

BRASIL TELECOM SA
Form 6-K
August 13, 2003
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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 AUGUST 13, 2003

(Commission File No. 1-15256)

BRASIL TELECOM S.A.

(Exact name of Registrant as specified in its Charter)

BRAZIL TELECOM COMPANY

(Translation of Registrant's name into English)

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

(Address of Registrant's principal executive offices)

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

Form 20-F Form 40-F

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

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

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

Yes No

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

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BTM: US\$11.00/ADR

BRT03: R\$10.60/1,000 shares

BRT04: R\$11.16/1,000 shares

Market Capitalization: R\$5,944 million

Closing Price: August 04, 2003

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Brasil Telecom S.A

Consolidated Earnings Release

Second Quarter of 2003
Non-audited

Brasília, August 05, 2003.

TABLE OF CONTENTS

| | |
|---|-----------|
| Highlights of the Results | 4 |
| Consolidated Income Statement | 5 |
| <i>Table 1: Consolidated Income Statement</i> | <i>5</i> |
| Operating Performance | 6 |
| PLANT | 6 |
| <i>Table 2: Plant</i> | <i>6</i> |
| <i>Graph 1: Plant Evolution</i> | <i>6</i> |
| <i>Graph 2: ADSL Accesses</i> | <i>7</i> |
| GOALS | 7 |
| TRAFFIC | 8 |
| <i>Table 3: Traffic</i> | <i>8</i> |
| <i>Graph 3: DLD Market Share</i> | <i>8</i> |
| Financial Performance | 9 |
| REVENUE | 9 |
| <i>Table 4: Consolidated Gross Operating Revenue</i> | <i>9</i> |
| <i>Graph 4: Gross Revenue Breakdown</i> | <i>9</i> |
| <i>Graph 5: Data Communication Revenue</i> | <i>11</i> |
| COSTS AND EXPENSES | 12 |
| <i>Table 5: Consolidated Costs and Operating Expenses</i> | <i>12</i> |
| <i>Graph 6: Costs and Operating Expenses Breakdown (Excluding Depreciation)</i> | <i>13</i> |
| <i>Graph 7: LIS/Employee</i> | <i>14</i> |
| <i>Graph 8: Losses with Accounts Receivable</i> | <i>15</i> |
| <i>Table 6: Gross Accounts Receivable</i> | <i>15</i> |
| EBITDA | 16 |
| <i>Table 7: EBITDA Margin Gains and Losses</i> | <i>16</i> |
| FINANCIAL RESULT | 16 |
| <i>Table 8: Consolidated Financial Result</i> | <i>16</i> |
| <i>Table 9: Interest on Shareholders Equity Credited in 2003</i> | <i>17</i> |
| OTHER ITEMS | 17 |
| NET EARNINGS | 17 |
| Balance Sheet | 18 |
| <i>Table 10: Consolidated Balance Sheet</i> | <i>18</i> |
| Indebtedness | 19 |
| <i>Table 11: Indebtedness</i> | <i>19</i> |
| <i>Table 12: Amortization Schedule of Long Term Debt</i> | <i>20</i> |
| Investments in the Permanent Assets | 20 |
| <i>Table 13: Breakdown of Investments in the Permanent Assets</i> | <i>20</i> |
| Cash Flow | 21 |
| <i>Table 14: Consolidated Cash Flow</i> | <i>21</i> |
| Tariffs | 22 |
| Stock Market | 22 |
| <i>Table 16: Stock Performance</i> | <i>22</i> |
| <i>Graph 9: Stock Performance in 2Q03 Bovespa and NYSE</i> | <i>23</i> |
| <i>Table 17: Participation in Indexes</i> | <i>23</i> |
| Shareholders Structure | 23 |
| <i>Table 18: Shareholders Structure</i> | <i>23</i> |
| Recent Developments | 24 |
| Main Indicators | 26 |
| <i>Table 19: Indicators Evolution</i> | <i>26</i> |
| Upcoming Events | 27 |
| IR Contacts | 27 |

[Back to Contents](#)

Brasil Telecom S.A.

Brasil Telecom S.A. announces 2Q03 consolidated results Brasilia, August 05, 2003 **Brasil Telecom S.A. (NYSE: BTM; BOVESPA: BRTO3/BRTO4)** announces its consolidated results for the second quarter of 2003 (2Q03). The **Financial Statements** were elaborated in accordance with CVM Instruction 247/96 and consolidate **BrT Serviçoes de Internet S.A. (BrTSI) and Brasil Telecom Celular S.A.** wholly owned subsidiaries of Brasil Telecom S.A.

HIGHLIGHTS OF THE RESULTS

At the end of 2Q03, Brasil Telecom achieved 194.8 thousand **ADSL accesses in service**, meaning a growth of 18.0% compared to the 1Q03.

Revenues from data communication in 2Q03 continued its growing path, reaching R\$181.2 million, 5.7% ahead the registered in the last quarter.

In continuation to the inspection process, **Anatel concluded the field works, in which various localities at all the Brasil Telecom branches were evaluated.** The Company waits for the official outcome from the regulatory body regarding the 2003 targets fulfillment.

Operating costs and expenses (excluding depreciation and amortization) remained flat in 2Q03, totaling R\$1,014.9 million, basically due to the better operating efficiency of the Company.

At the end of 2Q03, the Brasil Telecom **installed plant** reached 10,656 thousand lines, 0.5% above the observed in 1Q03. The **plant in service** achieved 9,741 thousand lines at the end of 2Q03, 1.5% and 9.0% above the plant of 1Q03 and 2Q02, respectively. The growth of plant in service induced the increase of **utilization rate** for the quarter, which totaled 91.4% at the end of June, 0.9 p.p. and 6.3 p.p. above the registered in 1Q03 and 2Q02, respectively.

Net revenue in 2Q03 achieved R\$1,914.9 million, a 10.2% growth when compared to the net revenue of 2Q02. **Net revenue/Average LIS/month** in 2Q03 reached R\$66.0, against R\$65.5 in 1Q03.

Losses with Accounts Receivable totaled R\$61.9 million in 2Q03, representing 2.3% of gross revenue of 2Q03, against R\$67.9 million in the last quarter, or 2.6% of gross revenue in the same period.

In 2Q03, **EBITDA** totaled R\$900.0 million, a 3.2% growth compared to the 1Q03. **EBITDA margin** achieved 47.0% in 2Q03, against 46.5% in 1Q03. **EBITDA/Average LIS/month** increased by 1.7% compared to 1Q03, reaching R\$31.0.

The **consolidated net debt** (excluding the loan and the private debenture with holding company) totaled R\$2,358.7 million at the end of June. The **consolidated net debt/shareholders equity ratio** of the Company was equal to 34.2% at the end of 2Q03, against 31.4% at the end of March, 2003. The **dollar-denominated debt** accounted for 5.2% of total debt, totaling R\$254.1 million at the end of 2Q03. Brasil Telecom hedged 44.1% of that debt, being all debt maturing up to December 2004 hedged against exchange variations. At the end of June 2003 the **average debt cost** was 20.9% p.a., meaning 81.4% of CDI.

Productivity of 1,834 LIS/employee at the end of 2Q03, against 1,731 in the 1Q03. The higher productivity ratio was due to an increase of 1.5% in the plant in service combined with the net reduction of 232 employees in the last 3 months.

[Back to Contents](#)**CONSOLIDATED INCOME STATEMENT****Table 1: Consolidated Income Statement**

| R\$ Million | 2Q02 | 1Q03 | 2Q03 | ΔQuarter | Δ2 Months |
|--|----------------|------------------|------------------|-------------|--------------|
| GROSS REVENUES | 2,412.2 | 2,609.3 | 2,691.2 | 3.1% | 11.6% |
| Local Service | 976.8 | 1,063.5 | 1,032.5 | -2.9% | 5.7% |
| Public Telephony | 88.8 | 83.8 | 103.1 | 23.1% | 16.1% |
| Long Distance Service | 354.7 | 325.6 | 356.8 | 9.6% | 0.6% |
| Fixed-Mobile Calls | 544.4 | 607.3 | 689.1 | 13.5% | 26.6% |
| Interconnection | 195.8 | 222.7 | 193.0 | -13.3% | -1.4% |
| Lease of Means | 57.1 | 53.2 | 49.6 | -6.8% | -13.2% |
| Data Communication | 117.2 | 171.4 | 181.2 | 5.7% | 54.5% |
| Supplementary and Value Added Services | 70.7 | 71.0 | 72.1 | 1.5% | 1.9% |
| Other | 6.6 | 10.9 | 13.8 | 26.9% | 110.4% |
| Deductions | (674.3) | (735.6) | (776.3) | 5.5% | 15.1% |
| NET REVENUES | 1,737.9 | 1,873.7 | 1,914.9 | 2.2% | 10.2% |
| COSTS & OPERATING EXPENSES | (911.2) | (1,001.5) | (1,014.9) | 1.3% | 11.4% |
| Personnel | (108.5) | (93.1) | (96.1) | 3.3% | -11.4% |
| Materials | (24.5) | (20.3) | (22.5) | 11.1% | -8.2% |
| Subcontracted Services | (275.0) | (290.3) | (306.6) | 5.6% | 11.5% |
| Interconnection | (383.6) | (424.9) | (430.4) | 1.3% | 12.2% |
| Advertising and Marketing | (23.3) | (9.6) | (19.1) | 98.5% | -18.0% |
| Provisions and Losses | (74.8) | (86.5) | (75.6) | -12.7% | 1.1% |
| Other | (18.3) | (76.8) | (64.6) | -15.9% | 253.6% |
| EBITDA | 826.8 | 872.2 | 900.0 | 3.2% | 8.9% |
| Depreciation and Amortization | (490.8) | (520.6) | (526.5) | 1.1% | 7.3% |
| OPERATING PROFIT BEFORE FINANCIAL RESULT | 336.0 | 351.6 | 373.4 | 6.2% | 11.1% |
| Financial Result | (198.6) | (448.5) | (232.6) | -48.1% | 17.1% |
| Financial Revenues | 59.7 | 71.0 | 95.8 | 34.9% | 60.6% |
| Financial Expenses | (218.3) | (273.3) | (328.4) | 20.2% | 50.5% |
| Interest on Shareholders' Equity | (40.0) | (246.2) | (40.0) | N.A. | N.A. |
| OPERATING PROFIT AFTER FINANCIAL RESULT | 137.4 | (96.9) | 140.9 | N.A. | 2.5% |
| Non-Operating Revenues (Expenses) | (32.6) | (40.2) | (38.2) | -4.9% | 17.3% |
| Goodwill Amortization - CRT Acquisition | (31.0) | (31.0) | (31.0) | 0.0% | 0.0% |
| Other | (1.6) | (9.2) | (7.2) | -21.3% | 355.4% |
| EARNINGS BEFORE INCOME AND SOCIAL CONTRIBUTION TAXES | 104.8 | (137.1) | 102.7 | N.A. | -2.1% |
| Income and Social Contribution Taxes | (44.7) | 38.9 | (42.3) | N.A. | -5.4% |
| EARNINGS BEFORE PROFIT SHARING | 60.1 | (98.2) | 60.3 | N.A. | 0.4% |
| Profit Sharing | (9.5) | (9.7) | (11.2) | 15.2% | 18.4% |
| EARNINGS BEFORE REVERSION OF INTEREST ON SHAREHOLDERS' EQUITY | 50.6 | (107.9) | 49.1 | N.A. | -3.0% |

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|---|--------------|--------------|-------------|---------------|---------------|
| Reversion of Interest on Shareholders' Equity | 40.0 | 246.2 | | N.A. | N.A. |
| NET EARNINGS | 90.6 | 138.3 | 49.1 | -64.5% | -45.8% |
| Goodwill Amortization - CRT Acquisition | 31.0 | 31.0 | 31.0 | 0.0% | 0.0% |
| NET EARNINGS ADJUSTED BY GOODWILL AMORTIZATION | 121.6 | 169.3 | 80.1 | -52.7% | -34.1% |
| Net Earnings (Losses)/1,000 shares - R\$ | 0.1681 | 0.2537 | 0.0901 | -64.5% | -46.4% |
| Net Earnings (Losses)/ADR - US\$ | 0.1790 | 0.2270 | 0.0941 | -58.6% | -47.4% |

[Back to Contents](#)**OPERATING PERFORMANCE****PLANT****Table 2: Plant**

| | 2Q02 | 1Q03 | 2Q03 | ΔQuarter | Δ12 Months |
|--|---------------|---------------|---------------|-----------------|-----------------|
| Lines Installed (Thousand) | 10,505 | 10,608 | 10,656 | 0.5% | 1.4% |
| Additional Lines Installed (Thousand) | 63 | 60 | 48 | -20.5% | -23.9% |
| Lines in Service - LIS (Thousand) | 8,940 | 9,595 | 9,741 | 1.5% | 9.0% |
| Residential | 6,529 | 6,979 | 7,107 | 1.8% | 8.9% |
| Non-Residential | 1,530 | 1,548 | 1,565 | 1.1% | 2.3% |
| Public Telephones | 291 | 296 | 297 | 0.2% | 2.1% |
| Pre-paid | 59 | 215 | 218 | 1.4% | 270.3% |
| Other (including PBX) | 531 | 557 | 554 | -0.5% | 4.2% |
| Additional LIS (Thousand) | 85 | 130 | 146 | 12.3% | 71.4% |
| Average LIS (Thousand) | 8,897 | 9,530 | 9,668 | 1.4% | 8.7% |
| LIS/100 Inhabitants | 22.0 | 23.2 | 23.5 | 1.1% | 6.4% |
| Public Telephones/1,000 Inhabitants | 7.2 | 7.2 | 7.2 | -0.2% | -0.3% |
| Public Telephones/100 Lines Installed | 2.77 | 2.79 | 2.79 | -0.3% | 0.7% |
| Utilization Rate | 85.1% | 90.5% | 91.4% | 0.9 p.p. | 6.3 p.p. |
| Digitization Rate | 98.7% | 99.0% | 99.0% | 0.0 p.p. | 0.2 p.p. |
| ADSL Lines Sold (Thousand) | 101.5 | 207.4 | 265.6 | 28.1% | 161.8% |
| ADSL Lines in Service (Thousand) | 89.8 | 165.1 | 194.8 | 18.0% | 117.0% |

Lines Installed

A total of 48 thousand lines were installed in the 2Q03, totaling 10.7 million of lines installed by Brasil Telecom. Through this addition in the quarter, Brasil Telecom is prepared to respond to telephone line activation requests in less than two weeks, as established by the General Plan for Universalization Targets.

Lines in Service

The plant in service reached the figure of 9.7 million lines, as a result of the net addition of 146 thousand lines. Of this total, 87.7% represented lines activated by residential clients.

Utilization Rate

The utilization rate reached 91.4% in the 2Q03, against 90.5% in the 1Q03, as a result of the growth of 0.5% in the installed plant combined with the 1.5% in the in service plant.

[Back to Contents](#)

ADSL

The plant of ADSL accesses in service achieved 194.8 thousand in 2Q03, meaning a growth of 18.0% compared to the 1Q03.

At the end of 2Q03, Turbo Lite, service launched by Brasil Telecom in the last week of march, represented 1.5% of the total ADSL accesses in service, as Turbo 300, 78%. With Turbo Lite, for only R\$49.90 per month, the client can access the internet at a high speed during 50 hours a month, not to mention the fact that fixed line remains released during the internet access.

GOALS

Quality Goals

Brasil Telecom fulfilled all 35 quality indicators established by Anatel in the 2Q03, for the switched-fixed telephone service in the local and long-distance modes.

Universalization Goals

In continuation to the inspection process, **Anatel concluded the field works**, in which various localities at all the Brasil Telecom branches were evaluated. The Company waits for the official outcome from the regulatory body regarding the 2003 targets fulfillment.

[Back to Contents](#)**TRAFFIC****Table 3: Traffic**

| TRAFFIC | 2Q02 | 1Q03 | 2Q03 | ΔQuarter | Δ12 Months |
|--|-------|-------|-------|----------|------------|
| Exceeding Local Pulses (Million) | 3,312 | 2,973 | 2,959 | -0.5% | -10.7% |
| Domestic Long Distance Minutes (Million) | 1,924 | 1,611 | 1,744 | 8.2% | -9.3% |
| Fixed-Mobile Minutes (Million) | 1,086 | 1,058 | 1,058 | 0.0% | -2.6% |
| Exceeding Pulses/Average LIS/Month | 124.1 | 104.0 | 102.0 | -1.9% | -17.8% |
| DLD Minutes/Average LIS/Month | 72.1 | 56.3 | 60.1 | 6.7% | -16.6% |
| Fixed-Mobile Minutes/Average LIS/Month | 40.7 | 37.0 | 36.5 | -1.4% | -10.4% |

Exceeding Local Pulses

Brasil Telecom sold 3.0 billion pulses in 2Q03, remaining almost flat in relation to 1Q03.

DLD Traffic

In 2Q03, the **Domestic Long Distance traffic registered an increase of 8.2% in comparison to 1Q03**, reaching 1.7 billion minutes, in the period.

DLD Market Share

The share of the LDN market of Brasil Telecom, in the intra-sectorial segment, reached 90.3% in 2Q03. This figure represents an increase of 0.8 p.p. in relation to the 1Q03.

In the intra-regional sector, the market share of Brasil Telecom reached 74.2% in the 2Q03.

The figures of the DLD market for 2Q03 show the ongoing effort of Brasil Telecom to broaden its share.

Fixed-Mobile Traffic

The fixed-mobile traffic totaled 1.1 billion minutes in the 2Q03. Of the total fixed-mobile traffic, 89.5% is referent to VC-1 calls, 9.3% is referent to VC-2 and 1.2% is referent to VC-3 calls.

[Back to Contents](#)**FINANCIAL PERFORMANCE****REVENUE****Table 4: Consolidated Gross Operating Revenue**

| R\$ Million | 2Q02 | 1Q03 | 2Q03 | ΔQuarter | Δ12 Months |
|---|----------------|----------------|----------------|---------------|---------------|
| GROSS REVENUES | 2,412.2 | 2,609.3 | 2,691.2 | 3.1% | 11.6% |
| Local Service | 976.8 | 1,063.5 | 1,032.5 | -2.9% | 5.7% |
| Installation | 8.6 | 5.9 | 7.9 | 33.3% | -9.0% |
| Basic Subscription | 616.6 | 702.7 | 666.5 | -5.2% | 8.1% |
| Measured Service | 321.1 | 328.8 | 331.2 | 0.7% | 3.1% |
| Lease of Lines | 1.5 | 0.5 | 0.5 | -5.2% | -66.8% |
| Other | 28.9 | 25.6 | 26.4 | 3.4% | -8.7% |
| Public Telephony | 88.8 | 83.8 | 103.1 | 23.1% | 16.1% |
| Long Distance Service | 354.7 | 325.6 | 356.8 | 9.6% | 0.6% |
| Intra-Sector | 270.2 | 245.0 | 266.3 | 8.7% | -1.4% |
| Intra-Region | 84.3 | 80.5 | 90.4 | 12.3% | 7.2% |
| Borderline | 0.2 | 0.1 | 0.1 | 4.5% | -10.9% |
| Fixed-Mobile Calls | 544.4 | 607.3 | 689.1 | 13.5% | 26.6% |
| VC-1 | 450.0 | 477.7 | 548.4 | 14.8% | 21.9% |
| VC-2 | 82.9 | 110.8 | 120.0 | 8.3% | 44.8% |
| VC-3 | 11.5 | 18.7 | 20.7 | 10.4% | 79.3% |
| Interconnection | 195.8 | 222.7 | 193.0 | -13.3% | -1.4% |
| Fixed-Fixed | 152.5 | 166.9 | 141.5 | -15.2% | -7.2% |
| Mobile-Fixed | 43.3 | 55.8 | 51.5 | -7.7% | 19.0% |
| Lease of Means | 57.1 | 53.2 | 49.6 | -6.8% | -13.2% |
| Data Communication | 117.2 | 171.4 | 181.2 | 5.7% | 54.5% |
| Supplementary and Value Added Services | 70.7 | 71.0 | 72.1 | 1.5% | 1.9% |
| Other | 6.6 | 10.9 | 13.8 | 26.9% | 110.4% |
| Deductions | (674.3) | (735.6) | (776.3) | 5.5% | 15.1% |
| NET REVENUES | 1,737.9 | 1,873.7 | 1,914.9 | 2.2% | 10.2% |

[Back to Contents](#)

Local Service

The revenue from local service reached R\$1,032.5 million in the 2Q03.

The activation revenue totaled R\$7.9 million in the 2Q03, 33.3% higher than the amount registered in the 1Q03. In the quarter, a total of 265 thousand lines were activated, compared to 195 thousand in the previous quarter.

The revenue from basic subscription in 2Q03 reached R\$666.5 million. The number of subscribers that have lines with only incoming traffic, without the basic subscription charge, increased in 2Q03, since Brasil Telecom maintained its strategy of not disconnecting delinquent clients at switching centers with idle capacity. Furthermore, the company offered alternative plans with discounts in the basic subscription for those who request the cancellation of the line during the period.

The revenue from measured service totaled R\$331.2 million in the 2Q03, flat in relation to the previous quarter. The number of lines in service added during the period was offset by the increase of 164 thousand lines with blocked outgoing traffic.

Public Telephony

Brasil Telecom sold 1.7 billion credits throughout the 2Q03, against 1.6 billion in the 1Q03. **The public telephony revenue reached R\$103.1 million in the 2Q03, 23.1% above that registered in the 1Q03.**

In 2Q03, besides intensifying the promotional campaigns to expand the sale of inductive cards, the expectation for rate readjustment generated a higher demand for credits from retailers.

Domestic Long Distance

Revenue from domestic long distance calls in the 2Q03 increased by 9.6% in relation to the 1Q03, reaching R\$356.8 million, which reflects a growth of 8.2% in traffic.

Fixed-Mobile

Revenue with fixed-mobile calls grew 13.5% in the 2Q03 in comparison with the previous quarter, reaching R\$689.1 million. The larger revenue is a result of the fixed-mobile rate readjustment adopted in February of 2003.

Interconnection

The interconnection revenue in 2Q03 registered a drop of 13.3% in comparison with 1Q03, despite the inter-network traffic stability. The drop can be explained by the intra-sectorial market share increase, reaching 90.3%.

Data Communication

In the 2Q03, the data communication revenue continued its growth spurt, reaching R\$181.2 million, 5.7% above the amount registered in the previous quarter.

The growth can be broken down as follows:

- Growth of 18% in the number of ADSL accesses in service;
- Growth of 14% in the number of billed dedicated IP accesses; and
- Growth of 4% in the number of billed Frame-Relay accesses.

[Back to Contents](#)

Other Revenues

In 2Q03, Other Revenues reached R\$13.8 million, a 26.9% growth in relation to the 1Q03.

The main amounts that comprise this item are:

- R\$1.1 million in revenue from data center services;
- R\$5.1 million in revenue from the directory help service.

Supplementary and value-added Services

Revenue from supplementary and Value-added services increased by 1.5% in the 2Q03, totaling R\$72.1 million.

The total of intelligent services activated at the end of June 2003 reached 5.0 million, against 4.6 million in March 2003, which represents an increase of 8.7% in the period. In relation to the plant in service in the 2Q03, 30.9% of the lines were equipped with at least one activated intelligent service, against 29.7% in the previous quarter.

Gross Revenue Deductions

Gross revenue deductions reached R\$776.3 million in the 2Q03, representing 28.8% of gross revenue in the quarter, against 28.2% in the 1Q03.

Net Operating Revenue/Average LIS/month

Net operating revenue/Avg LIS/month registered in the 2Q03 was R\$66.0, against R\$65.5 in the 2Q03.

[Back to Contents](#)**COSTS AND EXPENSES****Table 5: Consolidated Costs and Operating Expenses**

| R\$ Million | 2Q02 | 1Q03 | 2Q03 | ΔQuarter | Δ2 Months |
|--|------------------|------------------|------------------|-----------------|------------------|
| NET REVENUES | 1,737.9 | 1,873.7 | 1,914.9 | 2.2% | 10.2% |
| Costs | (1,109.7) | (1,184.7) | (1,200.2) | 1.3% | 8.2% |
| Personnel | (45.5) | (28.4) | (29.2) | 2.8% | -35.8% |
| Materials | (23.3) | (19.4) | (21.3) | 10.0% | -8.8% |
| Subcontracted Services | (512.2) | (565.2) | (575.9) | 1.9% | 12.4% |
| Interconnection | (383.6) | (424.9) | (430.4) | 1.3% | 12.2% |
| Other | (128.6) | (140.4) | (145.5) | 3.6% | 13.1% |
| Depreciation and Amortization | (471.5) | (487.5) | (485.8) | -0.3% | 3.0% |
| Other | (57.1) | (84.2) | (88.0) | 4.5% | 54.1% |
| GROSS PROFIT | 628.3 | 689.0 | 714.7 | 3.7% | 13.8% |
| Sales Expenses | (118.7) | (107.3) | (121.8) | 13.6% | 2.6% |
| Personnel | (27.5) | (31.1) | (32.4) | 4.2% | 18.0% |
| Materials | (0.3) | (0.3) | (0.3) | -4.8% | -4.6% |
| Subcontracted Services | (85.7) | (73.7) | (86.2) | 17.0% | 0.6% |
| Advertising and Marketing | (23.3) | (9.6) | (19.1) | 98.5% | -18.0% |
| Other | (62.4) | (64.1) | (67.1) | 4.7% | 7.6% |
| Depreciation and Amortization | (0.9) | (1.3) | (1.4) | 12.7% | 54.7% |
| Other | (4.3) | (0.9) | (1.5) | 62.9% | -66.1% |
| General and Administrative Expenses | (107.9) | (104.5) | (108.0) | 3.4% | 0.1% |
| Personnel | (29.8) | (28.9) | (28.7) | -0.7% | -3.8% |
| Materials | (0.6) | (0.4) | (0.6) | 48.4% | -5.2% |
| Subcontracted Services | (73.0) | (68.9) | (71.8) | 4.2% | -1.6% |
| Depreciation and Amortization | (3.6) | (3.5) | (3.8) | 9.9% | 7.2% |
| Other | (0.9) | (2.8) | (3.1) | 9.6% | 249.5% |
| Information Technology | (48.5) | (64.9) | (77.3) | 19.0% | 59.3% |
| Personnel | (5.7) | (4.7) | (5.8) | 24.2% | 1.3% |
| Materials | (0.3) | (0.2) | (0.4) | 61.9% | 31.1% |
| Subcontracted Services | (11.0) | (16.9) | (22.1) | 31.0% | 100.6% |
| Depreciation and Amortization | (14.8) | (28.4) | (35.5) | 25.1% | 140.3% |
| Other | (16.7) | (14.7) | (13.5) | -8.6% | -19.3% |
| Provisions and Losses | (74.8) | (86.5) | (75.6) | -12.7% | 1.1% |
| Doubtful Accounts | (65.8) | (67.9) | (61.9) | -8.8% | -6.0% |
| Contingencies | (8.9) | (18.7) | (13.7) | -26.7% | 53.2% |
| Other Operating Revenues (Expenses) | 60.7 | 25.9 | 41.5 | 60.2% | -31.8% |
| OPERATING PROFIT BEFORE FINANCIAL RESULTS | 336.0 | 351.6 | 373.4 | 6.2% | 11.1% |
| R\$ Million | 2Q02 | 1Q03 | 2Q03 | ΔQuarter | Δ2 Months |
| COSTS AND OPERATING EXPENSES | (1,401.9) | (1,522.1) | (1,541.4) | 1.3% | 9.9% |
| Depreciation and Amortization | (490.8) | (520.6) | (526.5) | 1.1% | 7.3% |

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| | | | | | |
|---------------------------|---------|---------|---------|--------|--------|
| Interconnection | (383.6) | (424.9) | (430.4) | 1.3% | 12.2% |
| Subcontracted Services | (275.0) | (290.3) | (306.6) | 5.6% | 11.5% |
| Personnel | (108.5) | (93.1) | (96.1) | 3.3% | -11.4% |
| Provisions and Losses | (74.8) | (86.5) | (75.6) | -12.7% | 1.1% |
| Materials | (24.5) | (20.3) | (22.5) | 11.1% | -8.2% |
| Advertising and Marketing | (23.3) | (9.6) | (19.1) | 98.5% | -18.0% |
| Other | (18.3) | (76.8) | (64.6) | -15.9% | 253.6% |

| R\$ Million | 2Q02 | 1Q03 | 2Q03 | ΔQuarter | Δ2 Months |
|-----------------------------------|-----------|-----------|-----------|----------|-----------|
| COSTS AND OPERATING EXPENSES | (1,401.9) | (1,522.1) | (1,541.4) | 1.3% | 9.9% |
| (+) Depreciation and Amortization | 490.8 | 520.6 | 526.5 | 1.1% | 7.3% |
| (=) CASH COST | (911.2) | (1,001.5) | (1,014.9) | 1.3% | 11.4% |

[Back to Contents](#)

Operating Costs and Expenses

Operating costs and expenses totaled R\$1,541.4 million in the 2Q03, against R\$1,522.1 million in the third quarter. The 2.2% increment of the company's net revenue and the increase of only 1.3% in operating costs and expenses indicate the operating efficiency gain of Brasil Telecom in the period. **The cash cost (operating costs and expenses, excluding depreciation and amortization) was R\$1,014.9 million in the 2Q03**, stable in relation to 1Q03.

Net reduction of 232 employees in the quarter

In the Brasil Telecom's payroll there were 5,311 employees at the end of 2Q03, against 5,543 at the end of March of 2003, representing a net reduction of 232 employees.

Personnel

Personnel costs and expenses reached R\$96.1 million. The cost of dismissals registered R\$7.4 million. With the exclusion of this amount, personnel costs and expenses would have been 4.7% less than in 1Q03. The dismissals represent savings of R\$1.5 million each month with personnel costs.

Productivity

Brasil Telecom reached a productivity ratio of 1,834 LIS/employee in the 2Q03, representing an increase of 6.0% in relation to the presented in 1Q03.

[Back to Contents](#)

Subcontracted services

Costs and expenses for subcontracted services, excluding interconnection and publicity & marketing, totaled **R\$306.6 million in the 2Q03**, stable when compared to the previous quarter.

Interconnection

Interconnection costs totaled R\$430.4 million in the 2Q03, 1.3% above the amount registered in the previous quarter.

Expenses for Advertisement and Marketing

The expenses with publicity and marketing reached R\$19.1 million in the 2Q03. **In 2Q03 we strengthened the advertisement campaigns in order to highlight the 14** , preparing our entrance in the DLD market for the whole country.

Losses with Accounts Receivable/Gross Revenue drop to 2.3%

As a percentage of the gross revenue, the Losses with Accounts Receivable dropped to 2.3%, a reduction of 0.3 p.p. in relation to the previous quarter. Net losses with accounts receivable stood at R\$61.9 million in the 2Q03. The company managed to recover R\$12.7 million from losses of accounts receivable in the period.

[Back to Contents](#)**Accounts Receivable**

After deducting allowance for doubtful debts worth R\$150.7 million, Brasil Telecom's net accounts receivable totaled R\$1,882.3 million at the end of June of 2003. The increase can be explained by the acknowledgment, in the accounts receivable, of the judicial deposit of R\$48.1 million referred to the lawsuit proceeding with Embratel about differences in the acknowledgment of remuneration amounts in our network in August of 2002, by the payment of R\$30.0 million of client bills with due date of June, 27 and not recognized by our system given the banking float time (D+2) and by the fixed-mobile tariffs readjustment.

Table 6: Gross Accounts Receivable

| | Jun/02 | Sep/02 | Dec/02 | Mar/03 | Jun/03 |
|------------------------------|----------------|----------------|----------------|----------------|----------------|
| Total (R\$ Million) | 1,538.3 | 1,676.5 | 1,696.6 | 1,890.1 | 2,033.0 |
| Due | 57.7% | 58.8% | 56.4% | 58.5% | 61.6% |
| Overdue (up to 30 days) | 18.1% | 17.7% | 19.3% | 16.1% | 14.4% |
| Overdue (between 31-60 days) | 7.3% | 5.6% | 7.1% | 7.1% | 6.1% |
| Overdue (between 61-90 days) | 4.4% | 4.3% | 4.0% | 5.0% | 3.3% |
| Overdue (over 90 days) | 12.5% | 13.5% | 13.3% | 13.3% | 14.6% |

Provision for Contingencies

The provision for contingencies in the 2Q03 increased by R\$13.7 million, against R\$18.7 million in the 1Q03, mainly in light of the monetary correction.

Other Operating Costs & Expenses/ Revenues

Other operating costs and expenses/revenues totaled R\$64.6 million in expenses in 2Q03, indicating a decrease of 15.9% in relation to the 1Q03.

[Back to Contents](#)**EBITDA****Table 7: EBITDA Margin Gains and Losses**

| R\$ Million | 2Q02 | Vertical | 1Q03 | Vertical | 2Q03 | Vertical | ΔQuarter | Δ2 Months |
|--|----------------|---------------|------------------|---------------|------------------|---------------|-----------------|------------------|
| GROSS REVENUES | 2,412.2 | 138.8% | 2,609.3 | 139.3% | 2,691.2 | 140.5% | 1.3 p.p. | 1.7 p.p. |
| Local Service | 976.8 | 56.2% | 1,063.5 | 56.8% | 1,032.5 | 53.9% | -2.8 p.p. | -2.3 p.p. |
| Public Telephony | 88.8 | 5.1% | 83.8 | 4.5% | 103.1 | 5.4% | 0.9 p.p. | 0.3 p.p. |
| Long Distance Service | 354.7 | 20.4% | 325.6 | 17.4% | 356.8 | 18.6% | 1.3 p.p. | -1.8 p.p. |
| Fixed-Mobile Calls | 544.4 | 31.3% | 607.3 | 32.4% | 689.1 | 36.0% | 3.6 p.p. | 4.7 p.p. |
| Interconnection | 195.8 | 11.3% | 222.7 | 11.9% | 193.0 | 10.1% | -1.8 p.p. | -1.2 p.p. |
| Lease of Means | 57.1 | 3.3% | 53.2 | 2.8% | 49.6 | 2.6% | -0.2 p.p. | -0.7 p.p. |
| Data Communication | 117.2 | 6.7% | 171.4 | 9.1% | 181.2 | 9.5% | 0.3 p.p. | 2.7 p.p. |
| Supplementary and Value Added Services | 70.7 | 4.1% | 71.0 | 3.8% | 72.1 | 3.8% | 0.0 p.p. | -0.3 p.p. |
| Other | 6.6 | 0.4% | 10.9 | 0.6% | 13.8 | 0.7% | 0.1 p.p. | 0.3 p.p. |
| Deductions | (674.3) | -38.8% | (735.6) | -39.3% | (776.3) | -40.5% | -1.3 p.p. | -1.7 p.p. |
| NET REVENUES | 1,737.9 | 100.0% | 1,873.7 | 100.0% | 1,914.9 | 100.0% | | |
| COSTS & OPERATING EXPENSES | (911.2) | -52.4% | (1,001.5) | -53.5% | (1,014.9) | -53.0% | 0.5 p.p. | -0.6 p.p. |
| Personnel | (108.5) | -6.2% | (93.1) | -5.0% | (96.1) | -5.0% | -0.1 p.p. | 1.2 p.p. |
| Materials | (24.5) | -1.4% | (20.3) | -1.1% | (22.5) | -1.2% | -0.1 p.p. | 0.2 p.p. |
| Subcontracted Services | (275.0) | -15.8% | (290.3) | -15.5% | (306.6) | -16.0% | -0.5 p.p. | -0.2 p.p. |
| Interconnection | (383.6) | -22.1% | (424.9) | -22.7% | (430.4) | -22.5% | 0.2 p.p. | -0.4 p.p. |
| Advertising and Marketing | (23.3) | -1.3% | (9.6) | -0.5% | (19.1) | -1.0% | -0.5 p.p. | 0.3 p.p. |
| Provisions and Losses | (74.8) | -4.3% | (86.5) | -4.6% | (75.6) | -3.9% | 0.7 p.p. | 0.4 p.p. |
| Other | (18.3) | -1.1% | (76.8) | -4.1% | (64.6) | -3.4% | 0.7 p.p. | -2.3 p.p. |
| EBITDA | 826.8 | 47.6% | 872.2 | 46.5% | 900.0 | 47.0% | 0.5 p.p. | -0.6 p.p. |

EBITDA of R\$900 million

The Brasil Telecom EBITDA was R\$900.0 million in the 2Q03, **representing a growth of 3.2% in relation to the 1Q03.**

EBITDA Margin

EBITDA margin of Brasil Telecom in 2Q03 reached 47.0%, result of a growth of 2.2% in net revenue, in conjunction with the increase of 1.3% in cash cost in relation to the amount registered in the 1Q03.

EBITDA/Avg LIS/month

EBITDA/Avg LIS/month reached R\$31.0, 1.7% higher than the amount registered in the 1Q03.

FINANCIAL RESULT**Table 8: Consolidated Financial Result**

| R\$ million | 1Q03 | 2Q03 |
|--------------------------|----------------|----------------|
| Financial Revenue | 74.5 | 100.5 |
| Local Currency | 72.8 | 39.1 |
| Foreign Currency | 1.7 | 61.4 |
| Financial Expense | (276.8) | (333.0) |

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| | | |
|---|----------------|----------------|
| Local Currency | (238.8) | (289.4) |
| Foreign Currency | (38.0) | (43.7) |
| Interest on Shareholders' Equity | (246.2) | |
| <hr/> | | |
| Financial Result | (448.5) | (232.6) |
| <hr/> | | |

Financial Result

In 2Q03, Brasil Telecom registered a net financial income of negative R\$232.6 million, against a negative R\$202.3 million in the previous quarter, free of interest on shareholder's equity. The financial result of the quarter was mainly due to interest expenses with debt, exchange variation expenses, hedge expenses, expenses with CPMF and interest expenses with insurance, rentals and leasing.

[Back to Contents](#)**Interest on Shareholders' Equity**

Brasil Telecom announced on July 10, 2003, that interest on own capital related to 2002 would be paid starting on July 20, 2003.

The following table shows the credits of interest on own capital, related to 2003, registered throughout the first half of this year:

Table 9: Interest on Shareholders' Equity Credited in 2003

| Date of Deliberation | Date of Credit | Brazilian "Ex-Date" | Payment Date | Total Amount Credited (R\$) | Gross Amount per 1,000 Shares (R\$) | Net Amount per 1,000 Shares (R\$) |
|----------------------|----------------|---------------------|--------------|-----------------------------|-------------------------------------|-----------------------------------|
| 28/01/2003 | 31/03/2003 | 10/04/2003 | a definir | 126,200,000.0 | 0.233707543000 | 0.198651411000 |
| 28/01/2003 | 31/01/2003 | 10/02/2003 | a definir | 120,000,000.0 | 0.224508762000 | 0.190832447000 |

OTHER ITEMS**Amortization of Reconstituted Premium**

In 2Q03, Brasil Telecom amortized R\$31.0 million of reconstituted premium referent to the acquisition of CRT (without affecting the cash flow and the distribution of dividends), accounted for as a non operating expense.

NET EARNINGS

Net income totaled R\$53.1 million (R\$0.0974/1,000 shares). Net income/ADR was US\$0.1018 in the 1Q03.

[Back to Contents](#)**BALANCE SHEET****Table 10: Consolidated Balance Sheet**

| R\$ Million | Dec/02 | Mar/03 | Jun/03 |
|--|-----------------|-----------------|-----------------|
| CURRENT ASSETS | 3,469.7 | 3,702.9 | 3,426.1 |
| Cash and Equivalents | 1,422.9 | 1,388.5 | 974.9 |
| Accounts Receivables (Net) | 1,542.9 | 1,737.6 | 1,882.3 |
| Deferred and Recoverable Taxes | 314.1 | 394.2 | 365.3 |
| Other Recoverable Amounts | 112.4 | 107.5 | 124.5 |
| Inventory | 23.3 | 0.4 | 9.9 |
| Other | 54.2 | 74.8 | 69.2 |
| LONG TERM ASSETS | 1,106.4 | 1,094.4 | 1,184.4 |
| Loans and Financing | 6.6 | 6.5 | 6.5 |
| Deferred and Recoverable Taxes | 657.7 | 638.9 | 623.4 |
| Other | 442.1 | 449.1 | 554.6 |
| PERMANENT ASSETS | 10,814.4 | 10,683.0 | 10,664.2 |
| Investment (Net) | 112.2 | 173.8 | 288.6 |
| Property, Plant and Equipment (Net) | 10,040.5 | 9,863.8 | 9,729.6 |
| Property, Plant and Equipment (Gross) | 24,077.2 | 24,247.5 | 24,559.4 |
| Accumulated Depreciation | (14,036.7) | (14,383.8) | (14,829.7) |
| Deferred Assets (Net) | 661.7 | 645.4 | 645.9 |
| TOTAL ASSETS | 15,390.5 | 15,480.3 | 15,274.7 |
| CURRENT LIABILITIES | 2,623.9 | 2,875.6 | 3,102.4 |
| Loans and Financing | 683.3 | 711.5 | 1,239.1 |
| Suppliers | 919.0 | 893.4 | 816.7 |
| Taxes and Contributions | 371.0 | 376.5 | 393.7 |
| Dividends Payable | 349.6 | 551.9 | 270.0 |
| Provisions | 95.4 | 105.8 | 85.0 |
| Salaries and Benefits | 44.1 | 51.8 | 63.0 |
| Consignment for Third Parties | 78.6 | 103.5 | 39.1 |
| Other | 82.9 | 81.2 | 195.7 |
| LONG TERM LIABILITIES | 5,792.0 | 5,756.8 | 5,223.3 |
| Loans and Financing | 4,398.5 | 4,285.2 | 3,618.1 |
| Provisions | 795.7 | 807.2 | 832.7 |
| Taxes and Contributions | 391.9 | 440.2 | 488.4 |
| Authorization for Services Exploration | 175.0 | 191.1 | 197.2 |
| Other | 30.9 | 33.1 | 86.8 |
| DEFERRED INCOME | 11.0 | 10.5 | 62.4 |
| SHAREHOLDERS' EQUITY | 6,963.5 | 6,837.5 | 6,886.6 |

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| | | | |
|--------------------------|-----------------|-----------------|-----------------|
| Capital Stock | 3,335.8 | 3,373.1 | 3,373.1 |
| Capital Reserves | 1,613.3 | 1,576.0 | 1,576.0 |
| Profit Reserves | 273.2 | 273.2 | 273.2 |
| Retained Earnings | 1,802.0 | 1,691.9 | 1,741.0 |
| Treasury Shares | (60.8) | (76.8) | (76.8) |
| TOTAL LIABILITIES | 15,390.5 | 15,480.3 | 15,274.7 |

Balance Sheet

In July, 2003 the amount of R\$113.2 million was paid, referred to the call option exercise on the remaining 50.5% stake of iBest. In June, that amount was stated in Other account, from Current Liabilities.

[Back to Contents](#)**INDEBTEDNESS****Table 11: Indebtedness**

| R\$ Million | Currency | Cost | Maturity | % Total | Balance Mar/03 |
|-------------------------------|----------|--------------------|-------------------|---------------|----------------|
| Short Term | | | | 25.5% | 1,239.1 |
| Private Debenture (BRP) | R\$ | 100% CDI | Jul/2006 | | 130.2 |
| Inter Company (BRP) | US\$ | 1.75% p.a. | Jul/2014 | | 9.1 |
| BNDES | R\$ | TJLP + 6.5% p.a. | Dec/2007 | | 15.5 |
| BNDES | R\$ | TJLP + 3.85% p.a. | Dec/2007 | | 330.4 |
| BNDES | R\$ | TJLP + 3.85% p.a. | Oct/2007 | | 79.3 |
| BNDES | R\$ | Basket + 6.5% | Dec/2007 | | 41.2 |
| BNDES | R\$ | Basket + 3.85% | Nov/2007 | | 13.6 |
| BRDE | R\$ | IGP-M+12.0% p.a. | Sep/2006 | | 6.3 |
| Public Debenture 1st Issuance | R\$ | 109% CDI | May/2004 | | 2.5 |
| Public Debenture 2nd Issuance | R\$ | 109% CDI | Dec/2004 | | 520.4 |
| Financial Institutions II | US\$ | Lib6 + 4.0% p.a. | Mar/2006 | | 7.6 |
| Financial Institutions III | US\$ | Lib6 + 2.4% p.a. | Dec/2005 | | 12.9 |
| Financial Institutions IV | US\$ | Lib6 + 0.5% p.a. | Jul/2008-Jul/2011 | | 9.0 |
| Suppliers I | US\$ | Lib3 + 2.95% p.a. | Jun/2007 | | 13.5 |
| Suppliers II | US\$ | 1.75% p.a. | Feb/2014 | | 0.5 |
| Hedge Adjustmest | | | | | 0.2 |
| Long Term | | | | 74.5% | 3,618.1 |
| Private Debenture (BRP) | R\$ | 100% CDI | Jul/2006 | | 1,300.0 |
| Inter Company (BRP) | US\$ | 1.75% p.a. | Jul/2014 | | 84.3 |
| BNDES | R\$ | TJLP + 6.5% p.a. | Dec/2007 | | 49.8 |
| BNDES | R\$ | TJLP + 3.85% p.a. | Dec/2007 | | 1,195.0 |
| BNDES | R\$ | TJLP + 3.85% p.a. | Oct/2007 | | 254.6 |
| BNDES | R\$ | Basket + 6.5% | Dec/2007 | | 130.1 |
| BNDES | R\$ | Basket + 3.85% | Nov/2007 | | 44.5 |
| BRDE | R\$ | IGP-M + 12.0% p.a. | Sep/2006 | | 17.2 |
| Public Debenture 1st Issuance | R\$ | 109% CDI | May/2004 | | 17.9 |
| Public Debenture 2nd Issuance | R\$ | 109% CDI | Dec/2004 | | 400.0 |
| Financial Institutions II | US\$ | Lib6 + 4.0% p.a. | Mar/2006 | | 24.6 |
| Financial Institutions III | US\$ | Lib6 + 2.4% p.a. | Dec/2005 | | 15.4 |
| Financial Institutions IV | US\$ | Lib6 + 0.5% p.a. | Jul/2008-Jul/2011 | | 80.7 |
| Suppliers I | US\$ | Lib3 + 2.95% p.a. | Jun/2007 | | 1.8 |
| Suppliers II | US\$ | 1.75% p.a. | Feb/2014 | | 2.1 |
| Total Debt | | | | 100.0% | 4,857.2 |

Total Debt

At the end of June 2003, the total consolidated debt of Brasil Telecom was R\$4.9 billion, 2.8% less than the amount registered in the 1Q03.

Average Cost of the Debt

In 2Q03, the consolidated debt of Brasil Telecom had an average cost of 20.9% per annum, equivalent to 81.4% of CDI, and an average payment term of approximately 43 month, against 46 months in the previous quarter.

Net Debt

Net debt totaled R\$3,882.3 million, an increase of 7.6% in relation to March of 2003. Excluding the loan and the private debenture with holding company, the net debt at the end of June of 2003 was R\$2,358.7 million.

Long-term profile debt

At the end of 2Q03, 74.5% of the total debt was registered in the long term, presenting the following amortization schedule:

[Back to Contents](#)**Table 12: Amortization Schedule of Long Term Debt**

| Maturity | % Long Term Debt |
|----------------|------------------|
| 2004 | 47.3% |
| 2005 | 19.0% |
| 2006 | 21.3% |
| 2007 | 10.4% |
| 2008 and after | 2.0% |

Dollar-denominated indebtedness

In June of 2003, the dollar-denominated debt totaled R\$254.1 million (R\$300.9 million including the hedge adjustment). As a percentage of the total debt, the dollar-denominated debt without hedge adjustment accounted for 5.2% against 6.8% at the end of March 2003.

At the end of June 2003, Brasil Telecom had hedge agreements with notional equivalent to 44.1% of the debt in dollars, of R\$254.1 million, and the total debt due by December 2004, was hedged.

Financial Leverage

On June 30, 2003, the degree of Brasil Telecom's financial leverage represented by the ratio of its net debt (excluding the debt with the holding company) to the shareholders' equity, was equal to 34.2%.

INVESTMENTS IN THE PERMANENT ASSETS**Table 13: Breakdown of Investments in the Permanent Assets**

| R\$ Million | 2Q02 | 3Q02 | 4Q02 | 1Q03 | 2Q03 | ΔQuarter | Δ12 Months |
|--|--------------|--------------|--------------|--------------|--------------|---------------|---------------|
| Network Expansion | 191.2 | 128.4 | 294.3 | 187.3 | 159.2 | -15.0% | -16.7% |
| Conventional Telephony | 90.9 | 62.4 | 109.4 | 85.8 | 93.7 | 9.2% | 3.1% |
| Transmission Backbone | 25.5 | 17.6 | 21.8 | 10.0 | 18.6 | 85.6% | -27.0% |
| Data Network | 44.7 | 29.1 | 138.8 | 83.8 | 44.7 | -46.7% | 0.0% |
| Intelligent Network | 8.3 | 14.2 | 12.1 | 1.4 | 0.6 | -58.6% | -92.9% |
| Network Management Systems | 10.2 | 2.5 | 8.9 | 3.7 | 1.4 | -62.4% | -86.3% |
| Other | 11.6 | 2.6 | 3.3 | 2.5 | 0.2 | -91.8% | -98.2% |
| Network Operation | 83.3 | 92.2 | 124.5 | 56.7 | 58.3 | 2.8% | -30.0% |
| Public Telephony | 2.0 | 1.7 | 1.3 | 2.7 | 4.2 | 52.9% | 108.1% |
| Information Technology | 88.9 | 68.3 | 144.9 | 43.9 | 41.6 | -5.2% | -53.1% |
| Expansion Personnel | 25.7 | 21.9 | 23.5 | 21.8 | 22.5 | 2.9% | -12.7% |
| Other | (27.8) | (30.2) | 199.1 | 104.0 | 302.1 | 190.4% | N.A. |
| Total Investments in Permanent Assets | 363.3 | 282.3 | 787.5 | 416.5 | 587.8 | 41.1% | 61.8% |
| Expansion Financial Expenses | 33.4 | 49.6 | 25.5 | 24.9 | 20.2 | -19.0% | -39.6% |
| Total | 396.7 | 331.8 | 813.0 | 441.4 | 608.0 | 37.7% | 53.3% |

Investments in permanent assets

Excluding the item Other, which contains values referred to acquisitions of iBest and Globenet, investments totaled R\$305.9 million in 2Q03, meaning a 9.3% reduction compared to the previous quarter.

[Back to Contents](#)**CASH FLOW****Table 14: Consolidated Cash Flow**

| R\$ Million | 2Q02 | 1Q03 | 2Q03 | |
|--------------------------------|---|----------------|----------------|----------------|
| OPERATING ACTIVITIES | | | | |
| (+) | Net Income of the Period | 90.6 | 138.3 | 49.1 |
| (+) | Items with no Cash Effects | 734.4 | 991.4 | 766.6 |
| | Depreciation and Amortization | 490.8 | 520.6 | 526.5 |
| | Losses with Accounts Receivable from Services | 58.5 | 69.1 | 63.8 |
| | Provision for Doubtful Accounts | 3.8 | (1.2) | (1.9) |
| | Provision for Contingencies | 7.9 | 18.7 | 13.7 |
| | Deferred Taxes | 11.1 | 139.2 | (21.5) |
| | Amortization of Goodwill Paid in the Acquisition of Investments | 31.0 | 31.0 | 31.0 |
| | Result from the Write-off of Permanent Assets | 3.5 | 10.4 | 6.4 |
| | Financial Expenses | 172.6 | 203.7 | 142.4 |
| | Other Expenses/Revenues with no Cash Effects | (44.9) | | 6.2 |
| (-) | Equity Changes | 68.0 | 435.9 | 57.1 |
| (=) | Cash Flow from Operating Activities | 757.0 | 693.9 | 758.6 |
| INVESTMENT ACTIVITIES | | | | |
| | Financial Investments | (2.0) | (0.6) | 5.6 |
| | Investment Suppliers | (211.6) | (16.4) | (90.8) |
| | Funds from Sales of Permanent Assets | 4.9 | 10.7 | 2.1 |
| | Investments in Permanent Assets | (355.1) | (416.5) | (289.5) |
| | Acquisition of New Companies | | | (261.7) |
| | Other Investment Flows | 10.0 | (2.9) | (1.1) |
| (=) | Cash Flow from Investment Activities | (553.9) | (425.7) | (635.5) |
| FINANCING ACTIVITIES | | | | |
| | Dividends/Interests on Shareholders' Equity paid in the Period | (161.3) | (0.1) | (263.9) |
| | Loans and Financing | 278.0 | (284.4) | (272.8) |
| | Loans Obtained | 522.0 | 23.4 | 0.3 |
| | Loans Paid | (168.0) | (119.9) | (134.1) |
| | Interest Paid | (76.0) | (187.8) | (139.0) |
| | Acquisition of Own Shares | | (18.2) | |
| | Other Financing Flows | 0.1 | | (0.0) |
| (=) | Cash Flow from Financing Activities | 116.8 | (302.6) | (536.7) |
| CASH FLOW OF THE PERIOD | | | | |
| | | 319.9 | (34.4) | (413.6) |

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| | | | |
|---|--------------|---------------|----------------|
| Cash and Cash Equivalents - current balance | 524.5 | 1,388.5 | 974.9 |
| Cash and Cash Equivalents - previous balance | 204.1 | 1,422.9 | 1,388.5 |
| Variation in Cash and Cash Equivalents | 320.4 | (34.4) | (413.6) |

Operating Cash Flow in 2Q03 was R\$759 million

The operations of Brasil Telecom generated R\$758.6 million in the 2Q03. Cash Flow from Investment Activities was R\$635.5 million, combined with the Negative Cash Flow from Financing Activities of R\$536.7 million, resulted in a negative cash flow of R\$1,172.2 million.

Brasil Telecom generated a free cash flow (operating activities investment activities) of R\$123.1 million in the 2Q03.

[Back to Contents](#)

TARIFFS

Tariff Adjustment

Due to temporary judicial decisions, Brasil Telecom cancelled the charge of tariff adjustment authorized by ANATEL, and start to charge the values determined by the Supreme Court (Superior Tribunal de Justiça - STJ) on July, 14 2003. The values referred to adjustment will be charged in the next bills in case of a decision reversal.

STOCK MARKET

Buy-Back Shares Program

At the meeting held on August 5, 2003, the Board of Directors of Program Brasil Telecom S.A. approved the Program for the Buy-Back of Preferred Shares of Company issuance, for permanence in the treasury and later alienation or cancellation. Through the Program, the Company may acquire 18,078,192,282 preferred shares, which represent 10% of the total outstanding preferred shares on the market, for 365 days, which begins on August 6, 2003. On August 4, 2003, Brasil Telecom S.A. had 5,175,010,503 preferred shares in treasury.

Table 16: Stock Performance

| | Closing Price as of Jun/30/03 | Performance | | |
|--|-------------------------------------|-------------|-----------------|-----------------|
| | | In 2Q03 | In 12 months | In 24 months |
| Common Shares (BRTO3) (in R\$/1,000 shares) | 12.25 | 13.85% | 30.32% | 8.41% |
| Preferred Shares (BRTO4) (in R\$/1,000 shares) | 12.85 | 19.09% | 13.72% | -5.24% |
| ADR (BTM) (in US\$/ADR) | 13.47 | 40.31% | 14.64% | — |
| Ibovespa (points) | 12,973 | 15.07% | 16.46% | -10.90% |
| Itel (points) | 618 | 13.98% | 19.77% | -21.06% |
| IGC (points) | 1,160 | 5.90% | 17.83% | 14.00% |
| Dow Jones (points) | 8,985 | 12.43% | -2.79% | -14.44% |

[Back to Contents](#)**Graph 9: Stock Performance in 2Q03 Bovespa and NYSE**
(Basis 100 = Mar/31/2003)**Table 17: Participation in Indexes**

| | Ibovespa | | IteI | | IGC | |
|-------|----------|---------|---------|---------|---------|---------|
| | Jan/Apr | May/Aug | Jan/Apr | May/Aug | Jan/Apr | May/Aug |
| BRT03 | — | — | 0.2850% | 0.2860% | 0.1290% | 0.1260% |
| BRT04 | 2.3740% | 2.4330% | 9.5160% | 9.3440% | 4.2930% | 4.1060% |

SHAREHOLDERS STRUCTURE**Table 18: Shareholders Structure**

| Jun 2003 | Common Shares | % | Preferred Shares | % | Total | % |
|------------------------------|------------------------|---------------|------------------------|---------------|------------------------|---------------|
| Brasil Telecom Participações | 241,646,691,695 | 96.8% | 114,787,167,580 | 38.8% | 356,433,859,275 | 65.4% |
| ADR | — | — | 19,124,166,000 | 6.5% | 19,124,166,000 | 3.5% |
| Treasury | — | — | 5,175,010,503 | 1.8% | 5,175,010,503 | 0.9% |
| Other | 7,950,357,847 | 3.2% | 156,482,746,315 | 52.9% | 164,433,104,162 | 30.2% |
| Total | 249,597,049,542 | 100.0% | 295,569,090,398 | 100.0% | 545,166,139,940 | 100.0% |

| Mar 2003 | Common Shares | % | Preferred Shares | % | Total | % |
|------------------------------|------------------------|---------------|------------------------|---------------|------------------------|---------------|
| Brasil Telecom Participações | 237,982,221,101 | 95.3% | 114,787,167,580 | 38.8% | 352,769,388,681 | 64.7% |
| ADR | — | — | 12,552,180,000 | 4.2% | 12,552,180,000 | 2.3% |
| Treasury | — | — | 5,175,010,503 | 1.8% | 5,175,010,503 | 0.9% |
| Other | 11,614,828,441 | 4.7% | 163,054,732,315 | 55.2% | 174,669,560,756 | 32.0% |
| Total | 249,597,049,542 | 100.0% | 295,569,090,398 | 100.0% | 545,166,139,940 | 100.0% |

[Back to Contents](#)

RECENT DEVELOPMENTS

The Best RI in Latin-America Telecommunication

On an annual basis, the *Institutional Investor* magazine publishes the **Ranking of the best Investor Relations departments of Latin America**, based on a survey performed close to professionals from financial markets.

In the last edition, 102 sell-side analysts from 16 institutions answered the survey. The outcome for Brasil Telecom couldn't be better: Mrs. Carla Cico was chosen the best C.E.O. in the telecommunications sector, and once again, the Investor Relations team of Brasil Telecom obtained the first place in the sector for the entire Latin America.

Globenet

Brasil Telecom concluded the acquisition of the entire submarine optical fiber cable system of the Globenet group, which interconnects the connection points in the regions of New York and Miami (USA), St. David's (Bermuda Islands), Fortaleza and Rio de Janeiro (Brasil) and Maiquetia (Caracas, Venezuela). The transaction was carried out through the acquisition of assets situated in the United States and in the Bermuda Islands, as well as the share interest of companies headquartered in Brasil and in Venezuela, through the company's subsidiaries BrT Serviços de Internet S.A. (BrTSi), Brasil Telecom Subsea Cable Systems Ltd. (BrT Bermuda) and Brasil Telecom of América, Inc (BTA).

The total amount of the transaction is equivalent to US\$46.8 million, of which US\$27.6 million was paid at the closing of the transaction and the remainder worth US\$19.2 million, which may be reduced in the case of eventual contingencies agreed upon by the parts, shall be paid in 18 months following the payment of the first installment.

With this transaction, Brasil Telecom carries on its strategy for its consolidation and expansion as a IP broadband, Residential and Corporate service provider, besides becoming the owner of an optical fiber connection between Brazil and the US, which is essential for the interests of the country.

iBest

Brasil Telecom consolidated call options exercises issued in May of 2002, through the company wholly owned subsidiary BrT Serviços de Internet S.A. (BrTSi), with the acquisition of the remaining 50.5% capital of iBest S.A. for US\$36 million. iBest was created in January of 1999 and since December of 2001 it concentrates its operations in the provision of Internet access.

The company has more than 4.0 million registered users, with 1.3 million active users, generating approximately 1.2 billion connection minutes per month, which makes it the second largest Internet access provider in the region of Brasil Telecom. The company is the holder of the iBest award considered to be the best Internet award in the country.

Through this transaction, Brasil Telecom strengthens its position in the Internet market, which is strategic for telecommunication carriers, enabling them to expand their Internet services.

[Back to Contents](#)

Brasil Telecom gets new certification

In July 2003, we achieve the acknowledgement of the National Institute of Metrology (INMETRO) for calls originated from BrT Public telephones.

The certificate, issued by the Bureau Veritas of Quality International (BVQI) and recognized by INMETRO, assures the effectiveness and the quality of collection process. For the clients that use our Public Telephones, this indicates a guarantee that they are being charged only for the services really used and that the Company is under the quality standards established from ANATEL.

With that action, Brasil Telecom indicates, once more, its concern among the telecommunication companies in be the first to reach the certification for its gathering, registering, charging and billing processes.

Brasil Telecom was awarded Columnist Award

For the second time, Brasil Telecom is awarded the Columnists/Regional Brasília Award, which highlights the best advertisement pieces in all medias. Besides having been awarded as Advertiser of the Year, Brasil Telecom was granted three medals:

- Gold, in the Telecommunication service category, with the film Frases (Phrases) for TV and cinema, developed to create awareness of 14;
- Silver, in the Institutional/Corporate category, with the spot Forasteiro (Ranger) for radio, also developed to create awareness of 14;
- Bronze, in the Institutional/Corporate category, with the campaign Limites (Boundaries), developed to create awareness of the new concept of the Company: Brasil Telecom is you without boundaries.

Carrier Selection Code 14 began to validate to cellular in long-distance calls.

In accordance with Anatel rules, since July, 6 of 2003 all **telephony users in Brazil were given the option to choose the carrier of preference in long distance calls using the cell phone.**

[Back to Contents](#)**MAIN INDICATORS****Table 19: Indicators Evolution**

| PLANT | 2Q02 | 3Q02 | 4Q02 | 1Q03 | 2Q03 |
|--|-------------|-------------|-------------|-------------|-------------|
| Lines installed (thousand) | 10,505 | 10,544 | 10,548 | 10,608 | 10,656 |
| Additional lines installed (thousand) | 63 | 40 | 4 | 60 | 48 |
| Lines in service - LIS (thousand) | 8,940 | 9,228 | 9,465 | 9,595 | 9,741 |
| Residential (thousand) | 6,529 | 6,695 | 6,862 | 6,979 | 7,107 |
| Non-residential (thousand) | 1,530 | 1,556 | 1,540 | 1,548 | 1,565 |
| Public phones (thousand) | 291 | 290 | 293 | 296 | 297 |
| Pre-paid (thousand) | 59 | 145 | 206 | 215 | 218 |
| Other (including PBX) (thousand) | 531 | 542 | 564 | 557 | 554 |
| Additional lines in service (thousand) | 85 | 288 | 237 | 130 | 146 |
| Average lines in service (thousand) | 8,897 | 9,084 | 9,347 | 9,530 | 9,668 |
| Utilization rate | 85.1% | 87.5% | 89.7% | 90.5% | 91.4% |
| Teledensity (LIS/100 inhabitants) | 22.0 | 22.6 | 23.1 | 23.2 | 23.5 |
| ADSL lines sold (thousand) | 101.5 | 118.3 | 168.4 | 207.4 | 265.6 |
| ADSL lines in service (thousand) | 89.8 | 108.4 | 140.7 | 165.1 | 194.8 |
| TRAFFIC | 2Q02 | 3Q02 | 4Q02 | 1Q03 | 2Q03 |
| Exceeding local pulses (million) | 3,312 | 3,298 | 3,256 | 2,973 | 2,959 |
| Domestic long distance - DLD (million minutes) | 1,924 | 1,922 | 1,756 | 1,611 | 1,744 |
| Fixed-mobile (million minutes) | 1,086 | 1,111 | 1,143 | 1,058 | 1,058 |
| VC-1 (million minutes) | 979 | 1,001 | 1,021 | 939 | 947 |
| VC-2 (million minutes) | 95 | 99 | 108 | 104 | 98 |
| VC-3 (million minutes) | 12 | 12 | 14 | 14 | 13 |
| PRODUCTIVITY | 2Q02 | 3Q02 | 4Q02 | 1Q03 | 2Q03 |
| # of employees | 6,122 | 5,773 | 5,565 | 5,543 | 5,311 |
| Average # of employees | 6,612 | 5,948 | 5,669 | 5,554 | 5,427 |
| LIS/employee | 1,460 | 1,599 | 1,701 | 1,731 | 1,834 |
| Net revenue/average # of employees/month (R\$ thousand) | 87.6 | 102.1 | 110.2 | 112.5 | 117.6 |
| EBITDA/average # of employees/month (R\$ thousand) | 41.7 | 48.4 | 54.4 | 52.3 | 55.3 |
| Net earnings/average # of employees/month (R\$ thousand) | 4.6 | 5.8 | 10.7 | 8.3 | 3.3 |
| Exceeding local pulses/average LIS/month | 124.1 | 121.0 | 116.1 | 104.0 | 102.0 |
| DLD minutes/average LIS/month | 72.1 | 70.5 | 62.6 | 56.3 | 60.1 |
| Fixed-mobile minutes/average LIS/month | 40.7 | 40.8 | 40.8 | 37.0 | 36.5 |

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| | | | | | |
|--------------------------------------|------|------|------|------|------|
| Net revenue/average LIS/month (R\$) | 65.1 | 66.8 | 66.8 | 65.5 | 66.0 |
| EBITDA/average LIS/month (R\$) | 31.0 | 31.7 | 33.0 | 30.5 | 31.0 |
| Net earnings/average LIS/month (R\$) | 3.4 | 3.8 | 6.5 | 4.8 | 1.8 |

| QUALITY | 2Q02 | 3Q02 | 4Q02 | 1Q03 | 2Q03 |
|------------------------|-------------|-------------|-------------|-------------|-------------|
| Quality goals achieved | 33/35/35 | 35/35/35 | 34/35/35 | 35/35/35 | 35/35/35 |
| Digitization rate | 98.7% | 98.8% | 99.0% | 99.0% | 99.0% |

| PROFITABILITY | 2Q02 | 3Q02 | 4Q02 | 1Q03 | 2Q03 |
|------------------------|-------------|-------------|-------------|-------------|-------------|
| EBITDA margin | 47.6% | 47.4% | 49.4% | 46.5% | 47.0% |
| Net margin | 5.2% | 5.7% | 9.7% | 7.4% | 2.8% |
| Return on equity - ROE | 1.3% | 1.5% | 2.6% | 2.0% | 0.8% |

| CAPITAL STRUCTURE | 2Q02 | 3Q02 | 4Q02 | 1Q03 | 2Q03 |
|---|-------------|-------------|-------------|-------------|-------------|
| Cash and cash equivalents (R\$ million) | 525 | 589 | 1,423 | 1,388 | 975 |
| Total debt (R\$ million) | 4,458 | 4,434 | 5,082 | 4,997 | 4,857 |
| Short term debt | 13.0% | 12.5% | 13.4% | 14.2% | 25.5% |
| Long term debt | 87.0% | 87.5% | 86.6% | 85.8% | 74.5% |
| Net debt (R\$ million) | 3,934 | 3,845 | 3,659 | 3,608 | 3,882 |
| Debt with BRP (inter-company + debenture) (R\$ million) | 1,495 | 1,471 | 1,525 | 1,461 | 1,524 |
| Net debt excluding debt with BRP (R\$ million) | 2,439 | 2,374 | 2,134 | 2,148 | 2,359 |
| Shareholders' equity (R\$ million) | 6,899 | 6,889 | 6,964 | 6,838 | 6,891 |
| Net debt/shareholders' equity | 57.0% | 55.8% | 52.5% | 52.8% | 56.3% |
| Net debt excluding debt with BRP/shareholders' equity | 35.3% | 34.5% | 30.6% | 31.4% | 34.2% |

[Back to Contents](#)

UPCOMING EVENTS

Conference Call: 2Q03 Results

Dial in #: (1 719) 457-2657

Date: August, 6 (Wednesday)

Time: 11:00 a.m. Eastern time (12:00 p.m. Brasilia time)

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

[Back to Contents](#)

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereto duly authorized.

Date: August 13, 2003

BRASIL TELECOM S.A.

By: /s/ Carla Cico

Name: Carla Cico

Title: President and Chief Executive Officer
