BRASIL TELECOM HOLDING CO
Form 6-K
November 09, 2004

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 9, 2004

(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 Regristrant'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 ___X___ 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 ___X___

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, 2004
(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 and the regulations issued by the CVM)

FEDERAL PUBLIC SERVICE
SECURITIES AND EXCHANGE COMMISSION (CVM) **CORPORATE LAW**
QUARTERLY INFORMATION
COMMERCIAL COMPANY INDUSTRIAL AND OTHERS **Period-ended: September 30, 2004**

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

01.02 - ADDRESS OF COMPANY HEADQUARTERS

1 - COMPLETE ADDRESS SIA/SUL - APS - LOTE D - BL B - 1º ANDAR			2 - DISTRICT SIA	
3 - ZIP CODE 71215-000	4 - MUNICIPALITY BRASÍLIA			5 - STATE DF
6 - AREA CODE 061	7 - TELEPHONE NUMBER 415-1440	8 - TELEPHONE NUMBER 415-1256	9 - TELEPHONE NUMBER 415-1119	10 - TELEX
11 - AREA CODE 061	12 - FAX 415-1133	13 - FAX 415-1315	14 - FAX 415-1169	
15 - E-MAIL ri@brasitelecom.com.br				

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

1 - NAME PAULO PEDRÃO RIO BRANCO				
2 - COMPLETE ADDRESS SIA/SUL - APS - LOTE D- BL B - 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 -	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 / INDEPENDENT ACCOUNTANT

CURRENT FISCAL YEAR		CURRENT QUARTER			PRIOR QUARTER		
1 - BEGINNING	2 - ENDING	3 - QUARTER	4 - BEGINNING	5 - ENDING	6 - QUARTER	7 - BEGINING	8 - ENDING

01/01/2004	12/31/2004	3	07/01/2004	09/30/2004	2	04/01/2003	06/30/2003

9 - NAME/COMPANY NAME AUDITOR KPMG AUDITORES INDEPENDENTES	10 - CVM CODE 00418-9
11 - NAME TECHINICAL RESPONSIBLE MANUEL FERNANDES RODRIGUES DE SOUSA	12 - CPF TECHINICAL RESPONSIBLE 783.840.017-15

01.05 - COMPOSITION OF ISSUED CAPITAL

1 - QUANTITY OF SHARES (IN THOUSANDS)	2 - CURRENT QUARTER 09/30/2004	3 - PRIOR QUARTER 06/30/2004	4 - SAME QUARTER OF PRIOR YEAR 09/30/2003
ISSUED CAPITAL			
1 - COMMON	134,031,688	134,031,688	134,031,688
2 - PREFERRED	226,007,753	226,007,753	222,670,188
3 - TOTAL	360.039.441	360,039,441	356,701,876
TREASURY SHARES			
4 - COMMON	1,480,800	1,480,800	1,480,800
5 - PREFERRED	0	0	0
6 - TOTAL	1,480,800	1,480,800	1,480,800

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 113 - TELECOMMUNICATION
5 - MAIN ACTIVITY PROVIDING 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

01.09 - 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	03/18/2004	2,568,240	23,808	CAPITAL RESERVE	3,337,565	0.0215000000

01.10 - INVESTOR RELATIONS DIRECTOR

1 - DATE 10/29/2004	2 - SIGNATURE

02.01 - BALANCE SHEET - ASSETS (IN THOUSANDS OF REAIS)

1 - CODE	2 - ACCOUNT DESCRIPTION	3 - 09/30/2004	4 - 06/30/2004
1	TOTAL ASSETS	6,914,169	7,036,591
1.01	CURRENT ASSETS	1,066,008	803,028
1.01.01	CASH AND CASH EQUIVALENTS	801,536	535,541
1.01.02	CREDITS	0	0
1.01.03	INVENTORIES	0	0
1.01.04	OTHER	264,472	267,487
1.01.04.01	DEFERRED AND RECOVERABLE TAXES	122,648	124,543
1.01.04.02	RECEIVABLES DIVIDENDS	133,690	133,690
1.01.04.03	OTHER ASSETS	8,134	9,254
1.02	NONCURRENT ASSETS	1,360,871	1,817,771
1.02.01	OTHER CREDITS	0	0
1.02.02	INTERCOMPANY RECEIVABLES	1,014,684	1,475,295
1.02.02.01	FROM ASSOCIATED COMPANIES	0	0
1.02.02.02	FROM SUBSIDIARIES	1,014,705	1,475,295
1.02.02.02.01	LOANS AND FINANCING	1,014,684	1,475,274
1.02.02.02.02	ADVANCED FOR FUTURE CAPITAL INCREASE	21	21
1.02.02.03	FROM OTHER RELATED PARTIES	0	0
1.02.03	OTHER	346,166	342,476
1.02.03.01	LOANS AND FINANCING	126,388	126,637
1.02.03.02	DEFERRED AND RECOVERABLE TAXES	216,936	212,405
1.02.03.03	JUDICIAL DEPOSITS	2	2
1.02.03.04	OTHER ASSETS	2,840	3,432
1.03	FIXED ASSETS	4,487,290	4,415,792
1.03.01	INVESTMENTS	4,485,646	4,414,033
1.03.01.01	ASSOCIATED COMPANIES	0	0
1.03.01.02	SUBSIDIARIES	4,474,821	4,402,737
1.03.01.03	OTHER INVESTMENTS	10,825	11,296
1.03.02	PROPERTY, PLANT AND EQUIPMENT	1,548	1,656
1.03.03	DEFERRED CHARGES	96	103

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

1 - CODE	2 - ACCOUNT DESCRIPTION	3 - 09/30/2004	4 - 06/30/2004
2	TOTAL LIABILITIES	6,914,169	7,036,591
2.01	CURRENT LIABILITIES	317,211	337,234
2.01.01	LOANS AND FINANCING	127	204
2.01.02	DEBENTURES	200,630	217,648
2.01.03	SUPPLIERS	333	662
2.01.04	TAXES, DUTIES AND CONTRIBUTIONS	24,052	26,491
2.01.04.01	INDIRECT TAXES	4,918	5,368
2.01.04.02	TAXES ON INCOME	19,134	21,123
2.01.05	DIVIDENDS PAYABLE	88,934	89,187
2.01.06	PROVISIONS	0	0
2.01.07	RELATED PARTY DEBTS	0	0
2.01.08	OTHER	3,135	3,042
2.01.08.01	PAYROLL AND SOCIAL CHARGES	552	386
2.01.08.02	CONSIGNMENTS IN FAVOR OF THIRD PARTIES	109	126
2.01.08.03	EMPLOYEE PROFIT SHARING	1,963	1,494
2.01.08.04	OTHER LIABILITIES	511	1,036
2.02	LONG-TERM LIABILITIES	295,456	487,555
2.02.01	LOANS AND FINANCING	293	364
2.02.02	DEBENTURES	256,939	445,623
2.02.03	PROVISIONS	601	583
2.02.03.1	CONTYNGENCY`S PROVISIONS	601	583
332.02.04	RELATED PARTY DEBTS	0	0
2.02.05	OTHER	37,623	40,985
2.02.05.01	TAXES ON INCOME	37,623	40,985
2.03	DEFERRED INCOME	0	0
2.05	SHAREHOLDERS EQUITY	6,301,502	6,211,802
2.05.01	CAPITAL	2,568,240	2,568,240
2.05.02	CAPITAL RESERVES	337,210	337,210
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	898,043	898,043
2.05.04.01	LEGAL	195,073	195,073
2.05.04.02	STATUTORY	0	0
2.05.04.03	CONTINGENCIES	0	0
2.05.04.04	REALIZABLE PROFITS RESERVES	702,970	702,970
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	2,498,009	2,408,309

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

1 - CODE	2 - DESCRIPTION	3 - 07/01/2004 TO 09/30/2004	4 - 01/01/2004 TO 09/30/2004	5 - 07/01/2003 TO 09/30/2003	6 - 01/01/2003 TO 09/30/2003
3.01	GROSS REVENUE FROM SALES AND SERVICES	0	0	0	0
3.02	DEDUCTIONS FROM GROSS REVENUE	0	0	0	0
3.03	NET REVENUE FROM SALES AND SERVICES	0	0	0	0
3.04	COST OF SALES0	0	0	0	0
3.05	GROSS PROFIT	0	0	0	0
3.06	OPERATING EXPENSES	107,190	233,550	145,605	234,706
3.06.01	SELLING EXPENSES	0	0	0	0
3.06.02	GENERAL AND ADMINISTRATIVE EXPENSES	(5,120)	(13,743)	(5,280)	(15,517)
3.06.03	FINANCIAL	43,431	68,526	82,106	51,224
3.06.03.01	FINANCIAL INCOME	70,132	234,663	108,239	313,648
3.06.03.02	FINANCIAL EXPENSES	(26,701)	(166,137)	(26,133)	(262,424)
3.06.04	OTHER OPERATING INCOME	(614)	2,553	1,422	8,638
3.06.05	OTHER OPERATING EXPENSES	(2,493)	(5,682)	(551)	(1,988)
3.06.06	EQUITY GAIN (LOSS)	71,986	181,896	67,908	192,349
3.07	OPERATING INCOME (LOSS)	107,190	233,550	145,605	234,706
3.08	NONOPERATING INCOME (EXPENSES)	97	(7,323)	(316)	648
3.08.01	REVENUES	0	0	(233)	831
3.08.02	EXPENSES	97	(7,323)	(83)	(183)
3.09	INCOME (LOSS) BEFORE TAXES AND MINORITY INTERESTS	107,287	226,227	145,289	235,354
3.10	PROVISION FOR INCOME AND SOCIAL CONTRIBUTION TAXES	(17,118)	(75,998)	(26,520)	(69,743)
3.11	DEFERRED INCOME TAX	0	0	0	0
3.12	STATUTORY INTEREST/ CONTRIBUTIONS	(469)	(3,278)	(478)	(926)
3.12.01	INTERESTS	(469)	(3,278)	(478)	(926)
3.12.02	CONTRIBUTIONS	0	0	0	0
3.13	REVERSAL OF INTEREST ON EQUITY	0	75,000	0	122,000
3.15	INCOME/LOSS FOR THE PERIOD	89,700	221,951	118,291	286,685
	NUMBER OF OUTSTANDING SHARES (THOUSAND)	358,558,641	358,558,641	355,221,076	355,221,076
	EARNINGS PER SHARE	0,00025	0,00062	0.00033	0.00081
	LOSS PER SHARE				

04.01 - NOTES TO THE QUARTERLY REPORT

NOTES TO THE FINANCIAL STATEMENTS

Quarter ended September 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 51.00% of the Company s voting capital and 18.99% 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).

Direct subsidiaries

a. Brasil Telecom S.A.

The Company is a holding company, indirectly carrying out operations through your parent company, Brasil Telecom S.A., a telecommunications operator holding a concession to operate the Switched Fixed Telephone Service (STFC), in Region II of the General Concessions Plan, covering the Brazilian states of Acre, Rondônia, Mato Grosso, Mato Grosso do Sul, Tocantins, Goiás, Paraná, Santa Catarina and Rio Grande do Sul and the Federal District. The Company has rendered STFC (local and long distance calls) since July 1998 in an area of 2,859,375 square kilometers, which corresponds to 34% of the Brazilian territory. The Company s business is regulated by the National Agency of Telecommunications ANATEL.

With the recognition of the prior fulfillment in advance of the obligations for universalization stated in the General Plan of Universalization Goals (PGMU), forecasted for December 31, 2003, in accordance with the acts published in the Diário Oficial da União (Official Daily Government Newspaper (DOU)) on January 19, 2004, the restriction of providing other telecommunications services ceased to exist, permitting the Brasil Telecom S.A, its parent companies, its subsidiaries and associated companies to obtain new authorizations. On the same date the National Telecommunications Agency ANATEL, issued authorizations for the Brasil Telecom S.A to exploit STFC in the following service modalities: (i) Local and Domestic Long Distance calls in Regions I and III and Sectors 20, 22 and 25 of Region II of the General Concession Plan (PGO); and (ii) International Long Distance calls in Regions I, II of III of PGO. As a result of these authorizations the Company began to exploit provide the Domestic and International Long Distance services in the new regions, starting on January 22, 2004. In the case of the Local Service, to be provided in regions I and III, as regulated, the Company has a period of 12 months to begin its operations as from the date of the aforementioned authorization.

Information related with the quality and universal service targets of the STFC are available to interested parties on ANATEL s homepage (*www.anatel.gov.br)*.

b. Nova Tarrafa Participações e Nova Tarrafa Inc.

The Company also controls Nova Tarrafa Participações Ltda. (NTP) and Nova Tarrafa Inc (NTI). The latter, which was previously a minority investment, spun-off its assets in the first quarter of 2003, becoming a subsidiary. NTP and NTI are engaged in holding interests in Internet Group Limited (Cayman), an internet provider. The sum of their investments represents a minority interest.

Indirect subsidiaries

a. 14 Brasil Telecom Celular S.A. (BrT Celular): A wholly owned subsidiary incorporated in December 2002, to provide the Personal Mobile Service (SMP), with authorization to attend the same coverage area where the Company operates with STFC. On the closing date for the quarter BrT Celular was in the process of being structured pre-operating stage. The beginning of its activities is forecasted for the last quarter of 2004.

b. BrT Serviços de Internet S.A. (BrTI): A wholly-owned subsidiary incorporated in October 2001, providing internet services and correlated activities, which became operational at the beginning of 2002.

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

(i) BrT Cabos Submarinos Group (ex-GlobeNet)

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

- 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,): Company acquired on June 11, 2003, in which BrTI exercises direct control and total control jointly with BrT CSH, which was a further step of the program to purchase the GlobeNet Group.
- Brasil Telecom Subsea Cable Systems (Bermudas) Ltd, (BrT SCS Bermudas): Company incorporated under the law of Bermudas, for which the transfer of funds by BrTI for paying in of capital occurred on May 30, 2003. It was also an additional step of the program to purchase the Globenet Group. BrT SCS Bermudas holds the controlling interest of Brasil Telecom of America Inc. and Brasil Telecom de Venezuela S.A.

(ii) iBest Group

BrTI has held, since February 2002, a minority interest in the iBest Holding Corporation (IHC), a company incorporated in the Caiman Islands. In June 2003, BrTI started to control the iBest Group, which includes the main companies are: (i) iBest Holding Corporation; (ii) iBest S.A.; (iii) Febraio S.A.; and (IV) Freelance S.A. In May 2004 through a corporate reorganization process the Freelance fully incorporated the Febraio S.A., the iBest S.A. and its subsidiary Mail BR Comunicação Ltda. The Freelance S.A. becomes the owner of iBest s trademark, being the main company of this Group.

iBest was incorporated in January 1999, with the objective of organizing the iBest Prize , trading advertising space for the event. In December 2001 it extended its activities, when it started to offer and to concentrate its operations on providing dialed access to the Internet.

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

MetroRED is a service provider for a private telecommunications network through optical fiber digital networks and has 343 kilometers of local network in São Paulo, Rio de Janeiro and Belo Horizonte and 1,485 kilometers of long distance network connecting these major metropolitan commercial centers. It also has an Internet Solutions center in São Paulo, which offers co-location, hosting and other value added services.

d. VANT Telecomunicações S.A. (VANT): On May 13, 2004, the Company acquired the remaining 80.1% of the capital of VANT, which is a service provider for corporate network services, founded in October 1999. Initially focused on a TCP/IP network, VANT started in Brazil with a network 100% based on this technology. VANT operates throughout Brazil, and is present in the main Brazilian state capitals, offering a portfolio of voice and data products.

2. PRESENTATION OF FINANCIAL STATEMENTS

Preparation Criteria

The financial statements have been prepared in accordance with accounting practices adopted in Brazil, in accordance with Brazilian corporation law, rules of the Brazilian Securities Commission (CVM) and rules applicable to Switched Fixed Telecommunications Services STFC concessionaires.

As the Company is registered with the Securities and Exchange Commission (SEC), it is subject to its standards, and should annually 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 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 statements present information related with the Company and the consolidated financial statements, identified as PARENT COMPANY and CONSOLIDATED , respectively. When the information is common to both situations, it is indicated as PARENT

COMPANY AND CONSOLIDATED .

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

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 net income and the consolidated figures is as follows:

	NET INCOME		SHAREHOLDERS EQUITY	
	09/30/04	06/30/04	09/30/04	06/30/04
PARENT COMPANY	**221,951**	**132,251**	**6,301,502**	**6,211,802**
Entries recorded directly in the shareholders' equity of the subsidiaries				
Donations and Other	(13,946)	(8,582)	-	-
Interest capitalized in Subsidiary	**2,620**	**1,746**	**(8,440)**	**(9,314)**
CONSOLIDATED	**210,625**	**125,415**	**6,293,062**	**6,202,488**

In addition, the Company presents the statement of cash flows, prepared under the indirect method, in accordance with Accounting Rules and Procedures NPC 20 of the Brazilian Institute of Accountants IBRACON.

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, with immediate mature. 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 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 provided for through an allowance for losses.

d. Investments: Investments in subsidiaries are valued using the equity method. Goodwill is calculated based on the expectation of future results and its amortization is based on the expected realization/timing over a forecasted period of not more than ten years. Other investments are recorded at cost less allowance for 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 non-current 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.

The costs incurred, when they represent improvements (increase in installed capacity or useful life) are capitalized. Maintenance and repair, 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. Their breakdown is shown in Note 25. Amortization is calculated using the straight-line method, for the period of five years, in accordance with the legislation in force. When benefits are not expected from an asset, 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 applicable, 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 management s risk assessment and measured based on economic grounds and legal counselors opinions on the lawsuits and other contingency factors known as of the balance sheet date. The basis and nature of the provisions are described in Note 7.

j. Revenue recognition: Revenues from services rendered are accounted for on an accrual basis. Local and long distance calls are charged based on time measurement according to the legislation in force. Revenues from sales of payphone cards are recorded upon sale.

k. Recognition of Expenses: Expenses are recognized on an 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 overdue accounts receivable from services, gains on financial investments, exchange variation and hedges. Financial expenses comprise interest incurred and other charges on loans, financing and other financial transactions.

Interest on Shareholders Equity is included in 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 from the beginning of the operations.

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 BrTPREV. 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 Deliberation 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 necessity for adjustments to the provision, they are recognized in the profit and loss accounts in accordance with the CVM deliberation above. Complementary information on private pension plans is described in Note 6.

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

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

4. RELATED-PARTY TRANSACTIONS

Related party transactions refer to existing operations carried out by the Company with its subsidiaries under normal prices and market conditions. The principal transactions are:

Brasil Telecom S.A.

Dividends/Interest on Shareholders Equity: in the quarter, the subsidiary credited to the Company Interest on Shareholders Equity in the amount of R$157,283 (R$162,425 in the same period last year). The balance of this asset as of September 30, 2004, net from the withholding tax is R$133,690 (R$133,690 as of June 30, 2004).

Loans with Subsidiary: Asset balance as of September 30, 2004 arises from the spin-off of Telebrás and is indexed to exchange variation, plus interest of 1.75% per year, amounting to R$79,906 (R$91,835 on June 30, 2004). The financial revenue recognized as profit and loss account in the quarter was R$565 (R$18,298 as financial loss in the same period in the previous year, due to the devaluation of the US dollar in relation to the Brazilian real).

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, 2005, and 2006, respectively. The debenture remuneration is equivalent to 100% of CDI, received semiannually. The balance of this asset is R$934,778 (R$1,383,439 on June 30, 2004), and the yield recognized in the income statement for the quarter represents R$138,728 (R$227,413 in 2003).

Revenues, Expenses and Accounts Receivable and Payable: arising from transactions related to the use of installations and logistic support. The balance payable is R$333 (R$2,617 payable as of June 30, 2004) and the amounts recorded in the income statement for the quarter comprise Operating Expenses of R$2,160 (R$1,637 in 2003).

Advances 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:

		PARENT COMPANY		CONSOLIDATED	
INVESTOR	**AFAC INVESTEE**	**09/30/04**	**06/30/04**	**09/30/04**	**06/30/04**
	SUBSIDIARIES				
Company	Nova Tarrafa Participações Ltda.	21	21	-	-
	MINORITY INVESTMENTS	**-**			
Brasil Telecom S.A.	Calais Participações S.A.	-	-	5,051	4,633
TOTAL		**21**	**21**	**-**	**4,633**

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

The Company and its subsidiary 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 has been was made based on their materiality. Instruments whose values approximates their fair values, and 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 2.97% of the gross revenue (2.46% 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.

b. Exchange Rate Risk

Assets

The Company has loan agreements in foreign currency, and, therefore, subject to exchange rate fluctuation. The assets exposed to exchange rate risk are as follows:

	PARENT COMPANY		CONSOLIDATED	
	BOOK AND MARKET VALUE		BOOK AND MARKET VALUE	
	09/30/04	06/30/04	09/30/04	06/30/04
ASSETS				
Loan agreements with subsidiary	79,906	91,835	-	-
Loans and financing	126,388	126,637	126,388	126,637
TOTAL	**206,294**	**218,472**	**126,388**	**126,637**
Noncurrent Assets	206,294	218,472	126,388	126,637

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 26% of the total liabilities. To minimize this type of risk, the subsidiary enters into swap agreements with financial institutions to hedge foreign exchange exposures 47% of the debt portion in foreign currency is covered by hedge agreements. Unrealized positive or negative effects of these operations are recorded in the profit and loss accounts as gain or loss. To the quarter, consolidated net gains totaled R$44,105 (net loss of R$76,695 in the same period in 2003).

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

	PARENT COMPANY			
	09/30/04		06/30/04	
	Book Value	Market Value	Book Value	Market Value
LIABILITIES				
Loans and financing	420	420	568	568
TOTAL	**420**	**420**	**568**	**568**
Current	127	127	204	204
Long Term	293	293	364	364

	CONSOLIDATED			
	09/30/04		06/30/04	
	Book Value	Market Value	Book Value	Market Value
LIABILITIES				
Loans and financing	1,286,486	1,357,496	1,439,895	1,405,971
Hedge contracts	51,525	72,764	(6,491)	6,005
TOTAL	**1,388,011**	**1,430,260**	**1,433,404**	**1,411,976**
CURRENT	48,854	52,222	67,832	66,818
LONG-TERM	1,289,157	1,378,038	1,365,572	1,345,158

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.

	PARENT COMPANY		CONSOLIDATED	
	Book and Market Value		Book and Market Value	
	09/30/04	06/30/04	09/30/04	06/30/04
ASSETS				
Debentures linked to CDI	934,778	1,383,439	-	-
Loans linked to CDI and Col. 27 (FGV) and IGP-DI	-	-	11,214	10,440
TOTAL	**934,778**	**1,383,439**	**11,214**	**10,440**
CURRENT	-	-	2,538	2,511
NONCURRENT ASSETS	934,778	1,383,439	8,676	7,929

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.

The sum of the Company s debentures, loans and financing concentrated in the subsidiary represents 88.9% (92.1% on June 30, 2004) 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. 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, CDI etc.). The risk inherent in these liabilities arises from possible variations in these rates. The Parent Company has contracted derivative contracts to hedge 52% (78% in 2003) of the liabilities subject to the UMBNDES rate, using exchange rate swap contracts, considering the influence of the 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 Company also issued non-convertible private and public debentures. 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			
	09/30/04		06/30/04	
	Book Value	Market Value	Book Value	Market Value
LIABILITIES				
Loans linked to TJLP (including Debentures)	457,569	457,569	663,271	663,271
TOTAL	**457,569**	**457,569**	**663,271**	**663,271**
Current	200,630	200,630	217,648	217,648
Long term	256,939	256,939	445,623	445,623

	CONSOLIDATED			
	09/30/04		06/30/04	
	Book Value	Market Value	Book Value	Market Value
LIABILITIES				
Loans linked to TJLP (including Debentures)	2,272,913	2,395,933	2,247,468	2,376,277
Loans linked to UMBNDES	243,948	252,762	195,151	221,702
Hedge on loans indexed to UMBNDES	34,018	3,167	25,492	(8,029)
CDI	941,814	939,415	405,082	405,212
Loans linked to IGPM	17,552	17,552	18,853	18,853

Other loans	16,844	16,844	18,108	18,108
TOTAL	**3,527,089**	**3,625,673**	**2,910,154**	**3,032,123**
Current	1,171,460	1,204,203	1,142,536	1,190,422
Long-term	2,355,629	2,421,470	1,767,618	1,841,701

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.

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., a Nova Tarrafa Participações Ltda. e a Nova Tarrafa Inc. are subsidiaries, the investments of which are carried under the equity method.

Investments valued at cost are immaterial in relation to total assets. The risks related to them would not cause significant impacts to the Company s if losses were to occur on these investments.

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

	09/30/04		**06/30/04**	
	Book Value	**Market Value**	**Book Value**	**Market Value**
INVESTMENTS	**4,485,646**	**4,346,790**	**4,414,033**	**4,070,783**
Equity in subsidiaries	**4,474,821**	**4,335,965**	**4,402,737**	**4,059,487**
Listed in Stock Exchange	4,434,934	4,296,087	4,362,610	4,019,360
Not Listed in Stock Exchange	39,878	39,878	40,127	40,127
Other investments	**10,825**	**10,825**	**11,296**	**11,296**

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 has several temporary cash investments in exclusive financial investment funds (FIFs), whose assets are constituted by post-fixed, federal securities, pre-fixed and exchange rates indexed to CDI, through future contracts indexed to the exchange rate of the Futures and Commodities Exchange BM&F and investment fund in foreign currency, with no credit risks in such operations. The Company has financial investments in the amount of R$801,450 (R$535,453 as of June 30, 2004). Income earned to the quarter date is recorded in financial income and amounts to R$66,581 (R$54,271 in 2003). In the consolidated financial statements the amounts is as follows: temporary cash investments in the amount of R$3,172,383 (R$2,433,796 as of June 30, 2004) and income earned in the amount of R$200,784 (R$163,507 in 2003).

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. 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 denominated Sponsor .

(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 SISTEL de Seguridade Social (SISTEL), which originated from certain companies of the former Telebrás System and Fundação BrTPREV (FBrTPREV) former 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

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. 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 58.0% 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 beneficiaries of the plans of definite benefits PBS s of other sponsors of the SISTEL. 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 6.95% of the payroll of the plan participants. TCSPREV currently attends to around 6.26% of the staff.

PBS-A

Contributions may occur in case of accumulated deficit. As of December 31, 2003, 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 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$86 in the quarter (R$90 in 2003).

PAMEC-BrT

Contributions for this plan were fully paid in July 1998 through a single payment. New contributions will be limited to the future necessity to cover expenses, if that occurs.

FUNDAÇÃO BrTPREV

The main purpose of the Company sponsoring BrTPREV 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.

Plans

BrTPREV

Defined contribution and settled benefits in October 2002 plan to provide supplementary social security benefits in addition to those of the official social security. 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. Nowadays, this plan attended to around 35.8% 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. Nowadays, there were 1.2% of the staff.

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 Company 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 Company. 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 6.21% of the payroll of the plan participants, whilst the average employee contribution was 5.41%.

In the quarter the Company s contributions were R$4,140 (R$1,959 in 2003).

FUNDADOR BRASIL TELECOM AND ALTERNATIVE Brasil Telecom

The regular contribution by the sponsor in the quarter was an average of 2.22% on the payroll of plan participants, who contributed at variable rates according to age, service time and salary; the average rate was 2.13%. 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$13 (R$137 in 2003).

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 2002, according to Circular 66/SPC/GAB/COA from the Supplementary Pensions Department dated January 25, 2002. Of the maximum period established, 17 years and six months still remain for complete settlement. The amortizing contributions in the quarter were R$68,386 (R$58,972 in 2003).

(b) Stock option plan for management and employees

The Extraordinary Shareholders Meeting from the subsidiary Brasil Telecom S.A. 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:

This program is granted as an extension of the performance objectives established by the Board of Directors for a five-year period. Up to June 30, 2004, no stock had been granted.

Program B:

The price of exercising is established by the management committee based on the market price of 1000 shares at the date of the grant of 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:

	First Grant		Second Grant	
	From	End of period	From	End of period
33%	01/01/04	12/31/08	12/19/05	12/31/10
33%	01/01/05	12/31/08	12/19/06	12/31/10
34%	01/01/06	12/31/08	12/19/07	12/31/10

The acquisition periods can be anticipated as a result of the occurrence of events or special conditions established in the option contract.

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 06/30/2004	907,469	11,73
Balance as of 09/30/2004	907,469	11,73

There has been no grant of options for purchase of stocks exercised in the quarter and the representative ness of the balance of the options before the total outstanding stocks for the Company Brasil Telecom S.A. is 0.17% (0.17% in June 30, 2004).

Considering the hypothesis that the options will be fully exercised, the opportunity cost of the premiums of the respective options, calculated by the Black&Scholes method, for the Company would be R$933 (R$611 in 2003).

***(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.

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

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:

	PARENT COMPANY		**CONSOLIDATED**	
NATURE	**09/30/04**	**06/30/04**	**09/30/04**	**06/30/04**
Labor	-	-	387,498	376,123
Tax	-	-	100,337	98,619
Civil	601	583	174,073	159,534
TOTAL	**601**	**583**	**661,908**	**634,276**
Current	-	-	309,069	317,452
Noncurrent	601	583	352,839	316,824

Labor

In the current fiscal year a decrease in the provision for labor contingencies in the amount of R$36,599 was verified in the quarter. This variance is caused by recognition of monetary restatements and effects of the reassessment of contingent risks that determine the additional recognition for the provision in the amount of R$175,445 and by payments that amounted to R$20,694. The consolidated provision was increased by the amount of R$217 due to labor contingencies of VANT, that is a subsidiary of Brasil Telecom S.A.

The main objects that affect the provisions for labor claims are the following:

(i) Additional Remuneration - related to the claim for payment of additional remuneration for hazardous activities, based on Law nr 7,369/85, regulated by Decree nr 93,412/86, due to the supposed risk of contact by the employee with the electric power system;

(ii) Salary Differences and Consequences - related, mainly, to requests for salary increases due to supposedly unfulfilled union negotiations. They are related to the repercussion of the salary increase supposedly due on the others sums calculated based on the employees salaries;

(iii) Career Plan - related to the request for application of the career and salaries plan for employees of the Brasil Telecom S.A. Santa Catarina Branch (formerly Telesc), with promotions for seniority and merit, supposedly not granted; and

(iv) Joint Responsibility - related to the request to ascribe responsibility to the subsidiary, made by outsourced personnel, due to supposed nonobservance of their labor rights by their real employers.

Tax

In the end of quarter, there was an increase of R$34,367, represented by R$37,581 due to the opening balance of MetroRED and VANT, companies whose controlling interests were acquired in May of the current year, and a net decrease of R$10,759, related to the effect of revaluation of the cases risks and by payments amounted in R$1,130.

The main lawsuits provided for are as follows:

(i) Social Security - Related to the non-collection of social security education allowance;

(ii) Federal Revenue Department - Incorrect compensation of tax losses;

(iii) State Revenue Department - Non-collection of differential in rate of ICMS; and

(iv) CPMF - Non-collection of the contribution on financial activities.

Civel

The consolidated decrease in the current fiscal year up the end of quarter in the amount of R$34,838, is represented by reassessments of the contingency risks, which were reduced by recognition of monetary restatement, which resulted in a net decrease of R$27,200 and by payments totaling R$20,463. From the complement to the provision, R$368 belongs to the Company.

The lawsuits provided are the following:

(i) Review of contractual conditions - Lawsuit where a company which, supplies equipment filed legal action against the subsidiary Brasil Telecom S.A., asking for a review of contractual conditions due to economic stabilization plans;

(ii) Contracts of Financial Participation - It has been signed with TJ/RS the position related to the incorrect procedure previously adopted by the former CRT in processes related to the application of a rule enacted by the Ministry of the Communications. Such cases are in various phases: First instance, Court of Appeals and Higher Court of Appeals; and

(iii) Other lawsuits - related to various ongoing lawsuits such as indemnification for pain and suffering and material damages to consumers, indemnification for contractual rescission, indemnification for accidents, as well as lawsuits that are in Special Civil Courts whose claims, separately, do not exceed forty minimum salaries.

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:

	PARENT COMPANY		**CONSOLIDATED**	
NATURE	**09/30/04**	**06/30/04**	**09/30/04**	**06/30/04**
LABOR	-	-	653,952	629,405
TAX	12,800	-	1,200,772	1,059,101
CIVIL	182	176	890,519	821,490
TOTAL	**12,982**	**176**	**2,745,243**	**2,509,996**

Labor

The main objects that comprise the possible losses of a labor nature are related to additional remuneration for hazardous activities, promotions and joint responsibility, the evaluation of which processes by the legal assessors resulted in a level of risk of loss evaluated only as possible. In addition to the subjects cited, the request for remunerative consideration for hours of work supposedly exceeding the normal agreed workload of hours also contributed to the amount mentioned.

Tax

The main lawsuits considered as possible loss are presented as follows:

(i) ICMS - On international calls;

(ii) ICMS - Differential of rate in interstate acquisitions;

(iii) ICMS - Exploitation of credits related to the acquisition of fixed assets for use and consumption;

(iv) ISS (Service Tax) - Not collected and/or under-collected;

(v) IRPJ and CSLL (Income and Social Contribution Taxes) - Monetary variation on credits overpaid in 1997 and 1998;

(vi) INSS (Social Security) - Related to the Bresser and Summer Plans, as well as others social security and SAT;

(vii) COFINS - Repass; and

(viii) Withholding tax (IRRF) - Operations related to hedge for covering debts.

Civel

The main lawsuits are presented as follows:

(i) Repayments resulting from PCT - the plaintiffs intend to pay the compensations related to the contracts resulting from the Community Telephony Program. Such proceedings are encountered in various phases: First instance, Court of Appeals and Higher Court of Appeals;

(ii) Lawsuits of a consumerist nature;

(iii) Contractual - Lawsuits related to the claim for a percentage resulting from the Real Plan, to be applied in a contract for rendering services, review of conversion of installments in URV and later in real, related to the supply of equipment and rendering of services; and

(iv) Attendance for customers points - Public civil lawsuits arising from the closing of customer attendance points.

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$32,211 (R$29,698 on June 30, 2004) for Company and R$1,439,913 (R$1,341,190 on June 30, 2004) for Consolidated.

Letters of Guarantee

The Subsidiary Brasil Telecom S.A. has contracts for letters of guarantees signed with financial institutions, as a complementary guarantee for lawsuits in provisory execution, in the amount of R$213,902 (R$192,260 in June 30, 2004). Most of these contracts, representing 15%, have a stated period for termination during the next twelve months and the remainder is for an indeterminate period of time. The remuneration for these contracts varies between 0.75% p.a. and 4.00% p.a., representing an average weighted rate of 1.06% a.a.

The judicial deposits related with contingencies and contested taxes (suspended demand) are described in Note 21.

8. SHAREHOLDERS EQUITY

a. 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 article 172 of Corporation Law.

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 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$2,586,240 (R$2,568,240 as of June 30, 2004) represented by shares without par value as follows:

In thousand of shares

TYPE OF SHARES	Total of Shares		Shares held in Treasury		Outstanding Shares	
	09/30/04	06/30/04	09/30/04	06/30/04	09/30/04	06/30/04
Common	134,031,688	134,031,688	1,480,800	1,480,800	132,550,888	132,550,888
Preferred	226,007,753	226,007,753	-	-	226,007,753	226,007,753
TOTAL	**360,039,441**	**360,039,441**	**1,480,800**	**1,480,800**	**358,558,641**	**358,558,641**

	09/30/04	06/30/04
BOOK VALUE PER THOUSAND OUTSTANDING SHARES (R$)	**17.57**	**17.32**

b. Treasury stock

In the determination of the calculation of the book value per thousand of shares the shares held in treasury are maintained, which are originated from the following repurchasing program:

Stock Repurchase Program   Relevant Facts on September 13, 2004

The Company s Board of Directors approved, on the above mentioned dates, the proposals to repurchase preferred 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 preferred shares outstanding in the market; and (iii) the period determined for the acquisition was 365 days, in accordance with CVM Instruction 390/03.

The repurchase of preferred and common shares issued by the Company for holding in treasury, is authorized up to the limit of 6,567,552,722 and 22,600,755,298 for each class of shares, respectively. To reach this limit, the Company could acquire the quantity of 5,086,752,722 common shares and the total limit authorized for repurchase of the preferred shares.

The exchange of the treasury shares is presented as follows:

	09/30/04		06/30/04	
	Preferred shares (thousands)	Amount	Preferred shares (thousands)	Amount
Opening balance in the quarter	1,480,800	20,846	1,480,800	20,846
Closing balance in the quarter	1,480,800	20,846	1,480,800	20,846

Cost of shares (R$)	09/30/04	06/30/04
Average	14.08	14.08
Minimum	12.40	12.40
Maximum	17.00	17.00

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

There were no disposals of these purchased preferred shares up to the end of the quarter.

Market value of treasury shares

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

	09/30/04	06/30/04

Number of preferred shares in treasury (thousand of shares)	1,480,800	1,480,800
Quote per lot of thousand shares at BOVESPA (R$)	20.45	16.43
Market value	**30,282**	**24,330**

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	
	09/30/04	**06/30/04**
BOOK VALUE	2,518,855	2,429,155
TREASURY STOCK	(20,846)	(20,846)
NET BALANCE OF TREASURY STOCK	**2,498,009**	**2,408,309**

c. 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.

d. 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 10,303/1, 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 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 nr 6,404/76, or by the recording of adjustments from prior years, if applicable.

e. Dividends and Interest on Shareholders Equity

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 Shareholders Equity (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.

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 2004, and to be submitted for approval of the general shareholder s meeting, are as follows:

	09/30/04	**09/30/03**
INTERESTS ON SHAREHOLDERS'EQUITY - JSCP CREDITED	**75,000**	**122,000**
COMMON SHARES	27,986	45,632
PREFERRED SHARES	47,014	76,368
WITHHOLDING TAX (IRRF)	**(11,250)**	**(18,300)**

NET JSCP	**63,750**	**103,700**

9. OPERATING REVENUE FROM TELECOMMUNICATIONS SERVICES

	CONSOLIDATED	
	09/30/04	**09/30/03**
LOCAL SERVICE	**5,075,873**	**4,806,871**
Installation fees	26,186	26,657
Basic subscription	2,277,825	2,112,210
Measured service charges	1,072,543	1,048,465
Fixed to mobile calls - VC1	1,627,524	1,537,014
Rent	1,215	1,276
Other	70,580	81,249
LONG DISTANCE SERVICES	**1,897,002**	**1,458,496**
Inter-Sectorial Fixed	814,697	806,682
Intra-Regional Fixed (Inter-Sectorial)	304,101	266,338
Fixed to mobile calls - VC2 and VC3	140,500	-
International	617,737	385,058
INTERCONNECTION (USE OF THE NETWORK)	**19,480**	**418**
Fixed-Fixed	485	-
Mobile-Fixed	2	-
LEASE OF MEANS	**553,164**	**619,574**
PUBLIC TELEPHONE	**356,274**	**455,860**
DATA COMMUNICATIONS	**196,890**	**163,714**
SUPPLEMENTARY, INTELLIGENT NETWORK AND ADVANCED TELEPHONY SERVICES	**172,455**	**154,596**
OTHER SERVICES FROM THE MAIN ACTIVITY	**355,594**	**279,141**
OTHER	**759,233**	**545,266**
GROSS OPERATING REVENUE	**320,374**	**262,787**
TAXES ON GROSS REVENUE	104,182	31,526
OTHER DEDUCTIONS FROM GROSS REVENUE	23,543	19,329
NET OPERATING REVENUE	**9,261,420**	**8,177,586**

10. COST OF SERVICES RENDERED

The costs incurred in the generation of services rendered are as follows:

	CONSOLIDATED	
	09/30/04	**09/30/03**
PERSONNEL	(87,927)	(87,364)
MATERIALS	(66,809)	(61,063)
THIRD-PARTY SERVICES	(476,727)	(435,726)
INTERCONNECTION	(1,650,290)	(1,310,837)
RENT, LEASING AND INSURANCE	(252,254)	(234,929)
CONNECTION MEANS	(31,418)	(8,586)
FISTEL	(10,567)	(9,198)
DEPRECIATION AND AMORTIZATION	(1,620,361)	(1,450,109)
OTHER	(5,448)	(3,648)
Total	**(4,201,801)**	**(3,601,460)**

11. SELLING EXPENSES

The expenses related to commercialization activities are detailed according to the following nature:

	CONSOLIDATED	
	09/30/04	**09/30/03**
PERSONNEL	(99,552)	(95,070)
MATERIALS	(1,301)	(1,393)

THIRD-PARTY SERVICES	(309,790)	(259,107)
RENT, LEASING AND INSURANCE	(3,065)	(3,717)
PROVISION FOR DOUBTFUL ACCOUNTS	(7,166)	(75)
LOSSES ON ACCOUNTS RECEIVABLE	(273,800)	(195,364)
DEPRECIATION AND AMORTIZATION	(4,095)	(4,004)
OTHER	(205)	(294)
TOTAL	**(698,974)**	**(559,024)**

12. GENERAL AND ADMINISTRATIVE EXPENSES

The expenses related to administrative activities, which include the information technology expenses are detailed according to the following nature:

	PARENT COMPANY		CONSOLIDATED
	09/30/04	**09/30/03**	**09/30/04**