

BRAZIL TELECOM HOLDING CO
Form 6-K
November 13, 2003

**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 November 12, 2003

(Commission File No. 1-14477)

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)

**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 Participações S.A.

**Report of independent accountants on
special review
Quarter ended September 30, 2003**

(A translation of the original report in Portuguese as filed with the Brazilian Securities Commission (CVM) containing quarterly financial information prepared in accordance with accounting practices adopted in Brazil).

Report of independent accountants on special review

(A translation of the original report in Portuguese as filed with the Brazilian Securities Commission (CVM) containing quarterly financial information prepared in accordance with accounting practices adopted in Brazil)

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

We have reviewed the quarterly financial information of Brasil Telecom Participações S.A. for the quarter ended September 30, 2003, comprising the balance sheet and the consolidated balance sheet of the Company and its subsidiaries, the statement of income and the consolidated statement of income, the management report and other relevant information, prepared in accordance with accounting practices adopted in Brazil.

Our review was performed in accordance with auditing standards established by the Brazilian Institute of Accountants (IBRACON) and the Federal Accounting Council, which included: (a) inquiries and discussion with management responsible for the accounting, financial and operational areas of the Company and its subsidiaries regarding the criteria adopted in the preparation of the quarterly information; and (b) review of post-balance sheet information and events, which may have a material effect on the financial and operational position of the Company and its subsidiaries.

Based on our special review, we are not aware of any material changes that should be made to the aforementioned quarterly information for it to be in accordance with accounting practices adopted in Brazil and the regulations issued by the Brazilian Securities Commission, specifically applicable to the mandatory quarterly financial information.

Our review was performed for the purpose of issuing a special review report on the mandatory quarterly financial information. The statement of cash flow represents supplementary information to those statements and is presented to provide additional analysis. This supplementary information was submitted to the same review procedures applied to the quarterly financial information, and, based on our special review, is adequately presented in all material respects, in relation to the quarterly financial information taken as a whole.

October 24, 2003

KPMG Auditores Independentes
CRC-SP-014.428/O-6- F -DF

Manuel Fernandes Rodrigues de Sousa Accountant
CRC-RJ-052.428/O-S-DF

FEDERAL PUBLIC SERVICE

SECURITIES AND EXCHANGE COMMISSION (CVM)

CORPORATION LAW

QUARTERLY INFORMATION

COMMERCIAL COMPANY INDUSTRIAL AND OTHERS

Base Date - September 30, 2003

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

01.01 - IDENTIFICATION

1 - CVM CODE 01768-0	2 - COMPANY NAME BRASIL TELECOM PARTICIPAÇÕES S.A.	3 - GENERAL TAXPAYERS REGISTER 02.570.688/0001-70
4 - NIRE 5.330.000.581-8		

01.02 - ADDRESS OF COMPANY HEADQUARTERS

1 - COMPLETE ADDRESS SIA/SUL - ASP - LOTE D - BL B - 1º ANDAR		2 - DISTRICT SIA		
3 - ZIP CODE 71215-000	4 - MUNICIPALITY BRASILIA		5 - STATE DF	
6 - AREA CODE 061	7 - TELEPHONE NUMBER 415-1256	8 - TELEPHONE NUMBER 415-1440	9 - TELEPHONE NUMBER 415-1119	10 - TELEX
11 - AREA CODE 061	12 - FAX 415-1315	13 - FAX 415-1593	14 - FAX 415-1133	
15 - E-MAIL ri@brasiltelecom.com.br				

01.03 - MARKET RELATIONS DIRECTOR (Address for correspondence to Company)

1 - NAME PAULO PEDRÃO RIO BRANCO				
2 - COMPLETE ADDRESS SIA/SUL - ASP - LOTE D- BL A TÉRREO			3 - DISTRICT BRASÍLIA	
4 - ZIP CODE 71215-000	5 - MUNICIPALITY BRASÍLIA		6 - STATE DF	
7 - AREA CODE 061	8 - TELEPHONE NUMBER 415-1440	9 - TELEPHONE NUMBER 415-1072	10 - TELEPHONE NUMBER -	11 - TELEX
12 - AREA CODE 061	13 - FAX 415-1593	14 - FAX -	15 - FAX -	
15 - E-MAIL paulopedrao@brasiltelecom.com.br				

01.04 - REFERENCE / AUDITOR

CURRENT FISCAL YEAR		CURRENT QUARTER			PRIOR QUARTER		
1 - BEGINNIG	2 - ENDING	3 - QUARTER	4 - BEGINNIG	5 - ENDING	6 - QUARTER	7 - BEGINNING	8 - ENDING
01/01/2003	12/31/2003	3	07/01/2003	09/30/2003	2	04/01/2003	06/30/2003
9 - NAME/COMPANY NAME AUDITOR KPMG AUDITORES INDEPENDENTES					10 - CVM CODE 00418-9		
11 - NAME TECHNICAL RESPONSIBLE MANUEL FERNANDES RODRIGUES DE SOUSA					12 - CPF TECHNICAL RESPONSIBLE 783.840.017-15		

01.05 - COMPOSITION OF PAID CAPITAL

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1 - QUANTITY OF SHARES (IN THOUSANDS)	2 - CURRENT QUARTER 09/30/2003	3 - PRIOR QUARTER 06/30/2003	4 - SAME QUARTER OF PRIOR YEAR 09/30/2002
PAID CAPITAL			
1 - COMMON	134,031,688	134,031,688	132,355,516
2 - PREFERRED	222,670,188	222,670,188	219,863,511
3 - TOTAL	356,701,876	356,701,876	352,219,027
TREASURY SHARES			
4 - COMMON	1,480,800	1,051,100	0
5 - PREFERRED	0	0	0
6 - TOTAL	1,480,800	1,051,100	0

01.06 - COMPANY S CHARACTERISTICS

1 - TYPE OF COMPANY INDUSTRIAL, COMMERCIAL COMPANIES AND OTHERS
2 - SITUATION OPERATING
3 - TYPE OF CAPITAL CONTROL NATIONAL PRIVATE
4 - ACTIVITY CODE 1990100 - TELECOMMUNICATION
5 - MAIN ACTIVITY EXPLOITATION OF THE SWITCHED FIXED TELEPHONE SERVICE (STFC)
6 - TYPE OF CONSOLIDATED TOTAL
7 - TYPE OF ACCOUNTANTS REVIEW REPORT UNQUALIFIED

01.07 - SUBSIDIARIES EXCLUDED FROM THE CONSOLIDATED STATEMENT

1 - ITEM	2 - GENERAL TAXPAYERS REGISTER	3 - NAME

01.08 - DIVIDENDS APPROVED AND/OR PAID DURING AND AFTER THE QUARTER

1 - ITEM	2 - EVENT	3 - APPROVAL	4 - DIVIDEND	5 - BEGINNING PAYMENT	6 - TYPE OF SHARE	7 - VALUE OF THE DIVIDEND PER SHARE
01	RCA	10/31/2003	INTEREST ON CAPITAL		ON	0,0002349804
02	RCA	10/31/2003	INTEREST ON CAPITAL		ON	0,0002349804

01.09 - CAPITAL STOCK COMPOSITION AND ALTERATION IN CURRENT YEAR

1 - ITEM	2 - ALTERATION DATE	3 - CAPITAL STOCK (In R\$ thousands)	4 - VALUE OF ALTERATION (In R\$ thousands)	5 - ORIGIN OF ALTERATION	6 - QUANTITY OF ISSUED SHARES (In R\$ thousands)	7 - ISSUED PRICE OF SHARES (In R\$)
01	03/17/2003	2,286,344	28,733	CAPITAL RESERVE	4,482,849	0,0160071529
02	03/17/2003	2,544,432	258,088	PROFIT RESERVE	0	0,0000000000

01.10 - MARKET RELATIONS DIRECTOR

1 - DATE	2 - SIGNATURE
10/24/2003	

FEDERAL PUBLIC SERVICE

SECURITIES AND EXCHANGE COMMISSION (CVM)

CORPORATION LAW

QUARTERLY INFORMATION

COMMERCIAL COMPANY INDUSTRIAL AND OTHERS

Base Date - September 30, 2003

01.01 - IDENTIFICATION

1 - CVM CODE 01768-0	2 - COMPANY NAME BRASIL TELECOM PARTICIPAÇÕES S.A.	3 - GENERAL TAXPAYERS REGISTER 02.570.688/0001-70
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02.01 - BALANCE SHEET - ASSETS (IN THOUSANDS OF REAIS) - PARENT COMPANY

1 - CODE	2 - ACCOUNT DESCRIPTION	3 - 09/30/2003	4 - 06/30/2003
1	Total Assets	7,228,186	7,114,562
1.01	Current Assets	835,073	687,033
1.01.01	Cash and Cash Equivalents	465,764	362,620
1.01.02	Credits	0	0
1.01.03	Inventories	0	0
1.01.04	Other	369,309	324,413
1.01.04.01	Loans and Financing	213,816	180,250
1.01.04.02	Deferred and Recoverable Taxes	138,491	138,491
1.01.04.03	Judicial Deposits	17,002	5,672
1.02	Noncurrent Assets	1,708,238	1,803,202
1.02.01	Other Credits	0	0
1.02.02	Intercompany Receivables	1,439,027	1,523,625
1.02.02.01	From Associated Companies	0	0
1.02.02.02	From Subsidiaries	1,439,027	1,523,625
1.02.02.02.01	Loans and Financing	1,439,012	1,523,610
1.02.02.02.02	Advanced for Future Capital Increase	15	15
1.02.02.03	From Other Related Parties	0	0
1.02.03	Other	269,211	279,577
1.02.03.01	Loans and Financing	126,289	123,034
1.02.03.02	Deferred and Recoverable Taxes	138,125	151,124
1.02.03.03	Judicial Deposits	2	2
1.02.03.04	Inventories	4,795	5,417
1.03	Permanent Assets	4,684,875	4,624,327
1.03.01	Investments	4,681,697	4,614,783
1.03.01.01	Associated Companies	0	0
1.03.01.02	Subsidiaries	4,668,993	4,601,605
1.03.01.03	Other Investments	12,704	13,178
1.03.02	Property, Plant and Equipment	3,053	3,738
1.03.03	Deferred Charges	125	5,806

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02.02 - BALANCE SHEET - LIABILITIES (IN THOUSANDS OF REAIS - R\$) - PARENT COMPANY

1 - CODE	2 - ACCOUNT DESCRIPTION	3 - 09/30/2003	4 - 06/30/2003
2	Total Liabilities	7,228,186	7,114,562
2.01	Current Liabilities	360,469	184,296
2.01.01	Loans and Financing	121	146
2.01.02	Debentures	194,160	25,351
2.01.03	Suppliers	716	362
2.01.04	Taxes, Duties and Contributions	35,930	28,907
2.01.04.01	Indirect Taxes	4,286	4,833
2.01.04.02	Taxes on Income	31,644	24,074
2.01.05	Dividends Payable	126,253	127,507
2.01.06	Provisions	0	0
2.01.07	Related Party Debts	0	0
2.01.08	Other	3,289	2,023
2.01.08.01	Payroll and Social Charges	500	314
2.01.08.02	Consignments in Favor of Third Parties	137	133
2.01.08.03	Employee Profit Sharing	912	423
2.01.08.04	Other Liabilities	1,740	1,153
2.02	Long-Term Liabilities	474,603	648,506
2.02.01	Loans and Financing	472	505
2.02.02	Debentures	434,194	609,181
2.02.03	Provisions	0	0
2.02.04	Related Party Debts	0	0
2.02.05	Other	39,937	38,820
2.02.05.01	Payroll and Social Charges	39,937	38,820
2.03	Deferred Income	0	0
2.05	Shareholders Equity	6,393,114	6,281,760
2.05.01	Capital	2,544,432	2,544,432
2.05.02	Capital Reserves	361,018	361,018
2.05.03	Revaluation Reserves	0	0
2.05.03.01	Company Assets	0	0
2.05.03.02	Subsidiaries/Associated Companies	0	0
2.05.04	Profit Reserves	978,085	978,085
2.05.04.01	Legal	187,865	187,865
2.05.04.02	Statutory	0	0
2.05.04.03	Contingencies	0	0
2.05.04.04	Realizable Profits Reserves	790,220	790,220
2.05.04.05	Profit Retention	0	0
2.05.04.06	Special Reserve for Undistributed Dividends	0	0
2.05.04.07	Other Profit Reserves	0	0
2.05.05	Retained Earnings	2,509,579	2,398,225

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03.01 - QUARTERLY STATEMENT OF INCOME (IN THOUSANDS OF REAIS - R\$) - PARENT COMPANY

1 - CODE	2 - DESCRIPTION	3 - AMOUNT FOR CURRENT QUARTER 07/01/2003 TO 09/30/2003	4 - AMOUNT ACCUMULATED FOR CURRENT QUARTER 01/01/2003 TO 09/30/2003	5 - AMOUNT ACCUMULATED FOR EQUIVALENT QUARTER OF PRIOR YEAR 07/01/2002 TO 09/30/2002	6 AMOUNT ACCUMULATED FOR EQUIVALENT PERIOD OF PRIOR YEAR 01/01/2002 TO 09/30/2002
3.01	Gross Revenue from Sales and Service	0	0	0	0
3.02	Deduction from Gross Revenue	0	0	0	0
3.03	Net Revenue from Sales and Services	0	0	0	0
3.04	Cost of Goods and Services Sold	0	0	0	0
3.05	Gross Profit	0	0	0	0
3.06	Operating Expenses	145,605	234,706	185,947	293,563
3.06.01	Selling Expenses	0	0	0	0
3.06.02	General and Administrative Expenses	(5,280)	(15,517)	(6,415)	(20,810)
3.06.03	Financial	82,106	51,224	119,126	135,623
3.06.03.01	Financial Income	108,239	313,648	148,771	331,501
3.06.03.02	Financial Expenses	(26,133)	(262,424)	(29,645)	(195,878)
3.06.04	Other Operating Income	1,422	8,638	2,087	6,436
3.06.05	Other Operating Expenses	(551)	(1,988)	(518)	(2,123)
3.06.06	Equity Gain (Loss)	67,908	192,349	71,667	174,437
3.07	Operating Income (Loss)	145,605	234,706	185,947	293,563
3.08	Nonoperating Income (Expenses)	(316)	648	(2,140)	(4,275)
3.08.01	Revenues	(233)	831	0	19
3.08.02	Expenses	(83)	(183)	(2,140)	(4,294)
3.09	Income (Loss) Before Taxes and Minority Interests	145,289	235,354	183,807	289,288
3.10	Provision for Income and Social Contribution Taxes	(26,520)	(69,743)	(64,321)	(92,279)
3.11	Deferred Income Tax	0	0	0	0
3.12	Interests/Statutory Contributions	(478)	(926)	(202)	(1,617)
3.12.01	Interests	(478)	(926)	(202)	(1,617)
3.12.02	Contributions	0	0	0	0
3.13	Reversal of Interest on Equity	0	122,000	0	116,000
	Income/Loss for the Period	118,291	286,685	119,284	311,392
	Number of Shares Outstanding (Thousand)	355,221,076	355,221,076	352,219,027	352,219,027
	Earnings per Share (Reais)	0.00033	0.00081	0.00034	0.00088
	Loss per Shares (Reais)				

FEDERAL PUBLIC SERVICE
SECURITIES AND EXCHANGE COMMISSION (CVM)
QUARTERLY INFORMATION
COMMERCIAL COMPANY INDUSTRIAL AND OTHERS

CORPORATION LAW

Base Date - September 30, 2003

01768-0

BRASIL TELECOM PARTICIPAÇÕES S.A.

02.570.688/0001-70

04.01 - NOTES TO THE QUATERLY REPORT

NOTES TO THE FINANCIAL STATEMENTS
Quarter ended June 30, 2003
(In thousands of Brazilian reais)
1. OPERATIONS

Brasil Telecom Participações S.A. (Company) was established in accordance with Article 189 of Law 9472/97 - General Telecommunications Law, as part of the TELEBRÁS spin-off process. The spin-off protocol and justification was approved in the Shareholders Meeting of May 22, 1998. The Company is a subsidiary of SOLPART Participações S.A., which holds 53.59% of the Company s voting capital and 20.18% of total capital.

The Company is registered with the Brazilian Securities Commission (CVM) and the Securities and Exchange Commission (SEC) in the USA, and its shares are traded on the main stock exchanges in Brazil and its ADR on the New York Stock Exchange (NYSE).

The Company is a pure holding company, indirectly carrying out operations through Brasil Telecom S.A., a telecommunications operator holding a concession to operate the Switched Fixed Telephone Service (STFC), which is controlled by the Company. Through the operator, it holds concessions to provide local and long-distance services in the Brazilian states of Rio Grande do Sul, Paraná, Santa Catarina, Mato Grosso do Sul, Mato Grosso, Rondônia, Acre, Goiás, Tocantins and the Federal District. The region covered by the concessions has a total area of 2,859,375 square kilometers, corresponding to 34% of the Brazilian territory.

The quality and expansion targets of the Switched Fixed Telecommunications Services - STFC adopted by its operator are available for information of the interested parties in the web site of the Brazilian Telecommunications Agency, ANATEL, on the site www.anatel.gov.br.

The subsidiary Brasil Telecom S.A. controls two wholly-owned subsidiaries: (i) BrT Serviços de Internet S.A. (BrTI), a wholly-owned subsidiary incorporated in October 2001, engaged in the provision of Internet services and related activities, becoming operational in the beginning of 2002; and (ii) Brasil Telecom Celular S.A. (BrT Celular), incorporated in December 2002, to operate the Mobile Personal Service (SMP), holding a license to serve the same coverage area where the Company operates STFC. At the balance sheet date BrT Celular was initiating its structuring process - pre-operating phase.

The Company also controls Nova Tarrafa Participações Ltda. (NTP) and Nova Tarrafa Inc. (NTI), being the last one, until the first quarter of 2003, a minority investment and, after promoted a spin-off, became a subsidiarie. NTP and NTI are engaged in holding interest in Internet Group (Cayman) Limited, which, at the balance sheet date, represents a minority interest.

Completing the information on the companies over which the Company exercises indirect control, during the second quarter of 2003, Brasil Telecom Serviços de Internet S.A. made investments in capital interests as a shareholder or quotaholder, gaining control of the following companies:

(i) *BrT Cabos Submarinos Group (formerly GlobeNet)*

- Brasil Telecom Cabos Submarinos do Brasil (Holding) Ltda. (BrT CSH): a company acquired by BrTI on June 11, 2003, as part of the program to purchase the GlobeNet Group, an acquisition previously disclosed on November 19, 2002, through the relevant fact.
- Brasil Telecom Cabos Submarinos do Brasil Ltda. (BrT CS Ltda.): a company acquired by BrTI on June 11, 2003, in which it exercises direct control and total control jointly with BrT CSH, which is a further part of the program to purchase the GlobeNet Group.

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- Brasil Telecom Subsea Cable Systems (Bermuda) Ltd. (BrT SCS Bermuda): a company incorporated under the laws of the Bermudas, for which the transfer of funds for paying in of capital occurred on May 30, 2003. It is also an integral part of the program to purchase the Globenet Group. BrT SCS Bermuda, in turn, holds all the shares of Telecom of America Inc. and of Brasil Telecom de Venezuela, S.A., formerly called 360Americas (Venezuela) S.A..

(ii) *iBest Group*

- 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) Febraio S.A.; and (iv) Freelance S.A.. The acquisition which resulted in the control of the iBest Group was disclosed on June 26, 2003, through the relevant fact.

2. PRESENTATION OF FINANCIAL STATEMENTS

Preparation Criteria

The financial statements were prepared in accordance with accounting practices emanating from Brazilian corporate law, standards of the Brazilian Securities Commission (CVM) and standards applicable to Switched Fixed Telecommunications Services - STFC concessionaires.

As the Company is filed with the Securities and Exchange Commission (SEC), it is subject to its standards, and should prepare financial statements and other information by using criteria that comply with that entity's requirements. For complying with these requirements and aiming at meeting the market's information needs, the Company adopts, as a principle, the practice of simultaneously publishing information in both markets in their respective languages.

The notes to the financial statements are presented in thousands of reais, unless demonstrated otherwise in each note. According to each situation, the notes to the financial statement present information related with 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 .

Consolidated Financial Statements

The consolidation was made in accordance with CVM Instruction 247/96 and includes the Company and its subsidiaries mentioned in Note 1.

Some of the main consolidation procedures are:

- Elimination of intercompany balances, as well as revenue and expenses of transactions among them;
- Elimination of the investor's shareholdings, reserves and accumulated results in the investees; and
- Segregation of the portions of shareholders' equity and result of minority shareholders, indicated in the specific items.

The reconciliation between the Parent Company and consolidated net income is presented in Note 36.

3. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

The criteria mentioned in this note refer to the practices adopted by the Company and its subsidiaries which are reflected in the consolidated balance sheet.

a. Cash and Cash Equivalents: Cash equivalents are short-term, high-liquidity investments, which mature in less than three months. 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. The criterion adopted for making the provision for doubtful accounts takes into account the calculation of the actual percentage losses incurred on each range of accounts receivable. The historic percentages are applied to the current ranges of accounts receivable, also including accounts

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coming due and the portion yet to be billed, thus composing the amount that could become a future loss, which is recorded as a provision.

c. Inventories: Stated at average acquisition cost, not exceeding replacement cost. Inventories are segregated into inventories for plant expansion and those for maintenance. 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 noncurrent assets. Obsolete items are recorded as Allowance for losses.

d. Investments: Investments in subsidiaries are valued using the equity method. Other investments are recorded at cost less allowance for probable losses, when applicable. The investments resulting from income tax incentives are recognized at the date of investment, and result in shares of companies with tax incentives or investment fund quotas. In the period between the investment date and receipt of shares or quotas, they remain recognized in noncurrent assets. The Company adopts the criterion 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 for financing assets and construction in progress are capitalized.

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

Depreciation is calculated under the straight-line method. Depreciation rates used are based on expected useful lives of the assets and in accordance with the standards of the Public Telecommunications Service. The main rates used are set forth in Note 24.

f. Deferred Charges: Segregated between deferred charges on amortization and formation. Main items are goodwill on the acquisition of CRT - Companhia Riograndense de Telecomunicações (incorporated by Brasil Telecom S.A. in December 2000), net of tax savings, costs incurred on installation, reorganization, data processing and other. Amortization is calculated under the straight-line method in accordance with the legislation in force. When the asset does not generate benefits anymore, it is written off against nonoperating income.

g. Income and Social Contribution Taxes: Income and social contribution taxes are accounted for on an accrual basis. These taxes levied on temporary differences, tax losses and the negative social contribution base are recorded under assets or liabilities, as the case may be, according to the assumption of realization or future demand, within the parameters established in the CVM Instruction 371/02.

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

i. Provision for Contingencies: Recognized based on its risk assessment evaluation and quantified on economic grounds and based on 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. Recognition of Revenues: Revenues from services rendered are accounted for on the accrual basis. Local calls are charged based on time measurement according to the legislation in force. Revenues from sales of payphone cards are recorded upon sale.

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

l. Financial Income (Expense), Net: Financial income comprises interest earned on accounts receivable settled after maturity and gains on financial investments and hedges, when incurred financial expenses comprises interest incurred and other charges on loans, financing and other financial transactions.

Credited Interest on Capital is included in the financial expenses balance; for financial statement presentation purposes, the amounts are reversed to profit and loss accounts and reclassified as a deduction of 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 operations commence.

n. Benefits to Employees: Private pension plans and other retirement benefits sponsored by the Company and its subsidiaries for their employees are managed by SISTEL and Fundação CRT. Contributions are determined on an actuarial basis, when applicable, and accounted for on an accrual basis. As of December 31, 2001, to comply with CVM Instruction 371/00, the subsidiary Brasil Telecom S.A. recorded its actuarial deficit on the balance sheet date against shareholders' equity, net of its tax effects. As from 2002, as new actuarial revaluation show the

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necessity for adjustments to the provision, they are recognized in the profit and loss accounts in accordance with the aforementioned instruction. Supplementary information regarding private pension plans and other benefits to employees is described in Note 6.

o. Employees and Directors Profit Sharing: The Company and its subsidiary Brasil Telecom S.A. recognized provisions for employee and directors profit sharing, and the calculation of the amount, which is paid in the year after the provision recognition, is in accordance with 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 carried out by the Company with its parent company, Solpart Participações S.A., and subsidiaries Brasil Telecom S.A., Nova Tarrafa Participações Ltda. and Nova Tarrafa Inc.

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

Solpart Participações S.A.

Dividends/Interest on Capital: of the interest on Capital accrued in the quarter, the Company assigned the amount of R\$24,623 (R\$23,299 in the same period last year) to the parent company. Of this amount, the net part of the withholding tax will be allocated to the dividend to be provisioned at the end of the year. The balance of this liability that includes the provision of the prior year is R\$20,930 (R\$20,930 on June 30, 2003).

Brasil Telecom S.A.

Dividends/Interest on Capital: in the quarter, the subsidiary credited to the Company Interest on Capital in the amount of R\$162,425 (R\$154,128 in the same period last year). The balance of this asset as of September 30, 2003, net from the withholding tax including the balance provisioned in 2002, is R\$138,062 (R\$138,062 as of June 30, 2003).

Loans with Subsidiary: Asset balance as of June 30, 2003 arises from the spin-off of Telebrás and is indexed to exchange variation, plus interest of 1.75% per year, amounting to R\$90,320 (R\$93,363 on June 30, 2003). Yield recognized a financial loss for the quarter was R\$18,298 due to the decrease of the exchange rate of the American dollar against the Brazilian real (R\$56,305 of financial income in 2002).

Debentures: On January 27, 2001, the subsidiary 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 the Company. The nominal value of these debentures will be paid in three installments equivalent to 30%, 30% and 40% with maturities on July 27, 2004, July 27, 2005, and July 27, 2006, respectively. The debenture remuneration is equivalent to 100% of CDI, received semiannually. The balance of this asset as of September 30, 2003 is R\$1,348,692 (R\$1,430,247 on June 30, 2003), and the yield recognized in the income for the quarter represents R\$227,413 (R\$169,875 in 2002).

Accounts Receivable and Payable: arising from transactions related to operating income/expenses due to use of installations and logistic support. As of September 30, 2003, balance payable is R\$4,101 (R\$591 payable as of June 30, 2003) and the amounts recorded in income for the quarter are comprising operating Expenses of R\$1,637 (R\$1,815 of operating expenses in 2002 and R\$256 of operating revenue in 2002).

Advance for Future Capital Increase - AFAC

Funds for future increase of ownership interest in subsidiaries or investments carried under the cost method are represented as follows:

INVESTOR	AFAC INVESTEE	PARENT COMPANY		CONSOLIDATED	
		09/30/03	06/30/03	09/30/03	06/30/03
	Subsidiaries				

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Company	Nova Tarrafa Participações Ltda.	15	15	-	-
	Minority Investments				
Brasil Telecom S.A.	Vant Telecomunicações S.A.	-	-	6,671	6,315
Total		15	15	6,671	6,315

5. MARKET VALUE OF FINANCIAL ASSETS AND LIABILITIES (FINANCIAL INSTRUMENTS) AND RISK ANALYSIS.

The Company and its subsidiaries assessed the book value of its assets and liabilities as compared to market or realizable values (fair value), based on information available and valuation methodologies applicable to each case. The interpretation of market data regarding the choice of methodologies requires considerable judgment and determination of estimates to achieve an amount considered adequate for each case. Accordingly, the estimates presented may not necessarily indicate the amounts which can be obtained in the current market. The use of different assumptions for calculation of market value or fair value may have material effect on the obtained amounts. The selection of assets and liabilities presented in this Note was made based on their materiality. Those instruments the value of which approximates the fair value and, whose risk assessment is not significant, are not mentioned.

In accordance with their natures, the financial instruments may involve known or unknown risks; the potential of such risks is important for the best judgment. Thus, there may be risks with or without guarantees, depending on circumstantial or legal aspects. Among the principal market risk factors which can affect the Company's and subsidiaries' business are the following:

a. Credit Risk

The majority of the services provided by the subsidiary Brasil Telecom S.A. are related to the Concession Agreement, and a significant portion of these services is subject to the determination of tariffs by the regulatory agency. The credit policy, in case of telecommunications public services, is subject to legal standards established by the concession authority. The risk exists since the subsidiary may incur losses arising from the difficulty in receiving amounts billed to its customers; in the quarter, the Company's default was 2.46% of the gross revenue (2.59% in the same period last year). By means of internal controls, the level of accounts receivable is constantly monitored, thus limiting the risk of past due accounts by cutting the access to the service (out phone traffic) if the bill is overdue for over 30 days. Exceptions are made for telephone services, which should be maintained for national security or defense. As of September 30, 2003, the subsidiary's customer portfolio did not include receivables, of which subscribers were, individually, higher than 1% of total service accounts receivable.

b. Exchange Rate Risk

Assets

The Company has loan agreements in foreign currency, and, therefore, subject to exchange rate fluctuation. The amounts of assets exposed to this type of risk are the following:

	PARENT COMPANY		CONSOLIDATED	
	Book Value		Book Value	
	09/30/03	06/30/03	09/30/03	06/30/03
Assets				
Loan agreements with subsidiary	90,320	93,363	-	-
Loans and financing	126,289	123,034	126,289	123,034
Total	216,609	216,397	126,289	123,034
Noncurrent Assets	216,609	216,397	126,289	123,034

The loans receivable in dollars were transferred to the Company at the time of the split off of Telebrás. Due to their original characteristics, no financing is available on the market under similar conditions, which led to the presentation of the book value only.

Liabilities

The Company and the subsidiary Brasil Telecom S.A. has loans and financing contracted in foreign currency. The risk related to these liabilities arises from possible exchange rate fluctuations, which may increase these liabilities balances. Loans subject to this risk represent approximately 3.8% (4.1% on June 30, 2003) of the total liabilities. To minimize this type of risk, the subsidiary enters into swap agreements with financial institutions to hedge foreign exchange exposures 51.8% (44% on June 30, 2003) of the debt portion in foreign currency is covered by hedge

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agreements. Unrealized positive or negative effects of these operations are recorded in income as gain or loss. To the quarter, consolidated net losses totaled R\$76,695 (net gain of R\$53,186 in the same period in 2002).

Net exposure as per book and market values, at the exchange rate prevailing on the balance sheet date, is as follows:

PARENT COMPANY				
	09/30/03		06/30/03	
	Book Value	Market Value	Book Value	Market Value
Liabilities				
Loans and financing	593	649	652	658
Total	593	649	652	658
Current	121	133	146	148
Long-Term	472	516	506	510

CONSOLIDATED				
	09/30/03		06/30/03	
	Book Value	Market Value	Book Value	Market Value
Liabilities				
Loans and financing	152,078	144,156	161,439	152,274
Hedge contracts	(821)	(8,412)	(3,428)	(7,131)
Total	151,257	135,744	158,011	145,143
Current	36,433	25,545	32,878	25,928
Long-Term	114,824	110,199	125,133	119,215

The method used for calculation of market value (fair value) of loans and financing in foreign currency and hedge instruments was the discounted cash flow, at the market rates prevailing of the balance sheet date.

c. Interest Rate Risk

Assets

The private debentures issued by subsidiary Brasil Telecom S.A were fully subscribed by the Company. Yield from this asset is linked to CDI. The subsidiary also has asset loans totaling R\$9,944 (R\$8,409 on June 30, 2003) linked to IGP-DI and IPA-OG Column 27 of Getúlio Vargas Foundation - FGV and CDI.

At the balance sheet date, these assets are represented as follows:

	PARENT COMPANY		CONSOLIDATED	
	Book and Market Value		Book and Market Value	
	09/30/03	06/30/03	09/30/03	06/30/03
Assets				
Debentures linked to CDI	1,348,692	1,430,247	-	-
Loans linked to CDI, Col. 27 (FGV), IGP-M e IGP-DI	-	-	9,944	8,409
Total	1,348,692	1,430,247	9,944	8,409
Current	-	-	1,967	1,949
Noncurrent Assets	1,348,692	1,430,247	7,977	6,460

The book values are equal to market values since the current conditions for contracting this type of financial instrument are similar to the original conditions.

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The sum of the Company's debentures, loans and financing concentrated in the subsidiary represents 91.9% (92.5% on June 30, 2003) of this type of assets.

Liabilities

In 2000, the Company issued private debentures convertible into preferred shares. This liability was contracted at the interest rate linked to TJLP (Brazilian long-term interest rate). The risk linked to this liability arises from possible increase in this rate.

The subsidiary Brasil Telecom S.A. has loans and financing contracted in local currency subject to interest rates linked to indexing units (TJLP, UMBNDES - Brazilian Social and Economic Development Bank Monetary Unit, CDI, etc.) and IGP-M. The risk inherent in these liabilities arises from possible variations in these rates. The Subsidiary has contracted derivative contracts to hedge 78.7% of the liabilities subject to the UMBNDES rate, using exchange rate swap contracts, considering the influence of the US dollar on the interest rate (basket of currencies) of these liabilities. However, the other market rates are continually monitored to evaluate the need to contract derivatives to protect against the risk of volatility of these rates. The Subsidiary issued non-convertible private and public debentures or convertible in shares. These liabilities were contracted at interest rates tied to the CDI, and the risk linked with this liability is the result of the possible increase in the rate.

The aforementioned liabilities at the balance sheet date are as follows:

	PARENT COMPANY		PARENT COMPANY	
	Book and Market Value		Book and Market Value	
	09/30/03	06/30/03	09/30/03	06/30/03
Liabilities				
Loans linked to TJLP (including Debentures)	628,354	634,531	2,477,591	2,559,215
Loans linked to UMBNDES	-	-	225,037	229,435
Hedge contracts in UMBNDES	-	-	46,335	50,184
CDI	-	-	1,045,135	927,992
Loans linked to IGPM	-	-	22,254	23,530
Other loans	-	-	20,440	20,439
Total	628,354	634,531	3,836,792	3,810,795
Current	194,160	25,351	1,383,717	1,092,381
Long-Term	434,194	609,180	2,453,075	2,718,414

Book and market values are equivalent because the current contractual conditions for these types of financial instruments are similar to those in which they were originated. In case of a hypothetical variation of 1% in the aforementioned rates, unfavorable to the Company, the annual negative impact on income would be approximately R\$6,797.

d. Risk of Not Linking Monetary Restatement Indexes to Accounts Receivable

Loan and financing rates contracted by subsidiary Brasil Telecom S.A. are not linked to amounts of accounts receivable. Telephony tariff adjustments do not necessarily follow increases in local interest rates which affect the subsidiary's debts. Consequently, a risk arises from this lack of linking.

e. Contingency Risks

Contingency risks are assessed according to loss hypotheses, as probable, possible or remote. Contingencies considered as probable risk are recorded in liabilities. Details on this risk are presented in Note 7.

f. Risks Related to Investments

The Company has investments, which are valued using the equity method and stated at acquisition cost. Brasil Telecom S.A., the Nova Tarrafa Participações Ltda. and the Nova Tarrafa Inc. are subsidiaries, the investment of which is carried under the equity method.

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Investments stated at cost are immaterial in relation to total assets, and the risk related to them would not significantly impact the Company's results in case of total losses on these investments.

In the balance sheet date the investments were represented as follows:

	09/30/03		06/30/03	
	Book Value	Market Value	Book Value	Market Value
Investments	4,681,697	4,612,648	4,614,783	4,488,260
Equity in subsidiaries	4,668,993	4,599,944	4,601,605	4,475,082
Listed in Stock Exchange	4,629,047	4,559,998	4,561,710	4,435,187
Not Listed in Stock Exchange	39,946	39,946	39,895	39,895
Other investments	12,704	12,704	13,178	13,178

The investment quoted on the stock exchange refers to the interest in Brasil Telecom S.A., and its market value valued based on the market quotations in trading between minority shareholders.

g. Temporary Cash Investment Risks

The Company and its subsidiary Brasil Telecom S.A. have several temporary cash investments in exclusive financial investment funds (FIFs), the assets of which are represented solely by post-fixed federal securities, futures contracts tied to the exchange rate of the Futures and Commodities Exchange, BM&F and investment funds in foreign currency, from the subsidiary Brasil Telecom S.A., and there is no credit risk in this type of operation. As of September 30, 2003, the Company had temporary cash investments in the amount of R\$465,660 (R\$361,402 as of June 30, 2003). Income earned to the balance sheet date is recorded in financial income and amounts to R\$54,271 (R\$21,522 in 2002). Amounts in the consolidated financial statements are cash investments of R\$1,494,553 (R\$1,302,530 as of June 30, 2003) and R\$163,507 (R\$67,125 in 2002) of income earned.

6. BENEFITS TO EMPLOYEES

The benefits described in this note are offered to the employees of the Company, its subsidiary Brasil Telecom S.A. and its wholly-owned subsidiary, BrT Serviços de Internet S.A. and BrT Celular (undergoing structuring on the balance sheet date). These companies are better described together, and can be referred to as Brasil Telecom (group) and, for the purpose of the pension scheme cited in this note, are also called Sponsor. The benefits with specific coverage are mentioned in this manner.

Benefits to specific companies are presented as such.

(A) PRIVATE PENSION PLAN

Brasil Telecom (group) sponsors private pension schemes related with retirement for its employees and assisted members, and in the case of the latter, medical assistance in some cases. These plans are managed by two foundations, which are Fundação de Seguridade Social (SISTEL), which originated from certain companies of the former Telebrás System and Fundação dos Empregados da Companhia Riograndense de Telecomunicações (FCRT), which managed the benefit plans of CRT, a company managed by the subsidiary Brasil Telecom S.A. on December 28, 2000.

The bylaws stipulate approval of the supplementary pension policy and the joint liability attributed to the defined benefit plans is linked to the acts signed with the foundations, with the agreement of the Supplementary Pensions Department - SPC, where applicable to the specific plans.

The sponsored plans are valued by independent actuaries on the balance sheet date and, in the case of the defined benefit plans described in this explanatory note, immediate recognition of the actuarial gains and losses is adopted. The full liabilities are provided for plans showing deficits. This measure has been applied since the 2001 financial year, when the regulations of CVM Ruling 371/00 were adopted. In cases that show positive actuarial situations, no assets are recorded due to the legal impossibility of reimbursing the surpluses.

Below the characteristics of the supplementary pension plans sponsored are described.

FUNDAÇÃO SISTEL DE SEGURIDADE SOCIAL (SISTEL)

Plans

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TCSPREV (Defined Contribution, Settled Benefit, Defined Benefit)

This defined contribution and settled benefit plan was introduced on February 28, 2000, with the adherence of around 80% of the employees at that time. On December 31, 2001, all the pension plans sponsored by SISTEL were merged, being exceptionally and provisionally approved by the Supplementary Pensions Department - SPC, due to the need for adjustments to the regulations, and they were subsequently transformed into defined contribution groups with settled and defined benefits. The plans that were merged into the TCSPREV were the PBS-TCS, PBT-BrT, Convênio de Administração BrT, and the Termo de Relação Contratual Atípica, the conditions established in the original plans being maintained. On March 2003, this plan was suspended to the employees who want to be included in the supplementary pension plans sponsored by the Company. TCSPREV currently attends to around 71% of the staff.

PBS-A (Defined Benefit)

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

PAMA - Health Care Plan for Retired Employees (Defined Contribution)

Maintained jointly with other sponsors linked to the provision of telecommunications services and destined for participants that had the status of beneficiaries on January 31, 2000, and also for the beneficiaries of the PBS-TCS Group, incorporated into the TCSPREV on December 31, 2001, and participants of PBS defined benefit plans of other Sistel sponsors. According to a legal/actuarial appraisal, the sponsor's liability is exclusively limited to future contributions.

PAMEC-BrT (Health-care Plan for Supplementary Pension Beneficiaries)

Medical assistance for retirees and pensioners linked with the PBT-BrT, which was incorporated into the TCSPREV on December 31, 2001.

Contributions Established for the Plans

TCSPREV

Contributions to this plan were maintained on the same basis as the original plans incorporated in 2001 for each group of participants, and were established based on actuarial studies prepared by independent actuaries according to regulations in force in Brazil, using the capitalization system to determine the costs. Currently contributions are made by the participants and the sponsor only for the internal groups PBS-TCS (defined benefit) and TCSPREV. In the TCSPREV group, the contributions are credited in individual accounts of each participant, equally by the employee and the sponsor, and the basic contribution percentages vary between 3% and 8% of the participant's salary, according to age. Participants have the option to contribute voluntarily or sporadically to the plan above the basic contribution, but without equal payments from the sponsor. In the case of the PBS-TCS group, the sponsor's contribution in the quarter was 12% of the payroll of the participants, whilst the employees' contribution varies according to the age, service time and salary. An entry fee may also be payable depending on the age of entering the plan. The sponsors are responsible for the cost of all administrative expenses and risk benefits. In the quarter contributions by the sponsor to the TCSPREV group represented on average 7.14% of the payroll of the plan participants. TCSPREV currently attends to around 6.43% of the staff.

The Company's contributions were R\$10,768 in the quarter (R\$11,222 in 2002).

PBS-A

Contributions may occur in case of accumulated deficit. As of December 31, 2002, the plan recorded a surplus.

PAMA

This plan is sponsored with contributions of 1.5% on payroll of active participants linked to PBS plans, segregated on December 31, 2000 and sponsored by several SISTEL sponsors. In the case of Brasil Telecom (group), the PBS-TCS was incorporated into the TCSPREV plan on December 31, 2001, and became an internal group of the plan.

The company's contributions for this plan, that are exclusively the responsibility of the sponsors, were R\$90 in the quarter (R\$109 in 2002).

PAMEC-BrT

Contributions for this plan were fully paid in July 1998 through a single payment.

CIA. RIOGRANDENSE DE TELECOMUNICAÇÕES EMPLOYEES FOUNDATION - FCRT

The main purpose of sponsoring FCRT is to maintain the supplementary retirement, pension and other provisions in addition to those provided by the official social security system to participants. The actuarial system for determining the plan's cost and contributions is collective capitalization, valued annually by an independent actuary. On October 21, 2002, the BrTPREV defined contribution and settled benefits plan was introduced, aimed at active participants linked with the sponsor, self-sponsored and beneficiaries of FCRT.

Plans

BrTPREV

Defined contribution and settled benefits plan to provide supplementary social security benefits in addition to those of the official social security and which initially attended only the employees in the branch in Rio Grande do Sul. On March 2003, this plan was provided to the employees from all branches of the Company and to the employees of the subsidiaries, who wanted to be benefited by the supplementary pension plans sponsored. On June 30, 2003, this plan attended to around 17,2% of the staff.

Fundador - Brasil Telecom and Alternative - Brasil Telecom

Defined contribution and settled benefits plan to provide supplementary social security benefits in addition to those of the official social security, now closed to the entry of new participants. On September 30, 2003, there were 11 participants in these plans.

Contributions Established for the Plans

BrTPREV

The contributions to this plan are established based on actuarial studies prepared by independent actuaries according to the regulations in force in Brazil, using the capitalization system to determine the costs. Contributions are credited in individual accounts of each participant, the employee's and sponsor's contributions being equal, the basic percentage contribution varying between 3% and 8% of the participation salary, according to age. Participants have the option to contribute voluntarily or sporadically to the plan above the basic contribution, but without equal payments from the sponsor. The sponsor is responsible for the cost of administrative expenses on the basic contributions from employees and normal contributions of the Company and risk benefits. In the quarter, contributions by the sponsor represented on average 6.5% of the payroll of the plan participants, whilst the average employee contribution was 5.8%.

In the quarter the Company's contributions were R\$1,959.

FUNDADOR - BRASIL TELECOM AND ALTERNATIVE - Brasil Telecom

The regular contribution by the sponsor in the quarter was an average of 5.9% of the payroll of plan participants, who contributed at variable rates according to age, service time and salary; the average rate was 5.61%. With the Alternative-Brasil Telecom, the participants also pay an entry fee depending on the age of entering the plan.

The usual contributions of the Company in the quarter were R\$137 (R\$2,439 in 2002).

The technical reserve corresponding to the current value of the Company's supplementary contribution must be amortized, due to the actuarial deficit of the plans, within the maximum established period of 20 years as from January 2000, according to Circular 66/SPC/GAB/COA from the Supplementary Pensions Department dated January 25, 2002. Of the maximum period established, 18 years and nine months still remain for complete settlement. The amortizing contributions in the quarter were R\$58,972 (R\$11,025 in 2002) and provided in the statement income the amount of R\$61,023, related to the predicted proportional expenditure for the present year, reported at the time of the last actuarial reassessment, which occurred on December 31, 2002.

Resolution CVM 371/2000

A valuation of the supplementary pension schemes sponsored by the Company was made on December 31, 2001, and the actuarial deficit of Fundador and Alternative plans administered by FCRT was recognized directly under shareholders' equity, net of the corresponding taxes, according to the mentioned resolution.

Since the fiscal year 2002, after a new actuarial valuation, the variations of actuarial liabilities have been recognized directly in the income, according to the accrual basis. On September 30, 2003, the provided actuarial liabilities were R\$503,891 (R\$514,467 on June 30, 2003).

(B) STOCK OPTION PLAN FOR OFFICERS AND EMPLOYEES

The Extraordinary Shareholders' Meeting held on April 28, 2000, approved the general plan to grant stock purchase options to officers and employees of the Company and its subsidiaries. The plan authorizes a maximum limit of 10% of the shares of each kind of Company stock. Shares derived from exercising options guarantee the beneficiaries the same rights granted to other Company shareholders. The administration of this plan was entrusted to a management committee appointed by the Board of Directors, which decided only to grant preferred stock options. The plan is divided into two separate programs:

Program A:

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This program is granted as an extension of the performance objectives of the Company established by the Board of Directors for a five-year period. Up to June 30, 2003, no stock had been granted.

Program B:

The price of exercising the option is established based on the arithmetic average of the market price of 1000 shares for the last 20 trading sessions prior to granting the option, and will be monetarily restated by the IGP-M between the date of signing the contracts and the payment date.

The right to exercise the option is given in the following way and within the following periods:

- 33% as from January 1, 2004
- 33% as from January 1, 2005
- 34% as from January 1, 2006

The acquisition periods can be anticipated as a result of the occurrence of events or special conditions established in the option contract. Options not exercised up to December 31, 2008 will expire without compensation.

The information related with the general plan to grant stock options is summarized below:

	Preferred stock options (thousand)	Average exercise price - R\$
Balance as of 06/30/2003	599,436	11.34
Balance as of 09/30/2003	599,436	11.34

There were no purchase options of these stock options up to the end of the quarter.

(C) OTHER BENEFITS TO EMPLOYEES

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

7. PROVISIONS FOR CONTINGENCIES

Brasil Telecom (group) periodically performs an assessment of its contingency risks, and also reviews its lawsuits taking into consideration the legal, economic and accounting aspects. The assessment of these risks aims to classifying them according to the chances of unfavorable outcome among the alternatives of probable, possible or remote, taking into account, as applicable, the opinion of the legal counselors.

For those contingencies, which the risks are classified as probable, provisions are recognized. Contingencies classified as possible or remote are discussed in this note. In certain situations, due to legal requirements or precautionary measures, judicial deposits are made to guarantee the continuity of the cases in litigation. These lawsuits are in progress in various courts, including administrative, lower, and higher courts.

Labor Claims

The provision for labor claims includes an estimate by the Company's management, supported by the opinion of its legal counselors, of the probable losses related to lawsuits filed by former employees of the Company, and of service providers.

Tax Suits

The provision for tax contingencies refers principally to matters related to tax collections due to differences in interpretation of the tax legislation by Brasil Telecom (group) counselors and the tax authorities. The taxes pending future homologation by tax authorities are subject to total extinction of the tax debt on the expiration date.

Civil Suits

The provision for civil contingencies refers to cases related to contractual adjustments arising from Federal Government economic plans, and other cases.

Classification by Degree of Risk

f. Risks Related to Investments

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Contingencies with a Probable Risk

Contingencies classified as having a probable risk of loss, for which provisions are recorded under liabilities, have the following balances:

Nature	CONSOLIDATED	
	09/30/03	06/30/03
Labor	347,746	343,406
Tax	9,004	7,019
Civil	54,249	52,858
Total	410,999	403,283
Current	20,892	20,930
Noncurrent	390,107	382,353

Contingencies with a Possible Risk

The position of contingencies with degrees of risk considered to be possible, and therefore not recorded in the accounts, is the following:

Nature	CONSOLIDATED	
	09/30/03	06/30/03
Labor	584,243	572,364
Tax	508,135	453,417
Civil	328,899	318,291
Total	1,421,277	1,344,072

Contingencies with a Remote Risk

In addition to the claims mentioned, there are also contingencies considered to be of a remote risk to the amount of R\$21,555 (R\$21,188 on June 30, 2003) to the Company and R\$1,027,557 (R\$1,015,953 on June 30, 2003) related to financial statements.

Letters of guarantee

The Subsidiary Brasil Telecom S.A. has guarantee agreements with financial institutions, which relate to complementary guarantees judicial proceedings in provisional execution, in the amount of R\$123,252. The greater part of these agreements, representing 84%, will expire in the next 6 months and the remainder are for an indeterminate period of time. The remuneration for these agreements varies from 0.75% p.a. to 2.00% p.a..

Judicial deposits related to contingencies and contested taxes (suspended demand) are described in Note 21.

8. SHAREHOLDERS EQUITY

Capital

The Company is authorized to increase its capital by means of a resolution of the Board of Directors to a total limit of 700,000,000,000 (seven hundred billion) common or preferred shares, observing the legal limit of 2/3 (two thirds) for the issue of preferred shares without voting rights.

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

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

By means of a resolution of the General Shareholders' Meeting or the Board of Directors, preference rights can be excluded for the issue of shares, subscription bonuses or debentures convertible into shares in the cases stipulated in art. 172 of Corporation Law.

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The preferred shares do not have voting rights, except in the cases specified in the sole paragraphs of articles 11 and 14 of the bylaws, but are assured priority in receiving the minimum non-cumulative dividend of 6% per annum, calculated on the amount resulting from dividing the capital by the total number of Company shares, or as from 2002, 3% per annum calculated on the amount resulting from dividing the net book shareholders' equity by the total number of Company shares, whichever is greater.

Subscribed and paid-up capital as of the balance sheet date is R\$2,544,432 (R\$2,544,432 as of June 30, 2003) represented by shares without par value as follows:

In thousand of shares						
TYPE OF SHARES	Total of Shares		Shares held in treasury		Outstanding shares	
	09/30/03	06/30/03	09/30/03	06/30/03	09/30/03	06/30/03
Common	134,031,688	134,031,688	1,480,800	1,051,100	132,550,888	132,980,588
Preferred	222,670,188	222,670,188	-	-	222,670,188	222,670,188
Total	356,701,876	356,701,876	1,480,800	1,051,100	355,221,076	355,650,776

	09/30/03	06/30/03
Book Value per Thousand Outstanding Shares (R\$)	18.00	17.66

Treasury stock

In the calculation of the book value per thousand shares, were deducted 692,000 thousand common shares held in treasury.

Stock Repurchase Program -Relevant Facts from October 1, 2002, December 27, 2002 and August 5, 2003

On October 1, 2002 and December 27, 2002: the Company's Board of Directors approved a proposal to repurchase preferred and common stock issued by the Company, for holding in treasury or cancellation or subsequent sale, under the following terms and conditions: (i) the retained earnings account represented the origin of the funds invested in purchasing the stock; (ii) the authorized quantity for the repurchase of Company stock for holding in treasury was limited to 10% of common and preferred shares outstanding; and (iii) the period determined for the acquisition was three months as from the defined date and disclosure of relevant facts, for the programs disclosed in 2002, and that for the program disclosed in the present quarter the period determined is 365 days, in compliance with CVM instruction 390/03.

The repurchase of common and preferred stock issued by the Company for holding in treasury is authorized until the limit of 6,220,118,438 and 22,267,018,788 shares of each type, respectively. To reach this limit the Company also can acquire the quantity of 4,739,318,438 common shares and the total limit authorized to repurchase preferred shares.

The exchange of the treasury shares originated from stock options program is presented as follows:

	09/30/03		06/30/03	
	Preferred shares (thousands)	Amount	Preferred shares (thousands)	Amount
Opening balance in the quarter	1,051,100	13,909	1,051,100	13,909
Number of shares replaced in circulation	429,700	6,937	-	-
Closing balance in the quarter	1,480,800	20,846	1,051,100	13,909

Unit cost in the acquisition of shares (R\$)	09/30/03	06/30/03
Average	14.08	13.23
Minimum	12.40	12.40
Maximum	17.00	13.90

The unit cost of acquisition consider the totality of stock repurchase program.

In the current year 788,800 thousand shares were acquired for holding in treasury at a total cost of R\$11,671, and up to the date of the closing of the quarter there had been no disposal of preferred stock acquired in the repurchase programs.

Market Value of Treasury Shares

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The quotation of treasury shares by the market value were as follows:

	09/30/03	06/30/03
Number of preferred shares in treasury (thousand of shares)	1,480,800	1,051,100
Quote per lot of thousand shares at BOVESPA (R\$)	16.26	15.88
Market value	24,078	16,691

The Company maintains the balance of treasury stock in a separate account. For presentation purposes, the value of the treasury stock is deducted from the reserves that gave rise to it, and is presented as follows:

	RETAINED EARNINGS	
	09/30/03	06/30/03
Book Value	2,530,425	2,412,134
Treasury Stock	(20,846)	(13,909)
Net Balance of Treasury Stock	2,509,579	2,398,225

Capital Reserves

Capital reserves are recognized in accordance with the following practices:

Reserve for Premium on Subscription of Shares: results from the difference between the amount paid on subscription, and the portion allocated to capital.

Special Goodwill Reserve arising on merger: represents the net value of the contra entry of the goodwill recorded in deferred charges as provided by CVM Instructions 319/99 and 320/99. When the corresponding tax credits are used, the reserve is capitalized, annually, in the name of the controlling shareholder, observing the preferred rights of the other shareholders.

Other Capital Reserves: formed by the contra entry of the funds invested in income tax incentives.

Profit Reserves

The profit reserves are recognized in accordance with the following practices:

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

Unrealized profit reserve: recognized in the year in which the amount of the mandatory dividend, calculated in accordance with the statutory provisions or with article 202 of Law 6,404/76, exceeds the realized portion of net income. The reserve can offset losses in subsequent years or, when realized, comprise the calculation of net income adjusted for dividend payments. According to the restatement required by Law 10,303/01, the income recorded under the unrealized profit reserve as from 2002 financial year should be considered at the value of the dividend postponed. However the unrealized profit reserve formed under the previous regulations, when realized, will continue to form part of the calculation base for the dividends, this the case of unrealized profit reserves existed in the Company.

Retained Earnings

Comprises the remaining balances of net income, adjusted according to the terms of article 202 of Law 6,404/76, or by the recording of adjustments from prior years, if applicable.

Dividends and Interest on Capital

The dividends are calculated in accordance with the Company bylaws and the corporate law. Mandatory minimum dividends are calculated in accordance with article 202 of Law 6,404/76, and the preferred or priority dividends are calculated in accordance with the Company bylaws. As a result of a resolution by the Board of Directors, the Company may pay or credit, as dividends, Interest on Capital (JSCP), under the terms of article 9, paragraph 7, of Law number 9,249, dated December 26, 1995. The interests paid or credited will be offset against the minimum statutory dividend.

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The JSCP credited to the shareholders and that will be allocated to dividends, net of income tax, as part of the proposed allocation of income for the current year that will be closed by the end of 2003, and to be submitted for approval of the general shareholder's meeting, are as follows:

	09/30/03	09/30/2003
Interests on Capital - JSCP Credited	122,000	116,000
Common Shares	45,632	43,590
Preferred Shares	76,368	72,410
Withholding Tax (IRRF)	(18,300)	(17,400)
Net JSCP	103,700	98,600

9. OPERATING REVENUE FROM TELECOMMUNICATIONS SERVICES

CONSOLIDATED		
	09/30/03	09/30/02
Local Service	4,813,745	4,340,189
Installation fees	26,657	26,671
Basic subscription	2,118,685	1,928,975
Measured service charges	1,048,465	968,877
Fixed to mobile calls - VC1	1,537,014	1,327,613
Rent	1,608	4,429
Other	81,316	83,624
Long Distance Services	1,458,496	1,292,699
Inter-Sectorial Fixed	806,682	772,419
Intra-Regional Fixed (Inter-Sectorial)	266,338	250,957
Fixed to mobile calls VC2 and VC3	385,058	268,872
International	418	451
Interconnection (Use of the Network)	619,574	564,051
Fixed-Fixed	455,859	435,541
Mobile-Fixed	163,715	128,510
Lease of Means	154,596	180,692
Public Telephone	279,141	254,778
Data Communications	543,637	362,922
Supplementary, Intelligent Network and Advanced Telephony Services	257,149	200,502
Other Services from the Main Activity	31,526	-
Other	19,722	24,505
Gross Operating Revenue	8,177,586	7,220,338
Taxes on Gross Revenue	(2,251,213)	(1,950,384)
Other Deductions from Gross Revenue	(84,369)	(72,516)
Net Operating Revenue	5,842,004	5,197,438

10. COST OF SERVICES RENDERED

CONSOLIDATED		
	09/30/03	09/30/02
Personnel	(87,364)	(118,390)
Materials	(61,063)	(60,330)
Third-Party Services	(435,726)	(390,154)

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Interconnection	(1,310,837)	(1,120,097)
Rent, Leasing and Insurance	(234,929)	(162,088)
Connection Means	(8,586)	(8,696)
Fistel	(9,198)	(8,517)
Depreciation and Amortization	(1,450,109)	(1,420,210)
Other	(3,648)	(2,554)
Total	(3,601,460)	(3,291,036)

11. SELLING EXPENSES

CONSOLIDATED

	09/30/03	09/30/02
Personnel	(95,070)	(80,631)
Materials	(1,393)	(1,488)
Third-Party Services	(259,107)	(274,700)
Rent, Leasing and Insurance	(3,717)	(5,811)
Provision for Doubtful Accounts	(75)	(12,993)
Losses on Accounts Receivable	(195,364)	(186,802)
Depreciation and Amortization	(4,004)	(2,895)
Other	(294)	(235)
Total	(559,024)	(565,555)

12. GENERAL AND ADMINISTRATIVE EXPENSES

PARENT COMPANY

CONSOLIDATED

	09/30/03	09/30/02	09/30/03	09/30/02
Personnel	(3,124)	(5,171)	(105,899)	(116,376)
Materials	(67)	(41)	(2,714)	(2,891)
Third-Party Services	(8,288)	(12,437)	(294,329)	(259,087)
Rent, Leasing and Insurance	(2,042)	(1,075)	(51,392)	(48,653)
Depreciation and Amortization	(1,981)	(2,074)	(114,890)	(57,106)
Other	(15)	(12)	(670)	(1,167)
Total	(15,517)	(20,810)	(569,894)	(485,280)

13. OTHER OPERATING INCOME (EXPENSES)

PARENT COMPANY

CONSOLIDATED

	09/30/03	09/30/02	09/30/03	09/30/02
Technical and Administrative Services	920	1,781	26,116	24,122
Operational Infrastructure Rent and Other Telecom Companies	-	-	32,650	21,934
Fines	(2)	(1)	55,493	53,621
Recovered Taxes and Expenses	-	524	325	27,447
Write Off of Revenue in the Process of Classification	-	-	14,060	20,068
Dividends Allocated	7,595	3,094	18,139	9,562
Investments Dividends Valued at Cost	-	-	-	2,108
Redundancy Program	-	-	-	(3,295)
Taxes (Other Than on Gross Revenue, income and Social Contribution Taxes)	(473)	(545)	(22,521)	(18,282)
Donations and Sponsorships	-	(50)	(12,958)	(22,239)
Contingences - Provision/Reversal	-	-	(51,940)	(36,688)

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Reversal of Other Provisions	19	950	1,834	9,439
Indemnity of Telephony Services	-	-	(805)	(308)
Severance Pay	-	-	(4,835)	-
Court Fees	-	-	(1,193)	-
Write Off of Amounts Recoverable & Other Credits	-	-	-	(6,727)
Amortization of Goodwill on Investment Acquisition	(1,409)	(1,409)	(7,676)	(1,409)
Other Expenses Revenue/Expenses	-	(31)	(5,041)	(3,079)
Total	6,650	4,313	41,648	76,274

14. FINANCIAL INCOME (EXPENSES), NET

	PARENT COMPANY		CONSOLIDATED	
	09/30/03	09/30/02	09/30/03	09/30/02
Financial Income	313,648	331,501	289,163	262,011
Local Currency	309,688	207,055	245,855	138,925
On Rights in Foreign Currency	3,960	124,446	43,308	123,086
Financial Expenses	(262,424)	(195,878)	(967,117)	(682,771)
Local Currency	(93,992)	(77,571)	(657,273)	(375,202)
On Liabilities in Foreign Currency	(46,432)	(2,307)	(104,069)	(111,047)
Interest on Capital	(122,000)	(116,000)	(205,775)	(196,522)
Total	51,224	135,623	(677,954)	(420,760)

The Interest on Capital was reversed in the statement of income and deducted from retained earnings, in shareholders' equity, in accordance with CVM Resolution 207/96.

15. NONOPERATING INCOME (EXPENSES)

	PARENT COMPANY		CONSOLIDATED	
	09/30/03	09/30/02	09/30/03	09/30/02
Amortization of Goodwill on Merger	-	-	(93,011)	(93,011)
Provision/Reversal Realizable Value and Fixed Asset Losses	-	-	1,693	(14,440)
Gain (Loss) on Permanent Asset Disposal	(148)	-	(20,033)	3,678
Investment Gains (Losses)	811	(4,269)	812	(4,269)
Provision/Reversal for Investment Losses	(15)	(6)	(629)	(1,941)
Other Nonoperating Revenues	-	-	3,275	-
Total	648	(4,275)	(107,893)	(109,983)

16. INCOME AND SOCIAL CONTRIBUTION TAXES

	PARENT COMPANY		CONSOLIDATED	
	09/30/03	09/30/02	09/30/03	09/30/02
Income Before Taxes and After Employee Profit Sharing	234,428	287,671	331,562	371,781
Expense Related to Social Contribution Tax (9%)	21,099	25,890	29,841	33,460
Permanent Additions	129	614	11,039	11,250
Equity Pick-up / Loss on Investments	1	384	-	384
Other	128	230	11,039	10,866
Permanent Exclusions	(2,778)	(2,161)	(930)	(1,179)
Equity Gain (Loss)	(2,767)	(1,828)	(174)	-
Invest. Liability Calc. at Cost of Lapse Acquis./Dividends prescribed	(11)	(333)	(714)	(1,105)
Other	-	-	-	-