU-RIU	0.09682	0.09991	3.20%

<sup>1</sup> Tariffs net of taxes.

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## SUBSIDIARIES

### Brasil Telecom GSM

**14 Brasil Telecom Celular S.A. officially launched its trademark, Brasil Telecom GSM, on May 10, 2004.** On May 11, 2004, its brand was presented in the most prominent newspapers of the country, alongside the brands of its main partners.

**Brasil Telecom GSM entered into a contract to purchase the infrastructure equipment to build its mobile network throughout the 2Q04.** The contract was entered into with two international suppliers, Ericsson and Alcatel. The network is being implanted rapidly so as to obtain wide coverage in the 3Q04, when the full commercial launch is expected.

The investments expected to expand coverage in 2005 were brought forward to 2004. As a result, **Brasil Telecom GSM expects to reach the largest GSM coverage in Region II**, providing its customers with a high quality service, highlighting mobility features.

By bringing forward investments, Brasil Telecom GSM should invest approximately US\$350 million, covering about 544 localities in its operational area.

**In the 2Q04, R\$200.7 million were invested in the operation**, amounting to R\$ 364.3 million since the start of the project.

The project *Our Mobile* - where employees, their relatives and friends, residing in all states of Region II, bought mobile phones in special financing conditions - has already exceeded the mark of 18 thousand subscribers. Besides voice services, customers of *Our Mobile* are also offered a new voice mail box and a *Missed Call* service, where an SMS *Short Message Service* is sent whenever a call is made to a Brasil Telecom GSM terminal, which is either turned off or out of coverage area.

The main platforms that will be used in the mobile operations (pre-paid service, voice mail box, SMS, multimedia messages *MMS*, other platforms for data services *WAP*, *OTA*, *Middleware* and anti-fraud) have already been implemented and are at the final test and improvement stage.

**For its launch, Brasil Telecom GSM will have over 1,200 points of sales**, including the main retail chains in Region II, authorized exclusive and non-exclusive agents, and Brasil Telecom GSM stores and kiosks.

It is worth noting that the 16 stores and 40 stands of Brasil Telecom GSM, the majority of which are located at the largest and best shopping centers of the Region, will serve not only the mobile operator customers, but also all other customers of Brasil Telecom S.A.'s wide range of products, including fixed line, ADSL, internet provider, among others.

This kind of initiative clearly illustrates that Brasil Telecom is adopting a full convergence model, involving commercial aspects, people, infrastructure, equipment, and systems.

The civil constructions are at an advanced stage. Nine out of the 16 stores have already been built and are now receiving the equipment for assembly. The information systems will also be tested soon. The remaining stores will be ready for the full commercial launch scheduled for the 3Q04.

**As of the end of July, 758 employees worked at Brasil Telecom GSM, out of which 303 worked at Brasil Telecom GSM stores.** Our business plan anticipates a workforce of about 1,000 employees for the commercial launch. During the quarter the training programs of all employees in different existing systems, as well as selling and service techniques, was initiated.

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## FINANCIAL PERFORMANCE

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## REVENUE

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**Table 7: Consolidated Operating Gross Revenues**

R\$ Million	2Q03	1Q04	2Q04	Δ Quarter	Δ 12 Months
GROSS REVENUES	2,691.2	2,908.8	3,037.4	4.4%	12.9%

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<b>Local Service</b>	<b>1,032.5</b>	<b>1,114.3</b>	<b>1,115.7</b>	<b>0.1%</b>	<b>8.1%</b>
Activation	7.9	9.1	9.3	2.3%	19.0%
Basic Subscription	666.5	744.7	732.5	-1.6%	9.9%
Measured Service	331.2	336.4	349.5	3.9%	5.5%
Lease of Lines	0.5	0.4	0.4	2.7%	-21.7%
Other	26.4	23.7	24.0	1.3%	-9.1%
<b>Public Telephony</b>	<b>103.1</b>	<b>108.2</b>	<b>119.1</b>	<b>10.1%</b>	<b>15.5%</b>
<b>Long Distance Service</b>	<b>356.8</b>	<b>382.2</b>	<b>418.3</b>	<b>9.5%</b>	<b>17.2%</b>
Intra-Sector	266.3	264.8	263.6	-0.4%	-1.0%
Intra-Region	90.4	90.4	95.9	6.1%	6.1%
Inter-Region	-	21.3	52.2	145.2%	N.A.
International/Borderline	0.1	5.7	6.5	14.8%	4603.5%
<b>Inter-Network Calls</b>	<b>679.4</b>	<b>702.1</b>	<b>738.1</b>	<b>5.1%</b>	<b>8.6%</b>
VC-1	545.7	527.8	536.9	1.7%	-1.6%
VC-2	117.1	133.9	140.1	4.7%	19.7%
VC-3	16.6	40.5	60.8	50.0%	266.4%
International	-	-	0.3	N.A.	N.A.
<b>Interconnection</b>	<b>193.0</b>	<b>191.2</b>	<b>179.4</b>	<b>-6.2%</b>	<b>-7.1%</b>
Fixed-Fixed	141.5	128.3	113.0	-12.0%	-20.2%
Mobile-Fixed	51.5	62.9	66.4	5.6%	28.9%
<b>Lease of Means</b>	<b>49.6</b>	<b>55.1</b>	<b>63.5</b>	<b>15.2%</b>	<b>27.9%</b>
<b>Data Communication</b>	<b>181.6</b>	<b>220.5</b>	<b>255.3</b>	<b>15.8%</b>	<b>40.6%</b>
<b>Supplementary and Value Added Services</b>	<b>81.3</b>	<b>99.1</b>	<b>104.1</b>	<b>5.0%</b>	<b>28.0%</b>
<b>Other</b>	<b>13.8</b>	<b>36.2</b>	<b>43.9</b>	<b>21.4%</b>	<b>218.8%</b>
Deductions	(776.3)	(833.5)	(874.8)	4.9%	12.7%
<b>NET REVENUES</b>	<b>1,914.9</b>	<b>2,075.3</b>	<b>2,162.6</b>	<b>4.2%</b>	<b>12.9%</b>

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**Graph 4: Gross Revenue Breakdown**

**1Q04**  
**R\$2,909 million**

**2Q04**  
**R\$3,037 million**

**Local Service**

**Gross revenue from local service reached R\$1,115.7 million in the 2Q04**, 8.1% higher than in the 2Q03 and stable compared to the 1Q04.

**Gross revenue fro**