BRASIL TELECOM SA
Form 20-F
March 11, 2008

SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 20-F

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2007

Commission file number: 1-15256

BRASIL TELECOM S.A.

(F/K/A TELECOMUNICAÇÕES DO PARANÁ S.A. - TELEPAR)

(Exact Name of Registrant as Specified in Its Charter)

Brazil Telecom Company	**The Federative Republic of Brazil**
(Translation of Registrant's Name into English)	(Jurisdiction of Incorporation or Organization)

SIA/Sul, ASP, Lote D, Bloco B
71215-000 Setor de Indústria, Brasília, DF, Brazil
(Address of Principal Executive Offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange On Which Registered
Preferred Shares, without par value, represented by American Depositary Shares*	New York Stock Exchange

* American Depositary Shares issuable upon deposit of Preferred Shares were registered under a separate registration statement on Form F-6.

Securities registered or to be registered pursuant to Section 12(g) of the Act: None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by this Annual Report:

At December 31, 2007 there were outstanding:
249,597,049 Common Shares, without par value
297,675,140 Preferred Shares, without par value

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated, an accelerated filer, or a non-accelerated filer.
See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

If "Other" has been check in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

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PRESENTATION OF FINANCIAL INFORMATION

In this annual report, Brasil Telecom S.A., a corporation organized under the laws of the Federative Republic of Brazil, and its subsidiaries are referred to collectively as Brasil Telecom, our company, we, us or the Registrant. References to our company s businesses and operations are references to the businesses and operations of our company on a consolidated basis for the years 2005, 2006 and 2007.

References to (i) the *real,* *reais* or R$ are to the Brazilian *real* (singular) and Brazilian *reais* (plural) and (ii) dolla or US$ are to United States dollars. All amounts in Brazilian currencies that existed prior to the adoption of the *real* as the Brazilian currency on July 1, 1994 have been restated in *reais*. The exchange rate information in this annual report should not be construed as a representation that any such amounts have been, would have been or could be converted at this or any other exchange rate.

Our audited consolidated financial statements were prepared in conformity with Brazilian Corporate Law (Law 6.404/76, as amended by Law 10.303/01) and are consistent with the rules and regulations of the Brazilian Securities and Exchange Commission, and the accounting standards issued by *Instituto dos Auditores Independentes do Brasil*, the Brazilian Institute of Independent Auditors. Brazilian Corporate Law when applied to us differs in certain important respects from US GAAP. See Note 36 to our audited consolidated financial statements for (i) a summary of the principal differences between Brazilian Corporate Law and US GAAP as they relate to us and (ii) a reconciliation to US GAAP of shareholders equity as of December 31, 2006 and 2007 and net income (loss) for the years ended December 31, 2005, 2006 and 2007. These audited consolidated financial statements are referred to herein as the Financial Statements.

Our audited annual consolidated financial statements as of December 31, 2005 prepared in accordance with Brazilian Corporate Law with reconciliation of shareholders equity and net income to US GAAP, included in this annual report, have been audited by KPMG Auditores Independentes, in accordance with the standards of the Public Company Accounting Oversight Board as stated in their report appearing in this annual report.

Our audited annual consolidated financial statements as of December 31, 2006 and 2007, and for each of the two years ended December 31, 2006 and 2007 prepared in accordance with Brazilian Corporate Law with reconciliation of shareholders equity and net income to US GAAP, included in this annual report, have been audited by Deloitte Touche Tohmatsu Auditores Independentes, in accordance with the standards of the Public Company Accounting Oversight Board as stated in their report appearing in this annual report.

The Glossary that begins on page 119 defines terms that are used in this annual report.

Certain figures included in this annual report have been subject to rounding adjustments. Accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures that precede them.

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FORWARD-LOOKING INFORMATION CONTAINED IN THIS ANNUAL REPORT

This annual report contains forward-looking statements. We may also make forward-looking statements in press releases and oral statements. Forward-looking statements are not statements of historical fact and involve known and unknown risks and uncertainties. The words anticipates, believes, estimates, expects, forecasts, intends, plar predicts, projects, targets and similar words are intended to identify these forward-looking statements.

This annual report, may contain forward-looking statements with respect to, among others:

- our marketing strategy;
- our ability to meet our network expansion, service quality and modernization obligations;
- our market share in general and the growth in our Internet service offerings in particular;
- our compliance with radiation standards;
- the reduction of our labor force;
- the payment of our debt;
- the material adverse financial effect of any labor, civil or tax claims arising out of acts committed by Telebrás prior to the effective date of the breakup of Telebrás;
- the growth in the customer base and products offered by cable television services providers in our region;
- our projected capital expenditures; and
- our liquidity.

Forward-looking statements are not guarantees of performance. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Our future results and shareholder values may differ materially from those expressed in or suggested by these forward-looking statements. Many of the factors that will determine these results and values are beyond our ability to control or predict.

Because these forward-looking statements involve risks and uncertainties, there are important factors that could cause actual results to differ materially from those expressed or implied by these forward-looking statements. These factors may include:

- the performance of the Brazilian economy generally;
- the levels of exchange rates between Brazilian and foreign currencies;
- the telecommunications policy of Brazil s federal government;
- the growth of the Brazilian telecommunications industry as a whole;

- the introduction of competition to the Brazilian telecommunications industry in general and in our region in particular;
- the receipt of additional, and/or the revocation of our existing, governmental approvals and licenses;
- the availability of financing;
- the resolution of disputes among certain of our controlling shareholders;
- changes in the rates that we may charge under government regulations;
- the emergence of new technologies and the response of our customer base to those technologies;
- our ability to grow our business, in particular our mobile telephone business;
- acquisitions by us of other companies; and

• other factors discussed under Item 3. Key Information Risk Factors.

The reader should not place undue reliance on any forward-looking statement. Forward-looking statements speak only as of the date they are made, and we do not undertake any obligation to update them in light of new information or future developments. Neither our independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for and disclaim any association with the prospective financial information.

Information included in this annual report concerning the Federative Republic of Brazil, Techold Participações S.A. and Timepart Participações Ltda. and other direct and indirect shareholders has been included herein based on public filings or other sources we assume to be correct, but we have not independently verified such information.

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PART I

ITEM 3. KEY INFORMATION

Selected Financial Data

The following table represents a summary of our selected financial data for the five years ended December 31, 2007. The data is derived from our consolidated financial statements and should be read in conjunction with our consolidated financial statements, related notes and other financial information included herein. Amounts below are presented in Brazilian *reais*, except where noted, and all amounts are in thousands, except number of shares and per share amounts.

Income Statement Data:	**2003**	**2004**	**2005**	**2006**	**2007**
Brazilian Corporate Law					
Net operating revenue	7,915,194	9,064,856	10,138,684	10,296,659	11,058,546
Cost of services	(4,853,696)	(5,845,381)	(6,525,898)	(6,466,463)	(6,384,073)
Gross profit	3,061,498	3,219,475	3,612,786	3,830,196	4,674,473
Operating expenses:					
Selling expenses	(820,034)	(1,104,598)	(1,656,242)	(1,470,642)	(1,485,352)
General and administrative expenses	(795,992)	(987,177)	(1,264,741)	(1,314,119)	(1,340,029)
Other net operating income (expenses)	(214,953)	(61,197)	(626,306)	(262,134)	(499,803)
Operating income before net financial expenses	1,230,519	1,066,503	65,497	783,301	1,349,289
Financial expenses, net	(844,802)	(579,514)	(596,239)	(289,662)	(263,087)
Operating income/(loss)	(385,717)	486,989	(530,742)	493,639	1,086,202
Non-operating income/ (expenses), net	(469,045)	(160,078)	(149,024)	30,865	(2,454)
Income (loss) before taxes and minority interests	(83,328)	326,911	(679,766)	524,504	1,083,748
Income and social contribution tax benefits (expenses)	58,017	(43,671)	389,066	(95,035)	(288,291)
Income (loss) before minority interests	(25,311)	283,240	(290,700)	429,469	795,457
Minority interests	14	(6,276)	(12,971)	2,922	1,830
Net income (loss)	(25,297)	276,964	(303,671)	432,391	797,287
Number of Common Shares[(1)(3)]	249,597	249,597	249,597	249,597	249,597
Number of Preferred Shares [(1)(3)]	289,850	292,011	292,022	297,675	297,675
Dividends per Common Share (*reais*)[(1)(3)]	0.39	0.70	0.98	0.65	1.29
Dividends per Common Share (dollars)[(1)(2)(3)]	0.13	0.26	0.42	0.31	0.73
Dividends per Preferred Share (*reais*)[(1)(3)]	0.39	0.70	0.98	0.65	1.29
Dividends per Preferred Share (dollars)[(1)(2)(3)]	0.13	0.26	0.42	0.31	0.73

(1) Outstanding shares at the balance sheet date.

(2) Dividends per thousand shares were converted into dollars at the Commercial Market selling rate of R$2.8892 per dollar, R$2.6544 per dollar, R$2.3407 per dollar, R$2.1380 per dollar, and R$1.7713 per dollar, on December 31, 2003, 2004, 2005, 2006 and 2007, respectively.

(3) The presentation of the number of outstanding shares in 2003, 2004, 2005 and 2006 were restated to conform to the current year and to reflect the changes in capital structure related to a reverse split of shares approved at the Extraordinary General Shareholders' Meeting held on April 27, 2007.

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Income Statement Data (continued)	**2003**	**2004**	**2005**	**2006**	**2007**
US GAAP:					
Net income (loss)	(287,739)	284,907	168,790	687,299	766,874
Net income (loss) per Share (*reais*) (1)(2) :					
Common Share Basic	(0.54)	0.53	0.31	1.26	1.40
Common Share Diluted	(0.54)	0.53	0.31	1.26	1.40
Preferred Share Basic	(0.54)	0.53	0.31	1.26	1.40
Preferred Share Diluted	(0.54)	0.53	0.31	1.26	1.40

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(1) In accordance with Statement of Financial Accounting Standards No. 128, *Earnings per Share*, or SFAS 128, basic and diluted earnings per share have been calculated, for US GAAP purposes, using the two class method. See Note 36e to our Consolidated Financial Statements.

(2) In thousands of shares in 2003, 2004, 2005 and 2006, as a result of the share grouping approved by our shareholders at the Extraordinary General Shareholders Meeting held on April 27, 2007.

			At December 31		
	2003	2004	2005	2006	2007
			(Thousands of *reais*)		
Balance Sheet Data:					
***Brazilian Corporate Law*(1) :**					
Cash and cash equivalents(2)	1,465,765	2,397,810	1,730,083	2,541,608	2,377,031
Short term investments	-	-	-	89,424	-
Intangible assets	811,923	1,136,092	1,219,986	1,163,392	1,049,560
Property, plant and equipment, net	8,538,472	8,299,604	7,592,574	6,535,225	5,663,418
Deferred Charges	340,605	387,711	194,444	138,468	110,952
Total assets	15,326,004	17,402,504	16,107,453	15,997,784	15,575,736
Loans and financing current portion	1,966,688	1,079,284	1,431,939	993,188	377,791
Swaps related to loans and financing current portion	23,588	23,849	57,445	116,376	118,984
Loans and financing non-current portion	2,614,447	4,076,046	3,127,187	3,961,397	3,607,500
Swaps related to loans and financing non-current portion	31,116	102,319	291,654	304,229	279,128
Total liabilities (including funds for capitalization and minority interests)	8,663,160	10,921,139	10,610,846	10,469,483	9,999,845
Shareholders equity	6,662,844	6,481,365	5,496,607	5,528,301	5,575,891
US GAAP:					
Cash and cash equivalents	605,108	491,686	355,868	401,543	583,992
Short term investments	860,657	1,906,125	1,374,215	2,229,489	1,793,039
Intangible assets(3)	1,357,126	1,907,693	1,978,200	1,970,873	1,966,942

Property, plant and equipment, net	9,958,018	9,689,579	8,975,382	7,973,720	6,724,966
Total assets	16,839,148	18,765,755	17,723,480	18,161,155	17,539,326
Loans and financing current portion	1,755,410	830,680	1,148,361	815,279	341,964
Swaps related to loans and financing current portion	3,518	16,806	54,068	115,326	118,753
Loans and financing non-current portion	2,424,781	3,888,052	2,962,968	3,945,373	3,579,632
Swaps related to loans and financing non-current portion	4,641	72,099	274,513	301,483	279,079
Total liabilities (including funds for capitalization and minority interests)	9,582,708	11,693,635	11,165,294	11,106,572	10,199,965
Shareholders equity	7,256,440	7,072,120	6,558,186	7,054,583	7,339,361

(1) Until December 31, 2006, our financial statements filed with the SEC have been prepared under Brazilian GAAP. Brazilian GAAP differs from Brazilian Corporate Law, which is required for public entities in Brazil, and used as the basis for determination of taxable income and dividends payable. The difference between Brazilian GAAP and Brazilian Corporate Law is that the recognition of inflationary adjustments in the carrying amount of permanent assets ceased on December 31, 2000 under Brazilian GAAP compared to December 31, 1995 under Brazilian Corporate Law. Our financial statements as of December 31, 2006 and 2007 and for the three years in the period ended December 31, 2007 have been presented in accordance with Brazilian Corporate Law. Since all assets subject to indexation under Brazilian GAAP were fully depreciated at December 31, 2004, the presentation of our consolidated financial statements under Brazilian Corporate L aw is consistent with the presentation of the published financial statement under Brazilian GAAP as from that date. However, the change to Brazilian Corporate Law did result in some reclassifications, which represents the effects of inflation that were recorded from January 1, 2000 until December 31, 2006 under Brazilian GAAP.

(2) Cash and cash equivalents is comprised of cash, banks and temporary investments.
(3) Intangibles under US GAAP include the goodwill from our merger with Telesc, Telegoiás, Telebrasília, Telemat, Telems, Teleron, Teleacre and CTMR and our merger with CRT at December 31, 2003, 2004, 2005, 2006 and 2007, and amounts relating to our PCS licenses at December 31, 2004, 2005, 2006 and 2007. See Note 36o to our Consolidated Financial Statements.

Cash Flows	**2005**	**2006**	**2007**
Brazilian Corporate Law			
Operating activities	2,460,809	2,525,697	3,109,088
Increase (decrease) in cash and cash equivalents[1]	(667,727)	811,525	(164,577)
US GAAP			
Operating activities	2,992,719	1,759,847	3,456,114
Increase (reduction) in cash and cash equivalents [1]	(135,817)	45,675	182,449

(1) Cash and cash equivalents is comprised of cash, banks and temporary investments.

Exchange Rates

Until March 14, 2005, there were two principal foreign exchange markets in Brazil: the Commercial Market and the Floating Market. Most foreign trade and financial foreign currency exchange transactions were carried out on the Commercial Market. Purchases of foreign currency in the Commercial Market could be carried out only through a financial institution authorized to buy and sell currency in that market. The Floating Market rate was generally used for specific transactions for which the approval of the Brazilian Central Bank was not required.

In March 2005, the CMN enacted new rules with respect to the foreign exchange markets in Brazil. Resolution 3.265 combined the Commercial Market and the Floating Market into a single new foreign exchange market, the Foreign Exchange Market. The new rules also eliminated certain restrictions thereby allowing more flexibility for the purchase and sale of foreign currency. The unified Foreign Exchange Market is intended to simplify both inbound and outbound exchange transactions by permitting exchange contracts to be executed by the local institutions authorized to deal in foreign exchange. Foreign currencies may only be purchased through a Brazilian financial institution authorized to operate in the market. Furthermore, under the Foreign Exchange Market, Brazilian entities and individuals may purchase and sell foreign currency in transactions of any nature and without any limitations on the amounts involved, subject to the legality of the transactions and in accordance with the economic basis of the transactions and obligations set forth in the respective documentation. Rates are freely negotiated but the Brazilian Central Bank may, in limited circumstances, intervene in the Foreign Exchange Market to curb excessive volatility.

Under the *Real* Plan, adopted on July 1, 1994, the *real* was introduced as the official unit of Brazilian currency, with each *real* having an exchange rate of R$l.00 to US$1.00. The issuance of *reais* was initially subject to quantitative limits backed by a corresponding amount of dollars in reserves, but the government subsequently expanded those quantitative limits and allowed the *real* to float, with parity between the *real*/dollar (R$l.00 to US$1.00) as a ceiling.

Since 1999, the Brazilian Central Bank has allowed the *real*/US dollar exchange rate to float freely, and during that period, the *real*/US dollar exchange rate has fluctuated considerably. In the past, the Brazilian Central Bank has intervened occasionally to control unstable movements in foreign exchange rates. We cannot predict whether the

Brazilian Central Bank or the Brazilian government will continue to let the *real* float freely or will intervene in the exchange rate market through a currency band system or otherwise. The *real* may depreciate or appreciate against the US dollar substantially in the future. We cannot guarantee that the *real* will not substantially devalue in the future. See Risk Factors Risks Relating to Brazil.

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As of March 1, 2008, the selling rate published by the Brazilian Central Bank was R$1.6816 per US$1.00. The following table sets forth the reported high and low selling rates for dollars for the months indicated.

	High	**Low**
September 2007	1.9640	1.8389
October 2007	1.8284	1.7440
November 2007	1.8501	1.7325
December 2007	1.8233	1.7616
January 2008	1.8301	1.7414
February 2008	1.7681	1.6715

Source: Brazilian Central Bank

The following table sets forth the reported high and low, average and period-end selling rates for dollars for the annual periods indicated. The average selling rates represent the average of the month-end Commercial Market and Foreign Exchange Market selling rates (R$/US$) during the relevant period.

For the Year Ended December 31,	**High**	**Low**	**Average**	**Period End**
2003	3.662	2.822	3.060	2.889
2004	3.205	2.654	2.926	2.654
2005	2.762	2.163	2.434	2.340
2006	2.3711	2.0586	2.1771	2.1380
2007	2.1556	1.7325	1.9483	1.7713

Source: Brazilian Central Bank

Brazilian law provides that whenever there is a serious imbalance in Brazil s balance of payments or such an imbalance is foreseeable, temporary restrictions may be imposed on remittances of foreign capital abroad. We cannot guarantee that these restrictive measures will not be taken by the Brazilian government in the future. See Risk Factors Risks Related to Operations In Brazil.

Risk Factors

You should consider the following risks as well as the other information set forth in this annual report when evaluating an investment in our company. Our business, results of operations or financial condition could be harmed if any of these risks materialize.

Risks Related to Our Business

Regulatory developments could affect our services, including placing restrictions on the rates we charge for our services, which could adversely impact our business.

Our main activities, wireline and wireless phone services, as well as the main activities of our competitors, are subject to regulation and inspection by Anatel. The regulations enacted by Anatel and applicable to our activities include provisions regarding charges, fees, universalization, quality of services, consumer s rights, net expansion, licenses, competition, changes in our corporate ownership (including participation by foreign investors), interconnection and other operational issues related to the functioning of our telecommunications net.

Any changes in the laws, regulations or governmental policies applicable to the telecommunications sector or in the interpretation of such laws and regulations may have a material adverse effect on our financial condition and results of operations. Although there are some indications expressed by Anatel and by the Ministry of Communications at the end of each year, it is not possible to predict which policies for the telecommunications sector will be adopted by the government in the future or the consequences of such policies to our business and the business of our competitors.

Our telephony operations in Brazil are governed by concession contracts granted by Anatel. Other services are governed by authorizations also granted by Anatel. Our current concession contracts contain sections regarding the PGMQ and the PGMU including (i) new targets for the universalization of services; (ii) new requirements for local call charges, substituting pulses for minutes in the calculation of charges; (iii) new parameters for the adjustment of rates and interconnection rates; and (iv) portability of fixed line and mobile telephone numbers. These changes, some of them yet to be implemented, may affect the financial balance of our concession contracts and adversely affect our business and financial condition.

Our concession contracts could be terminated under several scenarios, each of which would adversely affect our financial condition.

According to the General Telecommunications Law and our concession contracts, our concessions are revocable, among other reasons, if Anatel fails to renew them upon their expiration; by government fiat in an extraordinary situation in which the public interest is in jeopardy; or upon the occurrence of a split-up, spin-off, amalgamation, merger, capital reduction or transfer of our corporate power without Anatel s authorization. See Item 4. Information on the Company Regulation of the Brazilian Telecommunications Industry Obligations of Telecommunications Companies Revocation of a Concession.

The benefits we obtain from the concession contracts are a primary component of our financial performance. The loss of any or all of those contracts would materially affect our ability to continue operations.

A proposed bill of law terminating monthly subscription fees may adversely affect our business and financial condition.

On May 12, 2004, the Consumer Defense Committee of the House of Representatives approved a bill of law proposing the termination of the monthly subscription fees charged for fixed-line services by Brazilian telephone concessionaires, including us. As the bill was not approved by the full House of Representatives until the end of 2006, the effectiveness of the bill was delayed until January 31, 2007. Furthermore, the bill had not yet been declared effective on March 21, 2007, and therefore the bill must again be considered before the House of Representatives before it may be effective. The bill is again subject to the approval of the House of Representatives, the Senate and the President in order to become effective. In 2007 our revenue of monthly subscription fees charged for fixed-line services was R$3,541.4 billion. Should this bill be approved, it may have an impact on our current rate structure and, as a result, our operations and competitive position could be adversely affected.

The procedure to establish the rules for the portability of fixed-line and mobile telephone numbers was initiated in 2006 and, when finally implemented, could result in a decrease in the number of our fixed-line customers.

At the end of 2006, the procedure to establish rules for the portability of fixed-line and mobile telephone numbers was initiated. Portability allows customers to change from one telecommunications services concessionary/authorized company to another without having to change their fixed-line or mobile telephone numbers. Complete implementation of portability is expected to occur in 2009. According to Anatel s regulations, it will be possible for customers to change their telecommunications services provider in the same area code as well as their addresses in the same area code without changing their telephone numbers. Anatel s objective in introducing the telephone number portability is to increase competition among operators.

The implementation of portability could adversely affect our business in two important ways: (i) we expect that portability rules that permit customers to change service providers without losing their telephone number will have the effect of increasing the number of customers that we lose to other telecommunications service providers; and (ii) we expect that the cost of new technologies and suppliers necessary for the implementation and maintenance of portability will be paid for by the operators.

We are subject to financial covenants and other contractual provisions under our existing indebtedness. Failure to comply with these provisions could adversely affect our business and financial condition.

The agreements that govern our debt contain a number of restrictive covenants, and our failure to comply with them could adversely impact our business. In particular, the terms of these agreements restrict our ability, and the ability of our subsidiaries, to incur additional debt, grant liens, pledge assets, sell or dispose of assets and make certain acquisitions, mergers and consolidations. Furthermore, a number of our debt agreements include financial covenants that require us to maintain certain specified financial ratios. As a general rule, the occurrence of an event of default under one of our debt agreements may trigger defaults under our other debt agreements.

Compliance with these covenants in future periods will depend upon our financial and operating performance, which may be affected by adverse business, market and economic conditions. If we are unable to comply with these covenants, or to obtain waivers from our lenders, our debt obligations may be accelerated and the terms of our debt agreements may be otherwise amended adversely. If we are unable to meet our debt service obligations or comply with our debt covenants, we could be forced to restructure or refinance our indebtedness, seek additional equity capital or sell assets.

Certain beneficial owners directly or indirectly control a large percentage of our voting shares, and their interests may conflict with the interests of our other shareholders, including minority shareholders.

We are directly controlled by Brasil Telecom Participações S.A., our parent corporation, which is in turn controlled by Solpart, whose stockholders are Timepart and Techold. As the controlling shareholder of our Parent, Solpart has the power to modify our business plan, modify our dividend plan and sell our material assets. Our controlling shareholders may exercise this control in a manner that differs from the best interest of our minority shareholders.

Disputes among our controlling shareholders and entities that manage our controlling shareholders have had and could in the future have a material adverse effect on our management and operations.

As of the date of this annual report control of Solpart, as well as certain actions taken by Solpart s shareholders and their affiliates, are the subject of a number of judicial and arbitration proceedings.

On March 9, 2005, International Equity Investments, Inc., the sole shareholder of CVC/Opportunity Equity Partners LP (since renamed CVC LP), which controls a majority of the voting interests in Solpart, and therefore indirectly owns a majority of the voting shares of our Parent and our company, publicly announced the ouster of CVC Ltd. (currently named Opportunity Ltd.) from the management of CVC LP. Opportunity Ltd. was replaced by a new company incorporated abroad, CVC International Brazil, a replacement that was approved by Anatel on April 12, 2005. In late 2005, our shareholders replaced our board of directors (except for Mr. Antonio Cardoso dos Santos, who was elected by the holders of our Preferred Stock and remains a director), our management and our fiscal council.

Since November 2005, the current management of our Parent and our current management have performed and continue to perform internal investigations of the businesses and operations conducted by the former management appointed by Opportunity Ltd., the former managing partner of two of our indirect controlling shareholders (CVC LP and Investitores Institucionais FIA). In the course of such investigations, our current managers identified management acts indicating abuse of controlling power, breach of fiduciary duties, and conflict of interest, as well as various violations of Brazilian law and our bylaws.

In accordance with a notice to shareholders released on December 12, 2005, we filed a formal complaint with the CVM against Opportunity Ltd. and other individuals and companies, both domestic and foreign, linked to our former management, who have been involved with, or participated in any way, or benefited from the actions which are the object of the formal complaint. On March 21, 2006, a second formal complaint, as an amendment to the first complaint, was submitted to CVM, in light of additional management actions identified. In 2006, eight lawsuits of civil responsibility were filed against Opportunity Ltd. and our previous managers.

We intend to pursue all appropriate legal measures to recover potential losses and damages suffered, consistent with our best interests and fiduciary obligations. On April 28, 2006, at Ordinary and Extraordinary Meetings of Shareholders of us and our Parent, the shareholders of each company approved the filing of damages lawsuits against prior management.

The disputes among the shareholders of Solpart, including the dispute over the ownership structure of Solpart, and management of entities which hold a stake in our Parent and Zain may result in changes to our board and/or senior management. While we cannot predict the cumulative effect of this ongoing litigation on our business and results of operations, extensive litigation regarding ownership of our company creates uncertainty with respect to the identity of our current and future management, which may impair our ability to carry out our business plan. See Item 8. Financial Information Legal Proceedings Disputes with and among entities that hold stakes in our company for additional information.

Problems with billing, invoicing and collection services may adversely affect our earnings.

By Resolution No. 343, dated as of July 17, 2003, Anatel required carriers to render invoicing and collection services to other carriers with which they had entered into traffic agreements. We have entered into co-billing agreements with several carriers to include on our telephone bills the long distance services rendered by such carriers, as well as the long distance services rendered by other collective interest carriers. Any problems with the execution of invoicing and collection services by other carriers may adversely affect our levels of bad debt.

Consumer litigation related to the legality of our basic monthly subscription fees may have an adverse effect on our business.

We are a defendant in approximately 85,604 lawsuits, both individual and collective, that contest our right to charge users of our fixed-line service a basic monthly subscription fee for continuous access to the service. As a result of provisional remedies or interim injunctive relief, we have suspended this basic monthly subscription fee with respect to the plaintiffs in approximately 15,716 of these lawsuits, pending a final decision. The remaining lawsuits have not received preliminary adjudication.

On October 25, 2007, the Superior Court of Justice (*Superior Tribunal de Justiça*), on a special appeal by Brasil Telecom, considered and upheld the legality of the collection of the basic monthly subscription fee. This decision, along with similar successful appeals with respect to 80 lawsuits, established a favorable precedent in these matters. However, the Supreme Court (*Supremo Tribunal Federal*) has not yet decided upon the legality of charging the basic monthly subscription fee, and as a result, we cannot predict a favorable outcome in all of these lawsuits. There is also a jurisdictional conflict as we have sought to include Anatel in order to transfer the claims to federal courts. This uncertainty, coupled with the expense associated with the continued legal defense of these lawsuits, could have a material adverse effect on our financial condition and results of operation.

Risks Related to the Brazilian Telecommunications Industry

We face increasing competition in all segments of the Brazilian telecommunications industry, and the telecommunications industry may not continue to grow or may grow at a slower rate than in the past. This may have a material adverse effect on our market share, margins, results of operations and financial condition.

The telecommunications industry in Brazil is becoming increasingly competitive. Our public-regime fixed-line concessions are not exclusive, and Anatel could grant additional private-regime authorizations in our region. To date, a number of companies have been granted permission by Anatel to provide local and/or long distance telecommunications services throughout our region. Our fixed-line services are also subject to competition from mobile service providers. We also face competition from mobile service providers in the low-end of the market through the offer of prepaid plans by mobile providers. We now also have to compete in our region against competitors from outside of our region that offer fixed-line, mobile, data, local and/or long distance telecommunications services throughout Brazil. In addition, the Brazilian telecommunications industry is consolidating, which results in larger competitors with greater resources.

Competition for mobile telecommunications customers may require us to increase our costs and marketing expenses or provide services at lower rates than those we currently expect to charge for such services. Furthermore, Anatel may also grant new authorizations to explore mobile telecommunication services that may increase the number of competitors in our region. With respect to our data transmission services, increased competition may require us to reduce the rates we charge for data transmission services.

Cable television services companies are beginning to offer telecommunication services, and increasingly there are other alternatives for consumers to obtain their telecommunication services, such as satellite transmission and voice over internet protocol, or VOIP. Another example of intensifying competition is the migration by our customers from fixed-line telephones to mobile telephones. These changes may lead to a reduction in earnings, which may adversely affect our company.

In addition, we may also face increased competition due to unbundling regulations. Anatel has established rules for line sharing and full unbundling of local telephone networks that require us to make our networks available to other telecommunications service providers and which limit the rate we can charge for line sharing and full unbundling per line for telecommunications service. To date, operational rules for the implementation of unbundling have not yet been agreed to among Brazilian telecommunications operators. These regulations are recent, and as of December 31, 2007, no unbundled lines had been used by competitors in our region.

Our ability to continue to compete successfully will depend on the success of our marketing, financial and other resources (including our access to capital) in comparison to our competitors and on our ability to anticipate and respond to competitive factors affecting the industry, including the introduction of new services, changes in consumer preferences, changes in regulation, demographic trends, economic conditions, discount pricing strategies by competitors as well as further industry consolidation. There can be no assurance that increased competition in all segments of the Brazilian telecommunications industry will not have a material adverse effect on our market share, margins, results of operations and financial condition. See Item 4. Information on the Company Our Services and Regulation of the Brazilian Telecommunications Industry Obligations of Telecommunications Companies Unbundling of local networks.

We depend on other telecommunications services providers. We may not be able to enter into favorable interconnection and unbundling agreements.

In order to receive or send calls from or to customers of other fixed-line and mobile Brazilian networks and international networks, we must interconnect with the networks of our competitors. The Brazilian General Telecommunications Law requires all telecommunications service providers to interconnect their networks with those of other providers on a non-discriminatory basis. The rates to be paid by one fixed-line network operator to the other for the use of each other s fixed-line network are currently regulated by Anatel.

The current interconnection model is asymmetric, with higher rates in effect for mobile interconnection than fixed-line interconnection. As a result, mobile operators generally retain more than 80% of net revenues from fixed-to-mobile calls, while fixed-line carriers, like us, have very low and, in some cases, negative margins. In light of this imbalance, Anatel established that as of July 2004, interconnection rates for mobile networks (the VU-M) would be freely negotiated. Telecomunications service providers agreed to establish a provisional readjustment and submit the final decision to Anatel s arbitration under the telecommunication sector legislation. The arbitration decision was rendered in September 2007, which settled the readjustment of the VU-M rate to the same percentage established by the service providers in the provisional readjustment. Since the decision did not embody the proposal of the fixed-line carriers (including us) for a new VU-M rate, nor the proposal of the mobile operators, we applied to the council of directors (*Conselho Diretor*) of Anatel for a review of the decision in accordance with the telecommunication legislation. This process is ongoing and a final decision has not been issued.

Simultaneously with this arbitration, GVT, a fixed-line service provider, obtained in October 2007 a provisional decision from a Brazilian court against Anatel and mobile companies that granted to GVT the right to pay the VU-M at a rate approximately 30% cheaper when compared to the rate charged in the market. This decision is an important precedent since it represents a reduction in the VU-M without taking into account the Anatel arbitration process. However, the decision is not final and may be reviewed by superior courts.

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The failure to implement the technology necessary to assess and combat fraud on our network could adversely affect our results of operations.

The fraudulent use of telecommunications networks imposes a significant cost upon service providers, who must bear the cost of services provided to fraudulent users. We suffer loss of revenue as a result of fraudulent use, and also cash costs due to our obligation to reimburse carriers for the cost of services provided to fraudulent users.

In 2001, we created a fraud management department to provide specialized customer service to customers affected by fraud. During fiscal year 2002, several automated procedures were created and placed in various parts of our operations to detect and control possible abnormalities that could represent fraudulent activities. These controls have a preventive function, and work both pro-actively and, should a fraud occur, reactively. In 2003, we implemented controls to capture fraud events automatically, such as a non-billing mechanism for fraud-blocked terminals, a cut-off limit system for service usage, and a webpage to gather any fraud claims from the community. At the end of 2003, we created the IT Revenue Assurance Group, which develops systems to assist the revenue assurance department in combating fraud. During 2004, we installed a fraud management system to detect and prevent fraud. In addition to a system to monitor customers usage based on their traffic behavior, we implemented a system to keep subscribers under close surveillance. The fraud system is based on a signaling network and has an interface to the call-blocking platform in order to limit revenue loss once fraudulent use has been identified.

In 2006, certain fixed-line and mobile telephone service providers created a group to work together to control and reduce fraud cases. There can be no assurance, however, that all operators with which our network is interconnected have appropriate anti-fraud treatment in their networks.

We cannot guarantee that these fraud control measures will continue to be accurate and effective to reach the desired level of fraud control. We continue to deploy and implement the technology necessary to assess the accuracy and effectiveness of our fraud combative procedures. Should we not be able to correctly quantify and combat fraud on our network, our results of operations could be adversely affected.

Developments in the global telecommunications industry and technology are difficult to predict, and a failure by us to respond to such developments may have a material adverse effect on our financial condition and results of operations.

All companies in the global telecommunications industry must adapt to rapid and significant changes in technology that are often difficult to anticipate. While we have been upgrading our network with technologically advanced fiber optic cable with a microwave overlay, it is possible that our network will be challenged by competition from improved or new technologies in the future. Technological changes may adversely affect our competitive position, require substantial new capital expenditures and/or require write-offs of obsolete technology. If we fail to implement technological advances, we may be unable to continue to compete in the global telecommunications industry.

The mobile telephone sector, in particular, requires considerable technological developments, constant capacity, quality and digital technology data transmission speed improvements, shorter development periods of new cycles and changes due to users needs and preferences. New technologies, superior to the ones used by BrT GSM may be developed. Furthermore, in January 2008, Anatel granted to BrT GSM the license to the 3G (Third Generation) mobile operations, which will allow us to adopt technological platforms for more advanced mobile services than those allowed by our current mobile platform. It cannot be assured, however, that we will be successful in implementing these advanced mobile services.

The failure to accomplish Anatel s targets may result in the imposition of sanctions and penalties on our company.

We are required to accomplish targets established by the Federal Government and Anatel. Due to the public nature of the services we render, according to the terms of our concession contract and of applicable regulation, we must cover a specific geographic area and comply with quality targets on the execution of the services that we render. The PGMU and the PGMQ also provide for targets that we must achieve. Potential consequences of our failure to comply with such targets include the imposition of fines and/or other penalties and the termination of our concession contract, which would have a material adverse effect on our business, financial condition and results of operations.

Risks Related to Operations in Brazil

Brazilian political and economic conditions have a direct impact on our business and the market price of the Preferred Shares underlying our ADSs.

Substantially all of our operations and customers are located in Brazil, except for minor services provided overseas. Accordingly, our financial condition and results of operations are substantially dependent on Brazil s economy, which historically has been characterized by frequent and occasionally drastic intervention by the Brazilian government and volatile economic cycles. In the past, the Brazilian government often changed monetary, fiscal, taxation and other policies to influence the course of Brazil s economy. We have no control over and cannot predict what measures or policies the Brazilian government may take in response to the current Brazilian economic situation or how Brazilian governmental intervention and government policies will affect the Brazilian economy and, both directly and indirectly, our operations and revenues.

Our operations, financial condition and the market price of our Preferred Shares and ADSs may be adversely affected by changes in policy involving exchange controls, tax and other matters, as well as factors such as:

- fluctuations in exchange rates;
- base interest rate fluctuations;
- fiscal and taxation legislation changes;
- inflation; and
- other political, diplomatic, social and economic developments within and outside Brazil that affect the country.

While the current federal government s policies and final legal rulings to date have not been adverse to the telecommunications industry, uncertainty over the future economic policies of the Brazilian government may contribute to economic uncertainty in Brazil and to heightened volatility in the Brazilian international securities markets, which may have a material adverse effect on our business and results of operations.

If Brazil experiences substantial inflation in the future, our revenues and the market price of the Preferred Shares and ADSs may be reduced.

Brazil has in the past experienced extremely high rates of inflation, with annual rates of inflation reaching as high as 2,489% in 1993 (according to the Brazilian National Consumer Price Index). Inflation and governmental measures to combat inflation have both in the past had significant negative effects on the Brazilian economy. In 1994 the Brazilian Government introduced the *Real* Plan with the objective of reducing inflation and building a base to sustainable economic growth.

Since the introduction of *Real* Plan, inflation has remained at stable levels, substantially below prior periods. However recent international events like military conflicts and the falling value of the US dollar, have caused and may continue to cause destabilization in international markets. These events may affect the Brazilian economy in the form of fluctuations in the exchange rate between the US dollar and the *Real* Plan, interest rate increases, oil price increases, and, consequently, increases in the rate of inflation.

In 2004, the inflation rate measured by the IPCA was 7.6%, above the established initial target of 5.5%, but within the 2.5 percentage points of tolerance above and below the target. In 2005, the inflation rate was 5.7%, above the established target of 4.5%, but within the 2.5 percentage points of tolerance above and below the target. In 2006, the inflation rate was 3.14%, below the established initial target of 4.5%, and within the 2.5 percentage points of tolerance above and below the target. For 2007 and 2008, the established targets are 3.9% and 4.0%, respectively, with 2.5 percentage points of tolerance. The measured inflation by IPCA in 2007 was 4.5% and through January 31, 2008 the cumulative inflation was 0.5% .

Actions taken to combat inflation and public speculation about possible future actions have also contributed to economic uncertainty in Brazil and to heightened volatility in the Brazilian securities markets. If Brazil experiences substantial inflation in the future, our costs may increase, and our gross profit may be affected to the extent that our rate increases and our net operating revenues do not keep up with the rate of inflation. Additionally, our service debt and the cost of new financial funding may increase. We cannot predict the effect that inflation would have on our financial condition, our capacity, our cash generation, or our operational results.

Devaluation of the real may lead to substantial losses on our liabilities denominated in or indexed to foreign currencies and a reduction in our revenues.

During the last four decades, the Brazilian Central Bank has periodically devalued the Brazilian currency. A significant amount of our financial assets and liabilities are denominated in or indexed to foreign currencies, primarily dollars. As of December 31, 2007, R$731.6 million or 16.7% of our financial indebtedness was exposed to foreign currency risk. When the Brazilian currency is devalued, we incur losses on our liabilities denominated in or indexed to foreign currencies, such as our dollar-denominated long-term debt and foreign currency loans, and experience gains on our monetary assets denominated in or indexed to foreign currencies, as the liabilities and assets are translated into *reais*. If devaluation occurs when the value of such liabilities significantly exceeds the value of such assets, including any financial instruments entered into to protect us from exchange rate variations, we could incur significant losses, even if their value has not chan ged in their original currency. This could adversely affect our ability to meet certain of our payment obligations. A failure to meet certain of our payment obligations could trigger a default in certain financial covenants in our loan and credit facilities, which would have a material adverse effect on our business and results of operations.

We are subject to delays and delinquency on our accounts receivable.

Our business is affected by our customers ability to pay their bills. If the Brazilian economy worsens because of, among other factors:

- a reduction in the level of economic activity;
- increased inflation;
- the devaluation of the *real*; or
- an increase in domestic interest rates;

a greater portion of our customers may not be able to pay their bills, which would increase our bad debts and provisions for doubtful accounts. Strict regulation from Anatel prevents us from implementing certain policies that could have the effect of reducing delinquency, such as service restrictions or limitations on the types of services provided based on a subscriber s credit record. Losses from accounts receivable reached R$348.0 million in 2007, R$384.3 million in 2006, and R$449.3 million in 2005, decreasing in percentage of gross revenues terms, from 3.1% in 2005 to 2.5% in 2006 and 2.2% in 2007. However, if economic conditions worsen in Brazil or if we are unable to implement policies to limit subscriber delinquencies or otherwise select our customers, persistent subscriber delinquencies and bad debt can adversely affect our financial condition. See Item 5. Operating and Financial Review and Prospects Critical Accounting Policies and Estimates Provision for Doubtful Accounts.

Any increase in taxes levied on the telecommunications sector in connection with tax reforms that might occur in the future could affect our financial condition.

Increases in Brazil s already high level of taxation could adversely affect our profitability. Increases in taxes for the telecommunications sector usually result in higher tariffs for our customers. High tariff levels generally result in lower levels of usage of our services and, therefore, lower net sales. Lower net sales result in lower margins because a significant portion of our costs are fixed and thus do not vary substantially based on the level of usage of our network or our services. Although mobile and fixed services are equally taxed, there can be no assurance that the Brazilian government will not increase current tax levels, at state and/or federal levels, and that this will not adversely impact our business.

There are certain measures that were originally contained in a December 2003 tax reform bill that have yet to be adopted by the Federal Senate, relating to, in part: (i) harmonization of ICMS tax rules, which would be governed by a single federal legislation applicable to all states; (ii) equalization of ICMS rates; and (iii) limitations on granting tax incentives. Although these measures may be gradually adopted in 2008, until these measures are ultimately approved, we cannot determine the effect that they may have on our results of operations. Additionally, the Federal Senate has discussed the merger of the ICMS and IPI into a single federal tax assessed upon the commercialization of goods and the rendering of interstate and intermunicipal transportation and communication services. We cannot guarantee that, if the merger of the ICMS and IPI is accomplished, certain tax incentives granted to us in the past will continue to be granted, and cannot determine the effect that a cessation of such tax incentives may have on our financial condition and results of operations. See Item 10. Additional Information Taxation.

Proposed changes in Brazilian labor law may affect our labor relations.

In April 2003, the House of Representatives reopened discussions regarding changes in the Brazilian Labor Law. A further revision of union relations in Brazil is also under discussion in the House of Representatives. Although the progress of these proposed modifications has subsequently slowed as political forces have shown some resistance, we cannot predict the effect of any such modifications on our labor relations, which could have a negative effect on our business.

It may be difficult to effect service of process upon, or to enforce foreign judgments upon, us, our directors and our officers.

We are organized under the laws of Brazil, and all of our directors and officers reside outside the United States. In addition, a substantial portion of our assets, and most or all of the assets of our directors and officers, are located in Brazil. As a result, it may be difficult for an ADS holder to effect service of process within the United States or other jurisdictions outside of Brazil upon us or such persons. In addition, because substantially all of our assets and all of our directors and officers reside outside the United States, any judgment obtained in the United States against us or any of our directors or officers may not be collectible within the United States. There is doubt as to the applicability and enforceability of civil liabilities under the Securities Act or the Exchange Act through lawsuits filed before Brazilian courts.

Risks Related to Our Preferred Shares and ADSs

Our ADS holders may not have the same rights with respect to voting, dividends, distributions, and preemptive rights, among others, as holders of our Preferred Shares.

Our ADS holders may not have the same voting rights as holders of our Preferred Shares. Under our Bylaws and Brazilian Corporate Law, in the limited circumstances where holders of our Preferred Shares are able to vote, an ADS holder will be able to exercise voting rights with respect to the Preferred Shares represented by ADSs only in accordance with the provisions of the deposit agreement with the Depositary relating to the ADSs. There are practical limitations upon the ability of holders of our ADSs to exercise voting rights due to the additional procedural steps involved in communicating with such holders. See Item 7. Major Shareholders and Related Party Transactions Major Shareholders and Item 10. Additional Information Memorandum and Articles of Association Voting Rights.

An ADS holder that is a resident of the United States may not be able to exercise preemptive rights or certain other rights with respect to our Preferred Shares. A holder of our ADSs may not be able to exercise preemptive rights with respect to the ADSs unless a registration statement is effective with respect to those rights or an exemption from the registration requirements of the Securities Act is available. We are not required to file a registration statement relating to preemptive rights with respect to our Preferred Shares, and there can be no assurance that we will file any such registration statement. If a registration statement is not filed and an exemption from registration does not exist, Citibank, N.A., as Depositary, will attempt to sell the preemptive rights, and our ADS holders will be entitled to receive their share of the proceeds of the sale. However, the preemptive rights will expire if the Depositary cannot sell them, and therefore we cannot guarantee that our ADS holders will be able to either exercise their preemptive rights or receive the proceeds from their sale. For a more complete description of preemptive rights with respect to our Preferred Shares, see Item 10. Additional Information Memorandum and Articles of Association.

Pursuant to our deposit agreement with the Depositary, any payments of cash dividends and distributions that we may make will be made in Brazilian currency to the custodian for the Preferred Shares underlying our ADSs, on behalf of the Depositary. The Depositary will then convert such proceeds into US dollars and cause such US dollars to be delivered to the Depositary for distribution to our ADS holders. Holders of ADSs could be adversely affected by devaluations of the Brazilian currency that may occur due to delays in, or a refusal to grant, any required government approval for conversions of Brazilian currency payments and remittances abroad in connection with the Preferred Shares underlying our ADSs. See Item 10. Additional Information Memorandum and Articles of Association Dividends.

We may agree with the Depositary to modify the deposit agreement at any time without the consent of the holders of our ADSs. We will give holders of our ADSs 30 days prior notice of any modifications that would materially prejudice any of their rights under the deposit agreement. After receipt of such notice, our ADS holders will be bound by the modifications to the deposit agreement if such holders continue to hold ADSs after the modifications to the deposit agreement become effective.

Holders of ADSs may have fewer and less well-defined shareholders rights than shareholders of a company organized in the United States.

Our corporate affairs are governed by our Bylaws and Brazilian Corporate Law, which may differ from the legal provisions that would apply if we were incorporated in a jurisdiction in the United States. Restrictions on insider trading and price manipulation, rules and policies against self-dealing and regarding the preservation of shareholder interests may not be as detailed, well-established and enforced in Brazil as in the United States, which may potentially disadvantage the holders of our Preferred Shares and/or ADSs. For example, when compared to Delaware corporate law, Brazilian Corporate Law and practice has less detailed and well-established rules, and fewer judicial precedents relating to the review of management decisions involving duty of care and duty of loyalty standards in the context of corporate restructurings, transactions with related parties and sale-of-business transactions. In addition, shareholders in Brazilian companies must hold at least 5.0% of the outstanding share capital of a corporation in order to have standing to bring shareholders derivative suits. Furthermore, shareholders in Brazilian companies ordinarily do not have standing to bring class action suits.

The relative volatility and illiquidity of the Brazilian securities markets may substantially limit an ADS holder s ability to sell the Preferred Shares underlying the ADSs at the price and time desired.

Brazilian investments, such as investments in our securities, are subject to economic and political risks that may affect the ability of investors to receive payment, in whole or in part, in respect of their investments, including, among others:

- changes in the regulatory, tax, economic and political environment; and
- restrictions on foreign investment and on repatriation of capital invested.

The Brazilian securities markets are substantially smaller, less liquid, more concentrated and more volatile than major U.S. and European securities markets, and are not as highly regulated or supervised as those markets. As a consequence, the ability of our ADS holders to sell the Preferred Shares underlying the ADSs may be substantially limited.

Our ADSs are traded in small volumes, limiting your ability to sell your ADSs that represent Preferred Shares at a desirable price, if at all.

The trading volume of our ADSs has traditionally been very low. Even if the trading volume of our ADSs increases, we can give no assurance that it will be maintained or will result in a desirable stock price. As a result of this low trading volume, it may be difficult to identify buyers to whom you can sell your ADSs and you may be unable to sell your ADSs at an established market price, at a price that is favorable to you, or at all. A low volume market also limits your ability to sell large blocks of our ADSs at a desirable or stable price at any one time. You should be prepared to own our ADSs indefinitely.

Sales of substantial amounts of our ADSs in the public market could harm the market price of our ADSs.

We cannot predict the effect, if any, that future sales of our ADSs in the public market, or the availability of our ADSs for sale in the market, will have on the market price of our ADSs. We, therefore, can give no assurance that sales of substantial amounts of our ADSs in the public market, or the potential for large amounts of sales in the market, whether under any registration statement or otherwise, would not cause the price of our ADSs to decline considerably or impair our future ability to raise capital through sales of our ADSs.

Developments in other countries may affect the Brazilian economy and the market price of our Preferred Shares and our ADSs.

The securities of Brazilian issuers have been influenced by economic and market conditions in other countries, especially other emerging market countries. Since the end of 1997, and in particular during 2001 and 2002, the international financial markets have experienced significant volatility as a result of economic problems in various emerging market countries. Investors subsequently have had a heightened risk perception for investments in such markets. As a result, in some periods, Brazil has experienced a significant outflow of dollars and Brazilian companies have faced higher costs for raising funds, both domestically and abroad and have been impeded from accessing international capital markets. We cannot assure investors that international capital markets will remain open to Brazilian companies, including our company, or that prevailing interest rates in these markets will be advantageous to us or that we will be able to obtain additional financing on acceptable terms or at all. As a consequence, the market value of our securities may be adversely affected by these or other events outside of Brazil. See Item 9. The Offer and Listing Offer and Listing Details. There can be no assurances that future events elsewhere, especially in emerging market countries, will not have an adverse effect on the market value of our Preferred Shares and our ADSs.

Changes in Brazilian tax laws may have an impact on the taxes applicable to the disposition of the ADSs.

According to Law 10,833, enacted on December 29, 2003, capital gains earned by a non-Brazilian resident upon the sale of assets located in Brazil to a Brazilian resident or to another non-Brazilian resident are subject to Brazilian withholding tax. If the sale of assets in Brazil is interpreted to include a sale of our ADSs or Preferred Shares, this provision could result in the imposition of income tax on the gains arising from their disposition by a non-resident of Brazil to another non-resident of Brazil. Considering the general and unclear scope of Law 10,833 and the absence of judicial guidance in respect thereof, we cannot predict the exact scope of Law 10,833 or the effect that Law 10,833 will have on holders of our ADSs or Preferred Shares.

ITEM 4. INFORMATION ON THE COMPANY

Our History and Development

Brasil Telecom S.A. is a corporation organized under the laws of the Federative Republic of Brazil and incorporated on August 4, 1998. We are one of the fixed-line telecommunications companies that resulted from the breakup and privatization of Telebrás by the Brazilian Federal Government in 1998, and are an amalgamation of the operating companies formerly controlled by *Telebrás* and CRT, a company acquired by us from Telefônica S.A. in July 2000.

Our principal executive office is located at SIA/Sul, ASP, Lote D, Bloco B 71215-000 *Setor de Indústria e Abastecimento*, Brasília, DF, Brazil, and our telephone number is (55-61) 3415-1140. Our agent in the United States is CT Corporation System, located at 111 Eighth Avenue, 13th floor, New York, New York 10011.

Historical Background

Prior to the incorporation of Telebrás in 1972, there were more than 900 telecommunications companies operating throughout Brazil. Between 1972 and 1975, Telebrás acquired almost all of the other telephone companies in Brazil and thus came to have a monopoly over the provision of public telecommunications services in almost all areas of the country. Beginning in 1995, the Federal Government undertook a comprehensive reform of Brazil s telecommunications regulatory system. In July 1997, Brazil s National Congress approved the General

Telecommunications Law and the Telecommunications Regulations, which provided for the establishment of a new regulatory framework, the introduction of competition and the privatization of Telebrás.

On January 30, 1998, in preparation for the restructuring and privatization of Telebrás, the cellular telecommunications operations of Telebrás operating subsidiaries were spun off into separate companies. On May 22, 1998, Telebrás was restructured to form, in addition to Telebrás, 12 new holding companies by means of a procedure under Brazilian Corporate Law called *cisão*, or split-up. These new holding companies were allocated virtually all the assets and liabilities of Telebrás, including the shares held by Telebrás in its operating companies. The split-up of Telebrás into 12 new holding companies is referred to herein as the breakup of Telebrás.

These holding companies, together with their respective subsidiaries, consisted of (i) eight cellular service providers, each operating in one of the regions into which Brazil has been divided for purposes of cellular telecommunications services in the frequency range formerly used by each of the former operating companies of Telebrás, (ii) three regional fixed-line service providers, each providing local and intra-state long-distance service in one of the three regions into which Brazil has been divided for purposes of fixed-line telecommunications, and (iii) Embratel, providing domestic (including intraregional and interregional) long-distance telephone service and international telephone service throughout Brazil.

Set forth below are maps of Brazil showing the locations of the fixed-line, long-distance regions and cellular regions into which the country was split-up following the breakup of Telebrás:

Brasil Telecom Participações S.A. (formerly known as Tele Centro Sul Participações S.A.) is our parent company, and is one of the three companies providing local, intraregional, interregional and international long-distance telecommunications services in Brazil. See Item 7 Major Shareholders and Related Party Transactions Major Shareholders. In the breakup of Telebrás, our Parent was allocated all the share capital held by Telebrás in Telesc, Telegoiás, Telebrasília, Telemat, Telems, Teleron, Teleacre, CTMR and Telepar, companies that provided fixed-line telecommunications service in the northern, western, central and southern regions of Brazil. See Business Overview Our Region. In July 1998, the Federal Government sold all of its voting shares in these three companies, including the shares it held in our Parent, to private sector buyers. The sale of all of the Federal Government s voting shares in the companies to private sector buyers is referred to herein as the privatization of Telebrás.

Organizational Structure

The Brasil Telecom Group is composed of companies engaged in the telecommunication sector, with service offerings that include local fixed telephone, domestic and international long distance fixed line telephone services, mobile telephone, data transmission, as well as data center services, internet and real estate management. The main companies within the Brasil Telecom Group include:

- *Fixed Line Telephone Services*: Brasil Telecom S.A.;
- *Telecommunication Network*: Brasil Telecom Cabos Submarinos Ltda., Brasil Telecom Subsea Cable System (Bermuda) Ltd., Brasil Telecom of America Inc. (which we also refer to as BrT GlobeNet), and Brasil Telecom de Venezuela S.A.*;*
- *Data Operations in Brazil*: Brasil Telecom S.A., Brasil Telecom Comunicação Multimídia Ltda. and Vant Telecomunicações S.A.;
- *Mobile Services*: 14 Brasil Telecom Celular S.A.;
- *Internet Services*: BrT Serviços de Internet S.A., Freelance S.A., Internet Group (Cayman) Ltd., Internet Group do Brasil S.A., iG Participações S.A.; and
- *Call Center Services*: Brasil Telecom Call Center S.A.

The following chart sets forth a summary of our organizational structure, including the percentage of total capital held in each of our significant subsidiaries as of January 31, 2007. See Item 7. Major Shareholders and Related Party Transactions for a description of our company s position within our controlling shareholder group.

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ORGANIZATIONAL STRUCTURE
As of February 29, 2008

(1) BrTSi owns one OS (or one lot, in the case of Brasil Telecom Cabos Submarinos Ltda.)
(2) BrTSi holds 10.17% of Brasil Telecom Comunicação Multimídia Ltda.

OS = Ordinary Shares
PS = Preferred Shares

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Business Overview

Our Business

We provide fixed-line telecommunications services in Region II under concessions for each of the states in our region. We are the leading provider of local fixed-line telecommunications services and intraregional long-distance telecommunications services in our region. We also offer broadband services to our customers that allow them to access the internet which represents an important new source of revenue. In addition, we offer interregional and international long-distance telecommunications services, mobile services, and a variety of data transmission services through various technologies and means of access.

Our business, including the services we provide and the rates we charge, is subject to comprehensive regulation by Anatel, an independent regulatory agency, under the General Telecommunications Law and various administrative enactments thereunder. The licenses and concessions under which we operate our fixed-line and mobile services impose upon us certain universalization, expansion, modernization and quality of services targets.

Our Region

Until January 2004, we were authorized by our original concessions to provide fixed-line telecommunications service only in Region II comprised of nine states of Brazil located in the western, central and southern regions of Brazil and in the Federal District, excluding small areas in the States of Goiás, Mato Grosso do Sul and Paraná. We have a unique advantage in this region as we inherited the telecommunications business in this region with the privatization of Telebrás. We are now authorized to provide interregional long-distance services throughout Brazil, international long-distance services from any point in Brazil, local services outside our original concession area and mobile services in our region. Our primary source of revenues continues to come from operations in our region.

The states in Region II cover an area of approximately 2.8 million square kilometers, representing 33% of the country s total area and generating approximately 26% of Brazil s GDP. The estimated population of our region is approximately 42 million, representing approximately 23% of the population of Brazil. Our region has four metropolitan areas each with a population in excess of one million inhabitants, including Brasilia, the capital of Brazil.

Set forth below is a map of Brazil showing the location of our region.

Our Services

Our services are offered under the following business segments:

- *Fixed Telephony and Data Transmission*: This segment is comprised of (i) local services, including all calls that originate and terminate within a single local area in the region, as well as installation, monthly subscription, public telephones and supplemental local services, (ii) intraregional long-distance services which include intrastate (calls between local areas within a state in our region) and interstate (calls between states in our region), (iii) interregional and international long-distance services, (iv) network services, including interconnection and leasing, (v) data transmission services and (vi) other services.

- *Mobile Telephony*: This segment is comprised solely of our mobile services.

- *Internet Services*: This segment is comprised solely of our internet services.

The following table sets forth our revenue by type of service for the indicated years:

	Year ended December 31,		
	2005	**2006**	**2007**
		(millions of *reais*)	
Fixed Telephony and Data Transmission			
Local services	7,724	7,470	7,112
Intraregional (Intrastate and Interstate) long-distance service	2,626	2,464	2,662
Interregional and International long-distance service	364	306	285
Network services	941	771	716
Data transmission	1,531	2,001	2,415
Other Services	768	777	887
Mobile	732	1,323	1,919
Gross operating revenues	14,687	15,111	15,997
Taxes and discounts	(4,548)	(4,814)	(4,938)
Net operating revenues	10,139	10,297	11,059

Our Fixed Telephony and Data Transmission Services

Local Services

As of December 31, 2007, we had approximately 8,034 million lines in service. We own and operate public telephones throughout our region. At December 31, 2007, we had approximately 281,800 public telephones and a ratio of public telephones per 100 inhabitants equal to 18.2, which meets Anatel s service targets. We also provide a variety of other supplemental local services that include voice mail, call waiting, call forwarding, conferencing, speed dialing and caller ID. We have also been authorized to provide local fixed telecommunications services outside the states of our region.

Our local services also include fixed-to-mobile services, consisting of calls that originate on a fixed-line telephone and terminate on a mobile or cellular device. The fixed-to-mobile basic tariff per-minute are generally known as Communication Value-1, or VC-1.

Competition

We are the leading local fixed-line telecommunications services provider in our region, with an estimated 89% market share, based on statistical estimates using volume of outgoing and incoming local calls of our competitors that interconnect through our network. To date, over 70 companies have been granted permission by Anatel to provide local fixed-line services in our region. Our fixed-line services are also subject to competition from mobile service providers. GVT, an independent service provider, is our main competitor in providing local fixed-line telecommunications services in our region. Since its entry into the market in 2000, we have been able to maintain our market share in our region due to our extensive network and competitive features, prices and services.

In March of 2006, a new player entered the fixed-line market, NET Serviços. It is a company that provides cable TV, broadband based on cable modems and telephone service. Historically, they have offered their products as a bundle which allows them to charge a very competitive price.

Local Rates

Our revenue from local services consists principally of fees charged for service access, change of address, service availability and usage. See Regulation of the Brazilian Telecommunications Industry Fixed-line Telecommunications Services Rates for additional information about local rates.

An activation fee is charged for service access and consists solely of a one-time charge assessed when a terminal is activated. Since the last rate adjustment on July 20, 2007, we have been charging an activation fee for a new line, net of taxes, between R$6.98 and R$48.60 (depending on the state). In 2006, Anatel determined that the fee for an address change should be the same as the activation fee for a new line.

The monthly subscription charge is the amount paid for fixed switched telephone service availability, regardless of utilization. There are three types of monthly subscription charges, depending on the category of the terminal, which can be residential, non-residential or trunk.

Since July 20, 2007, average monthly subscription charges (net of taxes) have been R$27.86 for residential customers, R$41.23 for non-residential customers and R$40.85 for trunk customers.

Users of local services are also charged for local calls depending on usage, which, until July 2007, was measured in pulses. All calls are now charged by their duration in minutes, rather than by the number of pulses. The payment of this charge now includes 200 free minutes for residential clients and 150 free minutes for non-residential and trunk clients. We expect that our receipts may be affected by this change in methodology due to possible changes of tariff plans by our customers.

Intraregional (intrastate and interstate) long-distance services

Calls from one local area in a region to another local area in the same region are referred to as intraregional long-distance calls. Intraregional long-distance service includes intrastate long-distance calls (calls within a given state in a region) and interstate long-distance calls (calls between states in a region). Pursuant to Anatel regulations, callers are able to choose a service provider for each long distance call by selecting a carrier selection code that identifies the carrier. Until July 6, 2003, this was demanded only for calls made from fixed-line phones. Since that date, mobile callers have also to choose a DLD carrier they prefer to complete their calls by selecting a carrier selection code, which allows DLD carriers, including us, to compete in the mobile long distance market. Our carrier selection code is 14.

Our intraregional services also include fixed-to-mobile services, consisting of calls that originate in a fixed-line telephone and terminate on a mobile or cellular device. The fixed-to-mobile rate per-minute charges are generally Communication Value 2, or VC-2, for calls outside the cellular subscriber s registration area but inside the region where the respective cellular provider provides service, and Communication Value 3, or VC-3, for calls outside the subscriber s registration area and outside the region where the respective cellular provider provides service. The use of our fixed-to-mobile services has increased significantly in the past five years as the penetration rate of mobile phones in our region has increased. We are the leading operator in the inter-city fixed-to-mobile services segment in our region and reached, in December 2007, a market share of 87% and 69% for interregional calls in VC-2 and VC-3 areas, respectively.

Competition

We remain the leading provider of intrastate fixed-line telecommunications services in our region with a 90% intrastate average market share and an estimated 85% interstate average market share in 2007, based on the volume of outgoing long-distance calls that select us to carry such calls by inputting our carrier selection code. To date, over 66 companies have been granted licenses by Anatel to provide long distance telecommunications services throughout our region, although we do not expect most of these companies to gain meaningful market share. As our carrier selection code 14 was widely used for calls originating from fixed telephones, we quickly gained a significant share of the long-distance calls originating from mobile phones. Embratel is our most significant competitor in providing intraregional long-distance telecommunications services in our region with approximately 9.6% of the total market share in 2007. The remaining market share is divided among GVT, Intelig and other operators.

Domestic Long Distance Rates

For domestic long distance, or DLD, calls between fixed-line telephones are measured by the duration of the call and registered in the telephone bill call by call. The value per minute is defined by the distance involved (rate degrees from one to four), the day of the week and the time of the call. The measurement is based on a rate unit of one tenth of a minute (six seconds) and the minimum billable time is thirty seconds. See Regulation of the Brazilian Telecommunications Industry Fixed-line Telecommunications Services Rates for additional information about domestic long distance rates.

Interregional and International Services

On January 19, 2004, Anatel certified our compliance with our universalization targets and we began offering interregional long-distance and international long-distance services. Interregional long-distance services consist of calls between regions within Brazil. International long-distance services consist of calls between different regions within Brazil and a location outside of Brazil. In order to provide these services, we have entered into interconnection agreements with Telemar and Telesp and we will also make use of the cable network we acquired through the Grupo BrT Cabos Submarinos acquisition (linking Brazil with the United States, Bermuda and Venezuela) and through the Brasil Telecom Comunicação Multimidia acquisition (providing network facilities in São Paulo, Rio de Janeiro and Belo Horizonte).

Competition

Due to our unique position in Region II, combined with competitive marketing and promotional pricing, as of December 31, 2007, we had a 64.0% interregional market share and 38.6% international market share for calls originated in Region II, which represented an increase of approximately 1.1% and 2.0%, respectively, from the prior year. While numerous other companies have been authorized by Anatel to provide interregional and international long distance telecommunications services in our region, we compete primarily against Embratel, which, as of December 31, 2007, had approximately 29% of the interregional market share, representing a loss of 0.4% in these services from the prior year. Embratel also controls approximately 49% of the international long-distance service market share in Region II. We expect our market share to increase as clients are no longer concerned about selecting a carrier based on where the call ends.

Interregional and International Rates

See Regulation of the Brazilian Telecommunications Industry Fixed-line Telecommunications Services Rates for additional information about interregional and international rates.

Network Services

Our network services consist of interconnection and lease of facilities.

Interconnection Services

Interconnection services consist of the use of our network by other telecommunications providers in order to:

- receive calls that originate on our network;
- complete calls that terminate on our network; and

• connect switching stations to our network.

We provide interconnection services to long-distance providers, such as Embratel, Intelig, Global Village Telecom (GVT), small private regime operators referred to as mirror companies, and certain operators of trunking services. We also provide interconnection services to the cellular service providers that were spun off from each of Telepar, Telesc, Telegoiás, Telebrasília, Telemat, Telems, Teleron, Teleacre and CTMR as well as all Band B, Band D and Band E cellular service providers in our region.

Lease of Facilities

Other telecommunications service providers, particularly cellular service providers, lease trunk lines from our company for use within their own network, which are used for bulk transmission of voice and data messages. Large corporate customers lease lines from our company for use in private networks connecting different corporate sites. We also lease our telecommunications facilities to Embratel and Intelig in order to provide access to our network.

Network Services Rates

Network servces rates, which represent a large part of our interconnection revenue, arise from:

- DLD calls originating and terminating at our network, executed with the use of the selection code of other providers;

- calls terminating at our network, originating from networks of mobile carriers; and

- local fixed-to-fixed type calls made between two local telephone carriers at the same location. In this case, network usage rates apply to the volume of traffic received above 55.0% of the total volume of minutes between the two networks. The revenue is calculated on the amount exceeding this limit. Anatel intends to change the interconnection revenue to consider the total volume of minutes between the two networks, but this change of criteria is subject to further regulation.

Our revenue from network services also includes payments from other operators based on specific agreements to share our network and other infrastructure. Other telecommunications service providers, such as providers of trunking and paging services, may use our network to connect a central switching station to our network. Some mobile service providers use our network to connect mobile central switching stations to the mobile radio base stations. We also lease transmission lines, certain infrastructure and other equipment to other providers of telecommunications services.

Data Transmission Services

We provide a variety of data transmission services through various technologies and means of access. Since 1999, we have invested in data transmission capacity in response to the growing demand in Brazil for data, images and text transmission services, mainly for corporate networks and corporate and residential Internet access.

The primary data product that we offer for mainly residential customers is Turbo, our broadband access service based on ADSL technology. During 2007, our strategy was to increase the margins on this product, offering to our subscriber base of 1.6 million customers higher speeds and value added services, like Turbo Jogos, an access designed for gamers. For new customers we created a strategy based on different offers according to the competition level of each city. In 2007 we also reached more than 1,565 cities with our broadband offering, reducing our dependence on sales in the bigger cities, in which we face greater competition.

ADSL2+ is a DSL format, a data communications technology which allows much faster data transmission through telephone lines than conventional ADSL. ADSL2+ is the fourth generation ADSL. This standard expands the basic ADSL capacity, in which data transference may reach speeds of up to 24 Mbps in downstream and 1 Mbps in upstream. With all these new functionalities, ADSL2+ is far more robust for the offer of services which require greater data transmission rates. Therefore, ADSL2+ lines will only be used for the Turbo 2.0 service and the IPTV. Approximately 40% of our network is prepared to offer ADSL2+.

In October 2006 we launched a first phase of IPTV service, in Brasília, for a small base of customers, in order to make a commercial launch of a VoD service for our broadband clients in Brasília in 2007. We intend to continue to invest in our broadband business focusing on the growth of average revenue per user, and the expansion of our network in order to better serve the expected increase in demand for this type of service, particularly in the Internet access market. To complete our residential offering we also launched, in the first quarter of 2007, a flat-fee dial-up service, called Internet Toda Hora (Internet all the time). With this product we expect to foster a culture of flat fee Internet access in customers not yet prepared for broadband access, which should facilitate future upgrades.

Another important source of innovation is the search for alternative solutions to broadband access for locations that are hard or costly to reach using conventional lines. Accordingly, we are conducting a pre-commercial trial of Wi-Max technology, a wireless digital communications system that creates a wireless metropolitan community, in the cities of Curitiba and Porto Alegre.

Additionally, we have partnered with Sky to sell bundles of telecommunications and television services. In order to enhance our portfolio with mobile internet access, in December 2007, we launched new offers for customers who use notebook computers. These offers include four options for packages, including fixed telephony products, mobile, broadband access and long distance service. In addition to ADSL, we offer various data transmission services that are designed specifically for corporate and government customers. Since October 2004, in order to deliver services that fulfill the needs of our customers applications, our data transmission services portfolio was reformulated into four product families: our *Point-to-Point Family*, designed for corporate customers that need point-to-point dedicated services, with high security, protocol transparency and national or international coverage; our *Network Infrastructure Family*, designed for corporate customers that need security, performance and flexibility for image, data and voice transmission through corporate networks; our *Internet Access Family*, designed for corporate customers that need a high performance and high quality connection to the Internet; and our *Advanced Services Family*, which is comprised of value-added technologies and services to complement our data transmission services portfolio.

Competition

Over the past few years, the data communications sector of the telecommunications industry has shown the highest annual growth rates and has accordingly attracted many participants. We believe that within data transmission services, the broadband market will grow substantially over the next few years as broadband, and, in particular ADSL, can offer users a single access point through which they can obtain voice, data and image services.

We have increased our market share in the data communications market primarily through the development of our ADSL service that has grown substantially in the last year, giving us the highest penetration rate of ADSL access per fixed-line in service among Brazilian carriers. We are the leading provider of broadband ADSL access in Region II with 1.6 million ADSL accesses in 2007. Our leading position in ADSL is based upon our market share of the local service market as ADSL accesses are provided through the local telephone lines in our region. GVT also provides ADSL service in our region, and we also face competition from cable TV operators who provide broadband access through cable modems. In 2007 we faced competition from cable providers providing telephone or quasi-telephone services which compete with the telephone services we offer, however the penetration of cable television in our region is still limited.

In the dial-up market, our market share is approximately 66.4% in our region, based upon our monthly weighted average share of the total volume and duration of dial up calls in 2007 that are made using our network which we can identify as calls made to dial up service providers. We compete in the dial up Internet market primarily with GVT.

Data Transmission Rates

Tariffs and prices for value-added services, such as data transmission services, are not subject to regulation and can be defined on a competitive basis. Such services are offered as pay-per-use or volume-based packages. Most of our data transmission revenues are obtained from monthly fees charged for private leased circuits. These revenues consist mainly of charges for access to networks and usage related to the amount of data transmitted.

Other Services

In addition to the services described above, we provide telecommunications services beyond local, long distance, network and data transmission services including value-added services (such as 1-900 calling, call forwarding, voice mail, caller ID, call waiting, directory inquiry voice service) and advertising on public telephone cards. In accordance with our concessions, we are prohibited from providing cable television services, but we may lease our network to providers of such services.

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Our Mobile Services

In 2004, we launched our mobile operations. Region II has the highest mobile penetration rate by external competitive service providers in the country. The following table shows the percentage of mobile clients in the population of each Brazilian Region:

Penetration	September 2004	December 2007	Percent Change Over Period
Region I	26.6%	57.5%	30.9%
Region II	40.2%	71.6%	31.4%
Region III	38.7%	70.0%	31.4%

Source: *Anatel*

We are the fourth largest service provider in Region II with respect to mobile market share after only three years of operations.

Mobile telephony operations reached 4,262,700 users, an increase of 885,900 users in 2007. Our client base grew by 26.2% during 2007, while the Brazilian market increased by 21.1% over the same period. The following table includes some indicators of our mobile services:

	As of December 31,	
	2006	2007
Clients (in thousands)	3,376.8	4,262.7
Post-Paid	993.8	855.8
Pre-Paid	2,383.0	3,406.9
Market Share	12.1%	13.2%
Served Localities	819	873
% of Population Covered	87%	87%

We are a member of the Fixed Mobile Convergence Alliance, or FMCA, a 32 member association with the principal goal of offering integrated products and technologies to clients from all members.

Third-generation personal mobile services (3G)

In 2007, we won an auction organized by Anatel for the licenses to offer Personal Mobile Service (SMP) concurrently with radiofrequency licenses. These licenses authorize us to operate in subbands that will allow us to offer third generation mobile services network (3G) products in our service areas. We paid R$488,235 for these licenses, which are effective for a period of fifteen years and may be renewed for an additional fifteen year period. Pursuant to Anatel s regulations, we expect to execute a Radiofrequency Use License Agreement in February 2008. This new license and our existing SMP licenses will be unified within eighteen months of publication of the extract of the Radiofrequency Use License Agreement in the Federal Official Gazette, and the distinction among the radiofrequency bands will be maintained according to their respective original agreements and their effective periods.

The deployment of the new 3G network will allow us to offer our SMP customers data communication services at speeds higher than those made available by our current 2.5G network as well as mobile voice services. Additionally, the 3G network will complement the 2.5G network, allowing us to extend and update our existing mobile network coverage to meet our growing customer base.

Products and Service Plans

Through Brasil Telecom GSM, we offer three types of plans: post-paid, pre-paid and control (a plan under which clients establish a pre-determined monthly rate and buy pre-paid credits if they wish to make extra calls).

In 2006, there was a change in the interconnection regime from traffic unbalancing (where operators only paid the interconnection tariff for other mobile operators when the local traffic exceeded 55% of the total traffic) to full bill (where the tariff is paid for all the outgoing local traffic), which directly affected the profitability of companies and created a new dynamic for the business model of the operators. As a response, Brasil Telecom Mobile significantly changed its pricing and has eliminated or modified less profitable plans to create a new family of plans.

Plans suited to new market conditions

Since mid-2006, when legislation governing mobile telephone services was amended by Anatel to establish a full-bill regime based on traffic among mobile operators measured in minutes instead of pulses, we have readjusted our portfolio of plans offered to post-paid and pre-paid clients in order to preserve the profitability of our mobile operations.

In the post-paid segment, light and your company plans were created, available only for on-net mobile traffic and fixed-line numbers. A mechanism was also created that allows our clients to make free calls to users on other networks, as long as these clients also receive calls from users on such other networks. Thus, if a client receives 100 minutes in calls from users on a competing network, the following month he/she may claim up to 100 minutes in calls to users on such other networks, free of charge.

In the pre-paid segment, we continue to encourage incoming traffic; however, rewards correspond to calls to fixed line numbers or to on-net traffic, improving profitability as a result.

Intelligent Use of Network Idleness

In 2007, to take advantage of network capacity during periods of low usage, such as nights and weekends, we began offering promotions that grant free calls outside peak hours, increasing the appeal of both our pre-paid and post-paid products, and leading to an increase in our clients consumption habits. The Talk for free at night, Talk for free on public phones and Talk for free on Sundays plans resulted in a substantial increase in sales in 2007 as compared to the previous year.

Competition

We are the largest integrated telecommunications carrier in Region II, our area of operation. In 2007, our convergent and innovative products and our one-stop-shop flagship store point of sales program helped both our mobile and fixed operations. As of December 31, 2007, Brasil Telecom GSM had a 13.2% market-share in Region II, an increase of 9.1% from the prior year, with 20% of the clients in the post-paid category. The 2007 blended average revenue per user was R$34.2 resulting from a post-paid average revenue per user of R$52.6 and a pre-paid average revenue per user of R$28.5. These values reflect certain promotion discounts.

In Region II, our main competitors in mobile services are Claro, Vivo, and TIM. Despite having been the fourth telecommunications company to start operations, we are already the third largest provider of mobile services by market share in five states (Mato Grosso, Goiás, Rondônia, Acre, and Tocantins) and in the Federal District.

Mobile Rates

Our authorization establishes a price-cap mechanism of annual rate adjustment based on the IGP-DI price index for basic and alternative plans. These Basic and Reference Plans are required by Anatel, and have to be offered by all operators.

The Basic Plan follows a post-paid system, whereby clients pay a monthly charge for the availability of mobile services, regardless of utilization. In addition to this charge, subscribers are charged for the utilization of voice and data services. The Reference Plan follows a pre-paid system, whereby our clients purchase credits in advance for the availability of mobile services.

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The following table sets forth selected information about the average charges for our Basic Plan in 2007:

	Year ended December 31, 2007
Average rates for the Basic Plan[1] :	*(reais)*
Activation	0.00
Monthly Subscription	27.74
Local calls to fixed-line numbers (per minute)	0.4138
Local calls to Brasil Telecom GSM (per minute normal rate)	0.4138
Local calls to other mobile operators (per minute normal rate)	0.4507

(1) Average rates, net of taxes.

Mobile telecommunications services in Brazil are offered on a calling party pays basis. Mobile subscribers pay for calls made, at a per-minute rate, and not for calls received. In addition, a subscriber pays roaming charges on calls made or received outside his or her registration area. The mobile rates are divided into categories: Communication Value 1, or VC-1, for local calls; VC-2, for calls outside the subscriber s registration area but inside the region where the respective operator provides service; and VC-3, for calls outside the subscriber s registration area and outside the region where the respective operator provides service.

Fixed-Mobile Rates

We charge our fixed to mobile calls based on per-minute charges, on either VC-1, VC-2, or VC-3 rates, when a fixed-line service customer calls a mobile subscriber. In turn, we pay the cellular service provider a mobile network usage charge (VU-M) for such calls. For local calls, the VC-1 is applied, and for national long-distance calls, the VC-2 and VC-3 rates are applied. Local calls where VC-1 is applied are included in our local services revenues, while intraregional calls where VC-2 or VC-3 is applied are included in our intraregional and long distance service revenues.

Like the local and DLD rates, fixed-mobile rates are set in concession contracts and are adjusted annually based on the IST. VU-M rates are also adjusted and are used to determine the amount that fixed-line carriers have to pay for fixed to mobile calls, whether in local range (VC-1) or in national long-distance range (VC-2 and VC-3). On July 20, 2007, VC-1, VC-2 and VC-3 were adjusted by 3.29% and the VU-M was adjusted by 2.25% .

Our Internet Services

Through BrTurbo, the major broadband access provider in Region II, iBest, the largest free dial-up Internet service provider in Region II, and iG, the first dial-up access provider and one of the largest content providers with a broadband presence outside Region II, we compete in all territories in Brazil across all Internet segments. By late October 2005, we initiated the operational integration process of the three companies under the Internet Group brand name. The consolidated operation will allow us to increase traffic and paid services revenues, benefit from operational synergies and offer a broader portfolio of products and services.

We plan to use our Internet business to extend our footprint in the Brazilian market through the creation of an important customer relationship channel with the audience of our portals. The Internet Group will be our main distribution vehicle for entertainment, communication, information, services and access in the market. Currently, the iG brand is being re-positioned to promote increased traffic by empowering the Internet user. Since its acquisition, iG has launched several collaborative tools like blogs, chat, photo album, video player and online dating service, and has developed new channels that promote the creation and distribution of content created by the user. The portal also formed new partnerships in several areas such as entertainment, news, sports and education. iG was also able to enter an important agreement to bring the Internet game Second Life to Brazil. Furthermore, aligned with its commitment of operational excellence, iG established with Google an important partnership that allows iG to offer e-mail services using Gmail s platform and use Google s search engine throughout the portal.

Together our portals comprise a base of 4.0 million dial-up users, 1.4 million broadband customers, 0.7 million value-added services customers, 7.8 million registered e-mail accounts and 11.2 million unique visitors to our portal, which makes us the largest dial-up service provider in Latin America and the second largest Brazilian broadband ISP.

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Competition

The Internet Group faces different competitors in all its main business lines. As a portal, it competes not only with other Brazilian Internet service providers such as Terra, UOL and Globo.com, but also with international based players such as Google, MSN and Yahoo! In the broadband access market, our main competitors are other large Brazilian Internet service providers such as Terra, UOL, Virtua, Oi Internet and Globo.com as well as smaller local area ISPs. In Region II, our main dial-up competitors are Click 21 and Pop, which are controlled by Embratel and GVT, respectively.

Seasonality

Our main activity, which is to provide fixed-line and wireless telecommunications services, is generally not affected by seasonal variations.

Taxes on Telecommunications Services

In 2007, we paid taxes on telecommunications services in the amount of approximately 27.2% of our annual operating revenues. The cost of providing telecommunications services include a variety of taxes and duties, including the following:

State taxes

The principal tax imposed on telecommunications services is a state-level value-added tax, the ICMS. Each Brazilian state imposes its own tax rate on gross revenues from providing telecommunications services, which varies from state to state and averages 25%.

Federal Taxes

The telecommunications tax burden also includes four other federal taxes, the PIS and COFINS, which are two social contribution taxes based on our gross revenues, and the FUST and the FUNTTEL, which are two telecommunication taxes based on our gross operating revenues from the provision of telecommunications services, net of certain deductions.

PIS is applied at a 0.65% rate and COFINS is applied at a 3.0% rate for telecommunications services. Since December 2002, we have been subject to a 1.65% PIS rate for services other than telecommunications services and may be entitled to PIS credits calculated on our costs and expenses to offset the PIS due on those services. Since February 2004, we have been subject to a 7.6% COFINS rate for services other than telecommunications services and may be entitled to COFINS credits calculated on our costs and expenses to offset the COFINS due on those services. The FUST and FUNTTEL are imposed on certain telecommunications services at the rates of 1.0% and 0.5%, respectively.

On January 1, 2007, we were charged a Public Price for the Right of Exploration of Telecommunication Services tax, or PPDEST. The PPDEST is a new tax instituted by the Anatel Resolution no. 386 dated November 3, 2004 and it is a fixed value that must be paid by us at the moment of the issuance by Anatel of the Act that authorizes the exploration of the telecommunication services. See Item 10. Additional Information Taxation Brazilian Tax Considerations Other Brazilian Taxes.

Billing and Collection

We send each customer of local services, long-distance services and other services a monthly bill covering all the services provided during the prior period. We group our customers into six different monthly cycles with six different payment dates. The telephone bill itemizes long-distance calls, calls made to cellular telecommunications networks, 300, 500 and 800 services and other services such as call waiting, voice mail and call forwarding.

For interregional and international long-distance services, customers either receive separate monthly bills from each company they use for long-distance calls or a combined bill issued by us. Customers make payments by direct payment to a bank or an alternative agent, or by allowing their checking account to be debited.

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Pursuant to Brazilian law, subscribers must receive a bill at least five days before the due date. When a payment is not made by the due date, we must send the customer, 15 days after the due date, a notice informing the customer of the right to contest the debt and if payment is not made within 30 days after the due date, all outgoing service will be suspended, and the customer will only be able to receive incoming calls. If payment is not made within 45 days after the due date, we send another notice informing the customer that if payment is not made within 60 days after the due date, all services will be suspended, the contract will be cancelled and the customer s failure to pay will be reported to a credit protection agency.

The following table sets forth information about our accounts receivable for the year ended on December 31, 2007. For the discussion of provisions for past due accounts, see Item 5. Operating and Financial Review and Prospects Operating Results.

		At December 31, 2007
Due		65.6%
Past due	01 to 30 days	15.2%
Past due	31 to 60 days	4.9%
Past due	61 to 90 days	3.4%
Past due	91 to 120 days	2.4%
Past due	More than 120 days	8.5%

Network and Facilities

Our network is comprised of a physical and logical infrastructure through which we provide fully integrated services, whether fixed-line or mobile, voice, data or image, thereby optimizing available resources. Since 2005, we have been implementing significant modifications and improvements in our network infrastructure in order to provide a more efficient service to our customers. In 2007, we took various steps to expand our voice, data and image networks, including:

- Soft launch of an IPTV in Brasilia, DF;
- Offering our convergent (fixed-mobile) Único phone that has WiFi, Bluetooth and GSM technologies;
- Next Generation Network architecture to the mobile network;
- Deployment of ADSL 2+; and
- Brasil Mail.

We consolidated our call center structure by merging our 30 pre-existing sites into five sites (Goiânia, Campo Grande, Florianópolis, Brasília and Curitiba). We improved our customer relationship management system which integrates our systems and provides a database of information for each customer in order to provide better service and identify sales opportunities during each contact we have with our customers. We also continued to implement our DSLAMs/Ethernet network, to be better prepared to support ADSL 2+ technologies that allow us to offer higher speed services. To accommodate the continuous demand for high speed services, we are deploying a new Metro-Ethernet access network, as well as FTTx networks based on GPON technology together with VDSL2 for FTTB. Also, we initiated a soft launch of our wireless broadband access through Wimax technology. Finally, we implemented an address control and name resolution system for our IP networks with the objective of optimizing resources and improving the availability of Internet access services.

As noted above, a major step in the development of our mobile network was the acquisition of a 3G frequency license in a national auction promoted by Anatel that will allow us to offer third generation mobile services network (3G) products in our service areas. We are currently in the process of transitioning our voice and data networks to a more consolidated structure to provide better efficiencies across our service and product platforms. This transition is designed to unify our offerings of media forms (voice, data and images) over a unique transport structure based on IP, including media transmitted through fixed access points and mobile access points in an integrated environment unifying the Telecom and IT worlds. In addition, this structure allows us to develop and implement all of our services in an open market pattern utilizing a wide variety of suppliers, eliminating the need for different networks to be serviced by different servicers and allowing network applications to be shared in order to promote optimization of our network usage.

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We will implement several new technologies in the near future, including IP Multimedia Subsystem, Services Delivery Platforms, and Services Oriented Architecture.

Voice Network

As of December 31, 2007, our voice network plant consisted of approximately 10.4 million installed lines, of which 8,034 million were in service. Of the lines in service at that time, approximately 73% were residential lines, 22.8% were commercial lines, 3.5% were public telephone lines and 0.7% were other service lines. Long-distance transmission is provided by a fiber-optic cable network and by microwave links.

The following table sets forth combined information about our voice network for the periods indicated.

	At the year ended December 31,	
	2006	**2007**
Installed lines (millions)	10.4	10.8
Lines in service (millions)	8.4	8.0
Average lines in service for year ended (millions)	8.5	8.0
Lines in service per 100 inhabitants	19.4	18.2
Percentage of installed lines connected to digital exchanges	100.0%	100.0%
Number of public telephones (thousands)	277.9	281.8

Data Network

As of December 31, 2007, we had 1,932,000 ADSL installed ports and 1,567.8 accesses in service, and in excess of 1 million customers, an increase of 19.0%, or 250,000 new ADSL accesses added, when compared to the previous year. During 2007, we increased the number of cities where we have ADSL ports from 1,475 to 1,565. The following table sets forth combined information about out data network for the periods indicated.

	Year ended December 31,		
	2006	**2007**	**% Change**
ADSL			
Installed Ports	1,561,732	1,932,000	23.7
Accesses in Service	1,317,425	1,567,763	19.0

ATM, Frame Relay, and Deterministic network expanded by 14.56% in 2007 compared to 2006. As of December 31, 2007, we had installed 78,817 ATM, Frame Relay or Dedicated IP ports. The DialNet service increased from 196,314 ports installed at the end of 2006, to 202,020 ports installed at the end of 2007, representing a increase of 2.9% . The following table sets forth combined information about our ATM, Frame Relay and Dedicated IP networks for the periods indicated.

Year ended December 31,

	2006	2007	% Change
DialNet	196,314	202,020	2.9
ATM / Frame Relay / Deterministic Network	68,799	78,817	14.56

The following table sets forth certain information about our active customers in the several data communications networks.

	Aggregate value as of December 31, 2007		
	Total number of ports	**Total ports in service**	**Utilization rate (%)**
RAS (DialNet)	202,020	191,994	95.03
ATM/Frame Relay (Cisco Network)	15,400	12,479	81.03
SLDD, EILD and Frame Relay (Deterministic Network)	63,417	50,042	78.90

Mobile Network

During the second quarter of 2004, we launched our mobile network with the challenge of implementing an extensive mobile network from the state of Acre to the state of Rio Grande do Sul, using the most advanced mobile technology available worldwide while simultaneously integrating the network into one of the largest wireline networks of Brazil.

Our mobile network is a GPRS based network. We offer GPRS/EDGE technology for data and 1,800/900 MHz for voice. We have GPRS coverage in 100% of the localities covered and EDGE in all capitals (10 cities) from cover area states. The network has a unique data core that is fully integrated with the fixed-line data network of our company. Our network access is distributed through 830 localities covered by 2,642 Radio Base Stations.

In 2007, we implemented 236 new wireless facilities, covering 87% of the population in Region II. In addition, we have made infrastructure investments in many locations in order to improve signal quality and provide coverage to indoor locations, such as shopping malls, stadiums and other public locations. Our infrastructure investments totaled R$278.8 million in 2007, which includes the cost of network implementation, IT equipment and platforms and installation of stores.

Customer Service

We provide customer service to our clients through our call centers and stores. In addition, our website and certain customer service spots, such as lottery stores, which receive payment of invoices, and post offices, which offer terminal activation and repair request services, are also available for customer service.

In 2007, we kept our strategic focus as a service providing company, and took important steps towards turning the relationship with our clients into a competitive advantage, preparing for the growing challenges that will come in 2008 and 2009, increased competition in all market segments and regulatory changes.

The most important step was taken in December 2007, with the internalization of service operations and the incorporation of our subsidiary call center, demonstrating our continuing search for excellence in customer service. We invested approximately R$50.0 million in infrastructure and customer service technologies, the highlight of which was the conclusion of the Goiânia call center, in the state of Goiânia, one of the most modern in Brazil, with 14 thousand square meters and an installed capacity of 2,100 customer service positions. Besides Goiânia, we also have call centers set up in the cities of Florianópolis (Santa Catarina), Campo Grande (Mato Grosso do Sul) and Curitiba (Paraná), with a total capacity of 5,400 customer service positions.

Other customer service initiatives were the creation of the National Center for Traffic Planning and Monitoring, responsible for the centralized support and control of customer service operations, as well as the investment in practices for the development and qualification of our customer service staff through our e-learning solution, which has been acknowledged by Prêmio e-learning Brasil 2007/2008 as a national benchmark.

Sales Channels and Marketing

We believe the structure of our sales channels is one of our main competitive advantages in the consumer market segment. We combine a significant physical presence with a highly trained customer service staff to provide high quality customer service throughout the areas we serve. Our staff undergoes frequent training and the quality of our sales force is periodically evaluated by quarterly surveys, such as mystery shoppers, carried out by researchers that play the role of the customer to evaluate the quality of the sales process. Sales automation processes are also in place, focused on competition information, sales share results and customer satisfaction.

Our sales channels are divided into direct and indirect channels. Our direct channels include sales through telephone marketing, owned stores and stands, and internet sales. Telesales account for nearly 75% of fixed-line sales, 65% of broadband internet services sales and 40% of total postpaid mobile accesses to the consumer market, using more than 1,100 sales representatives to answer more than 500,000 calls a month. This channel provides us with the ability to pro-actively reach new customers, thereby increasing our client base and revenues, and also receive calls prompted by offers in numerous types of media.

Our owned network of stores and stands have more than 60 points-of-sale in the largest shopping malls and other high density areas throughout the regions in which we operate. Their sales are focused on higher value-added products and services (fixed, mobile and broadband internet access), representing nearly 10% of sales of mobile access. The internet channel offers broadband internet and mobile access.

Our indirect channels include sales through specialized dealers and major retailers. Our specialized dealers include 120 companies with 600 sellers trained to sell door-to-door products such as fixed-line and broadband services, in places where customers generally are not reachable by telemarketing. In fixed telephony, our specialized dealers account for, on average, 25% of our sales of fixed-line and broadband internet services. In mobile telephony our specialized dealers have more than 700 shops, with presence in all the capital cities and in the main cities in which we operate, and account for 36% of sales of mobile access.

Our retailers have more than 2,200 points-of-sale, and are responsible for almost 50% of sales of mobile access, with a large share in the sale of pre-paid products.

The sales channel structure described above is responsible for 90% of our total sales, accounting for the sale of more than 100,000 fixed terminals, 200,000 mobile access, and 50,000 sales of broadband internet access a month, servicing a region composed of 13.7 million households and 44.5 million inhabitants.

Intellectual Property

We conduct research and development in the areas of telecommunications services, but we do not independently develop any new telecommunications technology.

Our Patents in Brazil

We own four patent applications in Brazil, filed with the INPI to protect telecommunication systems and methods, which are valid for 20 years from the filing dates. A request for technical analysis to determine whether the patents are valid has to be completed in 2007 for three of them and in 2008 for one of them or they will be automatically cancelled. Additionally, according to the Brazilian Industry Property Law, it is necessary to pay an annual fee starting as of the third year, counted from the date of the filing of the patent applications, in order to maintain the validity of patents and utility models. If the annual fees are not paid, INPI will automatically cancel the patent and/or the utility model.

14 Brasil Telecom Celular S.A. also owns four patent applications. The request for technical analysis and the payment of the first annual fee will occur in 2007 or 2008, depending on the date of filing of those four patents. Also, our Parent owns one industrial design in Brazil that is valid until October 25, 2010, and we own one duly registered patent.

Our Trademarks in Brazil

We currently own more than 425 trademarks filed in different classes of products and services, with the majority protecting communication services, and we have received the proper registration for 202 of these trademarks. Some of the other trademarks protect advertising, business management, administration, insurance, financial, monetary and real state affairs as well as scientific and technological services and research, design and industrial analysis and research services, design and development of computer hardware and software.

Some of these applications have been published for third party opposition and are still under examination at INPI, a process that may take up to six years to be concluded. Some of our trademark applications have been opposed by third parties, and we cannot insure that they will be granted by INPI to the extent such oppositions are accepted.

Our Domain Names in Brazil

We currently own 153 domain names covering our various subsidiaries and platforms of business registered in the name of Brasil Telecom, 227 additional domain names registered under the name of Internet Group do Brasil Ltda., 14 domain names registered under the name of iBEST S.A., and 51 domain names registered under the name of BrTSi.

Regulation of the Brazilian Telecommunications Industry

Our business, including the services we provide and the rates we charge, is subject to comprehensive regulation under the General Telecommunications Law. We operate in each of the states in our region based on the concessions that were granted to each of Telesc, Telegoiás, Telebrasília, Telemat, Telems, Teleron, Teleacre, CTMR, and our predecessor, Telepar. Since we received our universal service targets certification by Anatel on January 20, 2004, we have also been authorized to (i) operate outside Region II, our original concession area, to provide interregional and international long-distance services area, and (ii) to provide local and domestic long-distance services in certain sectors of Region II where we were not previously present and in Regions I and III. These concessions and authorizations allow us to provide specified services and set forth certain obligations with which we must comply.

Anatel is the regulatory agency for telecommunications that acts under the General Telecommunication Law and various decrees and administrative enactments thereunder, including the *Regulamento da Agência Nacional de Telecomunicações* (Anatel decree). Anatel is administratively independent from the government and is financially autonomous. Anatel is required to report on its activities to the Ministry of Communications and to the Brazilian Congress. Any proposed regulation of Anatel is subject to a period of public comment, and Anatel s decisions may be challenged administratively before the agency itself or through the Brazilian judiciary system. Under Brazilian law, Anatel approves the rates that all public-regime companies charge for products and services. On June 20, 2003, Anatel enacted Resolution 341, which provides for new types of Anatel concession contracts that became effective on January 1, 2006 and remain effective until 2025.

Concessions and Licenses

We operate under public-switched telephone network concessions (local and domestic long-distance), which grant us the right to offer local and domestic long-distance services in Region II. Concessions to provide public-switched telephone network services are granted under the public regime but such services may also be provided through authorizations granted under the private regime. For example, outside of Region II, i.e. Regions I and III, we operate under authorizations granted under the private regime to provide local, domestic and international long-distance services. These concessions and authorizations allow us to provide specificed services and set forth certain obligations with which we must comply. On December 18, 2002, we acquired a license to offer our mobile services under the private regime.

Public regime companies are subject to certain obligations as to continuity and universal service. On the other hand, private regime companies are generally not subject to requirements as to universal services, but they are subject to certain network expansion and quality of service obligations set forth in their licenses. Oi (formerly Telemar), Telefônica (formerly Telesp), CTBC, Sercomtel and Embratel also operate in the public regime while all other telecommunication companies operate in the private regime.

Public regime companies, like us, typically offer certain services in the private regime, the most significant of which are data transmission services through Multimedia Communication Services authorizations.

Fixed-line Telecommunications Rates

For basic plans, our concessions establish a mechanism for annual rate adjustment based on a basket of individual services and the use of a price index. Through December 2005, the General Price Index Internal Availability was used. In January 2006, it was replaced by the IST, a price index used by Anatel, which is now the official index to measure sector inflation and adjust rates. To establish rates, two rate baskets are defined, one for local services (local rate basket) and one for long-distance services (DLD basket). The local basket represents the weighted average of the rates for basic subscriptions and local pulses/minutes. The national DLD basket includes all different prices for calls, which vary according to the distance, the time of day and the length of connection. The rates for the provision of services through payphones and the rates for address changes are treated separately.

The annual IST index discounts the productivity X-Factor that is calculated according to a methodology defined on Norma 418/05. Within each basket, the rates have a capped price, which can be adjusted up to a percentage above the established index (up to 5.0% higher for each of the local basket and the DLD basket). However, the application of a higher index to one of the items in the basket requires a balancing of the remaining items so as not to exceed the established limit for such basket as a whole.

On the adjustment date for the local and DLD baskets, the adjustments for network usage rates are also approved. These are the rates charged when our networks are used by other telecommunications carriers.

The maximum adjustment indexes allowed for the baskets during the period of 2003 to 2007 are as follows:

	2003	2004	2005	2006	2007
Local Basket	16.0%	6.9%	7.3%	(0.42)%	2.14%
DLD Basket	12.5%	3.2%	2.9%	(2.77)%	2.14%

For 2006 and 2007, Anatel established a model to reduce the readjustment levels to pass part of the productivity gains obtained by the companies to the users.

On each of July 11 and July 18, 2006, Anatel confirmed a decrease in rates in connection with local and long distance services and network usage. These rate decreases were equal to an average of 0.42% on local services and 2.77% on domestic long distance services. The maximum rates for international long distance calls were increased by 8.4% (basic plan).

On July 18, 2007, Anatel authorized the rate readjustments as provided for in our concession contracts, with effect from July 20, 2007. The local and domestic long distance services had an average 2.14% adjustment, based on the difference between IST (2.9%) and the productivity X-Factor (0.74%) .

Since 2001, Anatel can submit us to a regime of free rating, provided that there is large-scale and effective competition among the service providers. Under this regime, the concessionaire can establish its own rates. In the event this regime is implemented, Anatel may reestablish the previous regime should arbitrary increases of profits by the carriers or practices considered harmful to the competition occur. To date, we have received no indication from Anatel that they intend to submit us to such a free rating regime.

Regulation of Mobile Services   PCS

In September 2000, Anatel amended the regulations related to the provision of mobile telecommunications services for PCS. These amended PCS authorizations enable new participants in the Brazilian telecommunications market to compete with existing telecommunications service providers. The amended PCS regulation divides Brazil into three distinct regions, each of which corresponds to the regions applicable to the public regime fixed-line telephone service providers.

The PCS license sets forth certain obligations and targets that must be met by a PCS service provider. These obligations were initiated in May 2004 when we received radiofrequency authorization from Anatel, which allows Brasil Telecom GSM to provide mobile services, to buy and install our mobile network and to integrate the mobile services with our other products. This license is valid for 15 years and can be renewed for the same period. Under these obligations and in our region (Region II under the General PCS Authorization Plan), we are required to:

- service an area equivalent to at least 50.0% of the urban area in 50.0% of the state capitals, the Federal District and cities with more than 500,000 inhabitants by May 3, 2005;

- service all state capitals, the Federal District and all cities with more than 500,000 inhabitants by May 3, 2006;

- service an area equivalent to at least 50.0% of the urban area in 50.0% of the cities with more than 200,000 inhabitants by May 3, 2007;

- service all cities with more than 200,000 inhabitants by May 3, 2008; and

- service all cities with more than 100,000 inhabitants by May 3, 2009.

A locality is considered serviced when the covered service area contains at least 80.0% of the urban area. Failure to meet these targets may result in the imposition of penalties established in the regulations and, in extreme circumstances, in revocation of the PCS license by Anatel.

3G Mobile Services PCS

As noted above, in December 2007, we acquired a license in a national auction promoted by Anatel for radiofrequency authorizations for the provision of 3G mobile telecommunications services for PCS. The auction divided Brazil into nine distinct regions, each with four radiofrequency authorizations for different PCS providers.

The 3G license sets forth certain obligations and targets that must be met by PCS service providers. These obligations will commence for us when we receive radiofrequency authorizations from Anatel, which will allow us to provide 3G services. This license is valid for 15 years and can be renewed for the same period. Under these obligations, we are required to:

- service 168 cities (out of a total of 1,836 cities that are currently without mobile service) with either 2G or 3G mobile telecommunications services, with half of those cities serviced in the first year of the license and all remaining cities serviced by the second anniversary of the license;

- service 242 cities of less than 30,000 inhabitants (out of a total of 2,740 cities) with 3G service, within eight years of receipt of the license;

- service all state capitals, the Federal District and all cities with more than 500,000 inhabitants, within two years of receipt of the license;

- within four years, provide 3G service to all cities with more than 200,000 inhabitants;

- within five years, provide 3G service to 50.0% of the cities with more than 30,000 inhabitants and less than 100,000 inhabitants, and service all cities with more than 100,000 inhabitants; and

- within eight years, provide 3G service to 60.0% of the cities with less than 30,000 inhabitants.

A locality is considered serviced when the covered service area contains at least 80.0% of the urban area. Failure to meet these targets may result in the imposition of penalties established in the regulations and, in extreme circumstances, revocation of the PCS license by Anatel.

Obligations of Telecommunications Companies

Like other telecommunications service providers, in addition to the service requirements, we are also subject to obligations concerning quality of service and network expansion and modernization. As a public regime company, we are also subject to a set of special restrictions regarding the services we may offer, contained in the General Concession Plan, and special obligations regarding service quality, network expansion and modernization contained in the PGMU and the PGMQ.

On June 10, 2003, the Brazilian government issued a presidential decree, Decree No. 4733, setting forth a number of changes in the regulation of Brazil s public switched telephone network. The decree sets forth general policies regarding, among others, universal access to telecommunications services, stimulation of employment, labor market and development of the Brazilian industry in the telecommunications sector, stimulation of competition and the adoption of rate adjustment policies that took into account Brazilian socio-economic conditions and the financial equilibrium of the existing concession contracts. The decree also established some changes including the concessions contracts extension to public switched telephone network.

Pursuant to Decree No. 4,769, dated as of June 27, 2003, as amended by Decree No. 5,972 and Decree No. 6,155, the Federal Government approved the PGMU, which required that providers achieve new targets beginning on January 1, 2006. The purpose of the plan is to allow all Brazilians, regardless of where they are located or their socio-economic status, to have access to the public switched telephone network. The costs related to meeting the targets contemplated by the new plan must be covered solely by the concessionaries of the PSTN (incumbents) pursuant to terms stipulated in each provider s concession contract. Anatel may revise the universalization targets, pursuant to the concession contracts, as well as propose additional targets and accelerate the plan. Noncompliance with these quality targets can result in certain fines. See Fines and Penalties below. The plan applies to local, domestic and long-distance service providers in varying degrees.

Telecommunications services providers are required to:

- install a public switched telephone network to provide access for individual residential, non-residential and trunk classes in locations with more than 300 inhabitants;
- activate one public telephone in each location with more than 100 inhabitants and less than 300 inhabitants located within 30 km from other locations already serviced by such PSTN to provide individual access;

- activate public telephones, which allow any person to access the public switched telephone network, regardless of subscription or registration with the provider, ensuring that the density of such public telephones per General Concession Plan sector is equal to or over six public telephones per 1,000 inhabitants from January 1, 2006 onwards.

- provide a telecommunication center (PST) with public phone and public Internet terminals in thirty percent of all municipalities with less than fifty thousand habitants and six percent of all cities with more than fifty thousand habitants, granting access to, at least, twenty percent of the totality of the habitants from January 1, 2008 onwards;

- provide a telecommunication center (PST) with public phone and public Internet terminals in all rural cooperative corporations with less than one hundred and eighty members from January 1, 2008 onwards;

- provide a telecommunication center (PST) with public phone and public Internet terminals in thirty five percent of all rural cooperative corporations with more than one hundred and eighty and less than two hundred and fifty members from January 1, 2008 onwards,

- provide a telecommunication center (PST) with public phone and public Internet terminals in fifty five percent of all rural cooperative corporations with more than two hundred and fifty and less than seven hundred members from January 1, 2008 onwards; and

- provide a telecommunication center with public phone and public Internet terminals in thirty five percent of all rural cooperative corporations with more than seven hundred members from January 1, 2008 onwards.

In addition, local service PSTN providers must activate and maintain telecommunications services centers in each General Concession Plan sector in varying numbers. Such numbers will be determined by the estimated population of the sector. The public switched telephone network incumbent services providers must also activate telecommunications services centers in each General Concession Plan sector in cooperative service centers located in rural areas. For the year 2008, the requirement will vary according to the size of the cooperative. By the end of 2009, all cooperatives must be serviced.

General Plan on Universal Service (PGMU)

On July 12, 2007, the Brazilian government issued a new presidential decree, Decree No. 6,155, setting forth a number of changes to the current PGMU. The decree also established some changes to the dates by which implemention of telecommunication centers must be accomplished in cities and in rural cooperative corporation. The new date for beginning of the deployment is January 1, 2008. For the year 2008, the requirement will vary according to the size of the cooperative. By the end of 2010, all cooperatives must be serviced.

On November 7, 2007, Anatel issued a Public Consultation in order to propose a change in the current PGMU target to implement the Universal Goals established in the PGMU related to telecommunications centers (PST). Thus, instead of implementing PST throughout our concession region, the proposed change requires us to provide broadband infrastructure to municipalities that do not have this infrastructure. This consultation requires the approval of the Brazilian President in order to become effective.

Local service providers must also comply with the Special Individual Access Class rules, which are designed to require service for the less economically advantaged population. Under the Special Individual Access Class, a user may enter into a plan under which he or she is required to pay a lesser amount of monthly fee for service than the basic plans.

During 2007, we met all of our PGMU universalization targets.

The following table indicates certain of our obligations relating to the expansion of our network in 2007 and our performance in satisfying those obligations as of December 31, 2007.

	Targets at December 31, 2007	Company status at December 31, 2007
Fixed-line service available to all communities larger than (inhabitants)	300	Obligation met
At least one public phone available to all communities larger than (inhabitants)	100	Obligation met
Maximum waiting time for installation of a line (weeks)[(1)]	1	Obligation met
Minimum number of public telephones (per 1,000 inhabitants)	6	Obligation met

(1) Applies only to areas where fixed-line service is fully available.

General Plan on Quality (PGMQ)   Quality of Services

The PGMQ was approved in June 2003, and became effective on January 1, 2006 after the extension of the concession contracts that expire in 2025. Pursuant to the plan, we are required to meet certain service quality targets relating to call completion rates, repair requests, rate of response to repair requests, operator response periods and other aspects of our telecommunications services. Noncompliance with these quality targets can result in certain fines. See   Fines and Penalties   below.

Each PSTN public or private regime company must comply with the provisions of the PGMQ and also with the terms of their respective concessions, licenses or authorizations. All costs related to the attainment of the goals established by the PGMQ must be exclusively borne by the respective telephone service provider. The PGMQ establishes minimum quality standards with regard to:

- attending to repair requests;
- attending to change of address requests;
- servicing users by phone;
- quality of public telephones uses;
- informing the user s access code;
- personal services to users;
- issuance of bills;
- rate of call completion for originating calls;
- modernization of the network; and
- responding to mail received from users.

Fines and Penalties

Failure to meet the network expansion and modernization obligations established by the PGMU, or any act or failure to act that harms competition in the telecommunications sector, may result in fines and penalties of up to R$50.0 million, as well as potential revocation of concessions.

Failure to meet the quality of service obligations established by the PGMQ may result in fines and penalties of up to R$40.0 million.

Public Regime Service Restrictions

Until December 31, 2001, according to the General Concession Plan, all fixed-line telecommunications service concessionaires, like our company, were prohibited from offering new services, such as mobile services, fixed-line telecommunications services in the local mode outside our region and in the interregional or international long-distance mode. In January 2004, the accomplishment of the universalization targets by the concessionaires enabled them to be exempt from this restriction. Today, every public fixed-line telecommunications service provider is authorized to offer all other telecommunications services, with the exception of cable television services in its original region of concession, which is Region II in our case.

Public regime companies are subject to certain restrictions on alliances, joint ventures, mergers and acquisitions, including:

- a restriction on holding more than 20% of the voting stock of any other public regime company, if the acquisition is deemed detrimental to competition, puts at risk the execution of the concession contract or is not duly authorized by the necessary agencies; and

- a legal restriction on offering cable television services.

Interconnection

General rules regarding interconnection are described in the General Interconnection Regulation enacted by Anatel. All operating companies providing telecommunications services must, if technically feasible, make their networks available for interconnection on a non-discriminatory basis whenever one request is made by any other telecommunications provider. Anatel currently sets and adjusts the fixed and mobile interconnection rates between networks. Anatel has allowed fixed-line and mobile network operators to freely negotiate interconnection rates.

Unbundling of local networks

On May 13, 2004, Anatel issued Order (*Despacho*) 172, which establishes rules for partial unbundling of local telephone networks, which we refer to as line sharing, and full unbundling of local telephone networks, and requires us to make our networks available to other telecommunications service providers. This legislation limits the rate we can charge for line sharing and full unbundling per line for telecommunications services. Additional charges, such as co-location charges, are applied over the line sharing base price, increasing the total cost of the unbundled line. Anatel has not yet fixed rates for full unbundling, although we expect that these rates will be lower than the rates we currently are permitted to charge. This regulation was designed to increase competition in the local fixed-line and broadband Internet access markets by making it easier for new telephone companies operating under either the public or private regime to enter these markets and for existing providers to provide new services or enter new regions, since the networks of all telecommunications service providers, including fixed-line operators such as us, will be made available at lower rates. Similarly, this legislation makes it easier for us to provide new services and enter into new regions in competition with other operators. However, operational rules for the implementation of unbundling have not yet been agreed to among Brazilian telecommunications operators. These regulations are recent, and as of December 31, 2007 no unbundled lines had been used by competitors in our region.

Revocation of a Concession

Anatel may revoke the concession of any public regime telecommunications company upon the occurrence of any one of the following circumstances:

- an extraordinary situation in which the public interest is in jeopardy, during which time the Brazilian government may operate the public regime company. In such cases, the Brazilian government must be legislatively authorized to revoke the concession and the company must be indemnified for any losses incurred during the period in which the concession was revoked;

- contractual termination, either at the will of the company or at the will of the Brazilian government, upon an act or omission of the Brazilian government that renders the continued offering of the services excessively burdensome to the company;

- the occurrence of:
  - a split-up, spin-off, amalgamation, merger, capital reduction or transfer of the company s corporate power without Anatel s authorization;
  - the transfer of the concession without Anatel s authorization;
  - the dissolution or bankruptcy of the company;
  - an extraordinary situation where Brazilian government intervention, although legally possible, is not undertaken by the company since such intervention would prove to be inconvenient, unnecessary or resultant in unfair benefits for the company; or

- failure to comply with universalization targets.

• failure to meet insurance requirements set forth in the concession agreement.

In the event that a concession is revoked, Anatel may occupy the company s premises and use its employees to continue providing telecommunications services.

Property, Plant and Equipment

Our main equipment consists of transmission equipment, including Synchronous Digital Hierarchy systems and radio links, switching equipment, including local, tandem and transit telephone exchanges, metallic and fiber- optic cable networks, data communication equipment, network and systems and infrastructure, which include alternate and continue current and direct current supply equipment, motor-generator groups, air conditioning, towers, buildings and land surveillance.

Our properties are located in the States of Acre, Rondônia, Goiás, Tocantins, Mato Grosso, Mato Grosso do Sul, Paraná, Santa Catarina, Rio Grande do Sul, São Paulo, Rio de Janeiro and Belo Horizonte, as well as in the Federal District. The buildings used by our management are primarily located in the capital cities of these states. At December 31, 2007, our operations used approximately 6,715 properties, of which 3,183 were owned by us and 3,532 were leased from third parties.

As of December 31, 2007, the net book value of our property, plant and equipment was approximately R$5,663.4 million (which includes automatic switching, transmission and other equipment, buildings and other fixed assets net of accumulated depreciation and work-in-progress regarding the same).

Environmental and Other Regulatory Matters

As part of our day-to-day operations, we regularly install ducts for wires and cables and erect towers for transmission antennae. We may be subject to federal, state and/or municipal environmental licensing requirements due to the installation of cables along highways and railroads, over bridges, rivers and marshes, and through farms, conservation units and environmental preservation areas, among other places. So far, we have been required to obtain environmental licenses for the installation of transmission towers and antennae in the municipality of Porto Alegre, the capital of the state of Rio Grande do Sul, with no material impact on our operations. However, there can be no assurances that other state and municipal environmental agencies will not require us to obtain environmental licenses for the installation of transmission towers and antennae in the future and that such a requirement would not have a material adverse effect on the installation costs of our network or on the speed with which we can expand and modernize our network.

We must also comply with environmental legislation regarding the management of solid wastes. According to CONAMA Resolution 237 of 1997, companies responsible for the treatment and final disposal of solid industrial wastes, special wastes and solid urban wastes are subject to environmental licensing. Should the waste not be disposed of in accordance with standards established by environmental legislation, the company generating such waste may be held jointly liable for any damage caused with the company responsible for waste treatment. Also, in all states where Brasil Telecom operates, we have implemented management procedures promoting the recycling of batteries, transformers and fluorescent lamps.

In addition, we are subject to Anatel s requirements, which impose limits on the levels and frequency of the electromagnetic fields originating from our telecommunications transmissions stations.

We believe that we are in compliance with Anatel standards as well as with all applicable environmental legislation and regulations. We are currently not involved in any administrative or judicial proceeding involving material liability for environmental damage.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS

The following discussion should be read in conjunction with our Consolidated Financial Statements and notes, which are included elsewhere in this annual report. Certain important features of the presentation of our Consolidated Financial Statements are described in the introduction to Selected Financial Data. See Item 3. Key Information Selected Financial Data.

Overview of Results of Operations

Over the last several years, we have focused on the following major initiatives:

- *Increase interregional and international long-distance market share.* We have worked to increase our market share in our business of providing long-distance service. Since January 2004 we have offered interregional and international long distance services, and we expect to be able to offer our existing corporate and residential clients more competitive and integrated plans and capture additional market share.

- *Strengthen our mobile telecommunications services.* Since September 2004, we have offered mobile telecommunications services based on GSM mobile technology. With the introduction of mobile services, we are the only company in Region II to offer both wireline and mobile services and we continue to leverage this advantage to increase our brand awareness and overall market share.

- *Continue to integrate and expand our high technology network infrastructure in order to position ourselves as a market-leading data and Internet access service provider.* Together, our submarine fiber optic cable system, our local fiber-optic network, and our Internet provider, provide us with the state-of-the-art broadband infrastructure as well as local network capacity that will allow us to position ourselves as a market leader for data and Internet services to both residential and corporate clients.

- *Develop integrated voice, data and multimedia services for residential and corporate clients.* We have worked to offer integrated voice, data and multimedia products and services through our existing distribution channels as well as through new mobile phone stores, to provide our customers with a one-stop shopping environment for both residential and corporate clients. We refer to this initiative as convergence, or the offering of integrated and diverse services to a single customer.

In recent years, the telecommunications industry has been through transformations never seen before in its history. The forms of communications are transforming and multiplying. The importance of formatting, storage, distribution and exchange of content has significantly modified society s behavior. This modification has caused significant changes in the telecommunications business model, especially for traditional operators.

The growth of emerging technologies such as Wi-Max, Wi-Fi and 3G, are facilitating the entrance of new providers and require existing companies to continually focus on development of new and improved product lines. As a consequence, competition is increasing, originating not only in traditional operators, but also with new players such as: internet portals, pay-TV, mobile broadband ISPs and Information Communications Technology integrators, among others.

We expect 2008 to be challenging, as we continue to work to keep pace with our competitors in Region II, enter new markets and improve our profitability. Our challenges include the following:

- *Meeting competition.* As a result of government regulations, our domestic and international long distance markets are increasingly open to competition from other service providers, and competitors have gained market share at our expense. We are actively pursuing a marketing strategy to attract and retain customers and develop our customer base, in particular our corporate client base.

- *Cost control.* To maintain our profitability in the increasingly competitive telecommunications environment, we must continue to implement strategies to improve operating efficiency. We plan to do this by controlling bad debt expense, lowering interconnection costs through regulatory initiatives and targeted network build-out, making capital expenditures to address new markets, lowering our financing costs and operating costs and enhancing the productivity of our existing assets.

- *Changes in the competitive landscape due to new technology.* New technologies, such as voice over IP and Next Generation Networks, have the potential to significantly transform the competitive landscape in the telecommunications business. Our long-term success will depend in part on our ability to adapt our business to these changes and take advantage of emerging technologies.

In 2008, we intend to focus specifically on the following major initiatives:

- *Meet customer needs by means of convergent and integrated services*. To meet customer needs, we offer integrated service packages. We offer a broad portfolio of services, including fixed and mobile services, video, broadband Internet, solutions for corporate data communication (including Cyber Data Center), and Internet service.

- *Provide high-quality service***.** Armed with the knowledge that customers are the main source of income, we will seek means of meeting and exceeding customer expectations, both in the services offered and in managing our customer relationships.

- *Expand our mobile services to ensure profitability***.** Although we were the fourth entrant into mobile telephony in our region, our operations have been very successful. We attempt to ensure profitability by national synergy, reductions in the subsidies of handsets, and the offering of fixed-mobile services customized to meet customers needs. The intranet traffic incentive reduces interconnection costs. We expect the implementation of 3G technology to lead to further innovative applications that will enable us to increase our share of new service offerings.

- *Be an interactive media provider, promoting unique experiences in the IP environment***.** In order to attain this goal, Internet Group, our Internet business unit (which includes the activities of Internet providers iG, iBest, and BrTurbo), follows a strict strategy of unifying its management, combining platforms and services, diversifying content (games, music, videos, etc.), and investing in interactivity projects and convergence with the IP environment. Our goal is to become the leading brand in Internet media.

- *Focus and strengthen customer relationships***.** Customer relationships have been developed based on the customer experience chain concept, which continuously manages and assesses all eventual points of contact between us and the customer. Intelligent market segmentation ensures that every customer segment gets adequate and specialized service to meet its needs. Monthly surveys are carried out with the purpose of continuously assessing the efficiency of the process and levels of customer satisfaction, and of ensuring continuous relationship enhancement.

- *Offer unique new services, taking advantage of the opportunity to use emerging technologies***.** We are the only Brazilian operator to take part in important international groups for technological definition. We are one of the founding members of the Fixed Mobile Convergence Alliance, or FMCA, a world reference group for fixed-mobile converging services, and are an active member of the Telecommunications & Internet Converged Services and Products for Advanced Networks, or TISPAN, the main global entity for the standardization of fixed line architecture technological evolution.

Key Factors Affecting Revenues and Results of Operations

Rate Adjustments

Rates for fixed-line telecommunications services are subject to comprehensive regulation. Our concession contract establishes a price-cap mechanism by which Anatel sets and adjusts rates on an annual basis. For a discussion of the application of prescribed rates to our individual services and average rates for baskets of services, see Item 4. Information on the Company Regulation of the Brazilian Telecommunications Industry Fixed-line Telecommunications Rates.

Rate Increases

The following table sets forth the adjustments in maximum rates in 2005, 2006 and 2007 for various services as adjusted by Anatel pursuant to the IGP-DI and IST Index.

	July 3, 2005	July 14, 2006	July 20, 2007
Local services basket	7.27%	(0.42)%	2.14%
Installation	7.27%	(0.42)%	2.14%
Residential subscription	7.25%	(0.42)%	2.14%
Non-residential subscription	7.27%	(0.42)%	2.17%
Trunk subscription	7.27%	(0.42)%	2.18%
Pulses / Minuto Local	7.27%	(0.42)%	2.14%(3)
Phone credits	7.37%	(0.42)%	2.16%
Change of address	7.27%	(0.42)%	2.14%
Local interconnection	(13.33)%	(19.46)%(1)	(18.3)%(2)
Domestic long distance basket	2.94%	(2.77)%	2.14%
Long distance interconnection	2.94%	(28.92)%	(0.13)%

(1) TU-RL and TU-RIU were adjusted in January and July of 2006.

(2) TU-RL was adjusted in January and July of 2007.

(3) The adjustment to local minute billing in 2007 was effective as of October 1, 2007.

Network Services

We provide access to our network and lease certain network facilities to other telecommunications companies as part of our network service business. Interconnection fees are also reflected in our costs, as we pay interconnection fees for using other companies networks to complete our clients calls. To complete a fixed-to-mobile call, we pay VU-M, which increased by 4.5% in 2005 (VU-M for VC-1), 4.5% in 2006 (VU-M for VC-2 and VC-3), and 2.25% in 2007 (VU-M for VC-1, VC-2 and VC-3). To complete a fixed-to-fixed call, we also pay (i) an interconnection fee for the use of local networks (TU-RL), which decreased by 13.3% in 2005, 19.46% in 2006 and 18.3% in 2007, and (ii) an interconnection fee for the use of intercity networks (TU-RIU), which increased by 2.9% in 2005, decreased by 28.92% in 2006, and decreased by 0.13% in 2007.

Although the growth of mobile telecommunications and increase in long distance usage volumes resulted in an increase in network services revenues from 2001 through 2003, our revenues have decreased in, 2005, 2006 and 2007, in part due to an increase in competition among mobile telecommunications service providers. Any adverse effect on our competitors systems that in turn has a negative impact on their interconnection with our network could have an adverse effect on our financial condition and results of operations.

Regulatory Factors

Our operations are based on concessions granted by the Brazilian Government, which authorizes us to render local and long distance fixed-line telephone services within and originating from Region II. According to Brazilian law, as a concessionary, we must have Anatel s approval for the rates charged for our products and services. On December 22, 2005, Anatel and the other concessionaries signed extensions of the concession contracts for an additional 20 years, effective as of January 1, 2006. The extensions to the concession contracts changed the rate model. The IGP-DI Index was replaced by the IST, which is based on weighted indices that better represent variations in individual companies costs. Authorized companies in the industry, such as Global Village Telecom and Intelig, do not require Anatel s approval to define their rates and may unilaterally change the prices they charge for their services. As a consequence, Anatel s disapproval or delay in the approval of rate readjustments may have a negative impact on our operations and competitive position.

Strict regulation by Anatel prevents us from implementing certain policies that could have the effect of reducing delinquency, such as service restrictions or limitations on the types of services provided based on a subscriber s credit record.

Political and Economic Factors

We have been and will continue to be affected by the economic, political and social conditions in Brazil. Most notably, our operations have been impacted by the fluctuation of the *real* and by variation in interest rates influenced by the Brazilian government s efforts to control inflation. See Item 3. Key Information Exhange Rates and Item 3. Risk Factors Risks Relating to Operations in Brazil.

The following table shows the GDP growth, the inflation rate, the dollar exchange rate devaluation (appreciation) and the SELIC rate for the three-year period ended December 31, 2007.

	Year ended December 31,		
	2005	**2006**	**2007**
GDP growth[1]	2.3	3.7	4.7[5]
IGP DI Inflation Rate%[2]	1.2	3.8	7.9
IGP M Inflation Rate%[2]	1.2	3.8	7.7
IPCA Inflation rate%[3]	5.7	3.1	4.5
Dollar exchange rate devaluation / (appreciation) %[4]	(13.4)	(8.7)	(17.2)
SELIC%[4]	18.0	13.3	11.2

(1) Source: IBGE
(2) Source: Fundação Getúlio Vargas
(3) Source: Consumer Price Index IBGE
(4) Source: Brazilian Central Bank
(5) Source: Brazilian Central Bank (estimated for 2007)

Foreign Exchange and Interest Rate Exposure

For the year ended December 31, 2007, gain on foreign currency and monetary restatement amounted to approximately R$3.9 million, due to the appreciation of the *real* against the dollar. We also face foreign exchange risk because a significant portion of our equipment costs are denominated in dollars. Historically, approximately 41% our total capital expenditures have been dollar denominated.

We are exposed to exchange rate risk as a consequence of our debt denominated in or indexed to foreign corrency. At December 31, 2007, approximately 16.7%, or R$731.6 million, of our total indebtedness was exposed to foreign exchanges (dollars, Japanese Yen and *Cesta de Moedas*), compared to 19.1%, or R$1,026.1 million, at December 31, 2006. Of our indebtedness affected by exchange variation at December 31, 2007, approximately 80.6% was protected against significant variations in exchange rates (R$/US$, R$/Japanese Yen and *Cesta de Moedas*). See Note 34 to our audited financial statements and “Item 11. Quantitative and Qualitative Disclosure about Market Risk.”

We are exposed to interest rate risk as a consequence of our floating rate debt. At December 31, 2007, 98.4% of our *reais*-denominated interest-bearing liabilities bore interest at floating rates. We have not entered into derivative contracts or made other arrangements to protect against this risk. At December 31, 2007, approximately 42.0% of our foreign currency denominated debt bore interest at floating rates based on either LIBOR or LIBOR Yen. At December 31, 2007, the six-month LIBOR was 5.4% per annum and the six-month LIBOR Yen was 1.0825% per annum. See Item 11. Quantitative and Qualitative Disclosures About Market Risk Quantitative Information About Market Risk Exchange Rate Risk.

Competitive Factors

We are the leading provider of local fixed-line telecommunications services and intraregional fixed-line telecommunications services in our region. However, we face rapidly increasing competition from companies that already operate in our region, such as Embratel, Intelig and GVT, and from companies which have been given permission to operate in our region, such as Telemar, Telesp, Albra, TIM, Telmex do Brasil, TNL PCS S.A., CTBC Telecom and Sercomtel. The entry of new competitors in the local market, the long distance market or the other markets in which we compete may have an adverse impact on our business, financial condition, results of operations or prospects.

Competition in the telecommunications business is expected to increase as a result of the deregulation that began in 2002, including the certification and authorization process by which companies are permitted to provide additional services inside and outside of their regions. Although we believe we have a unique infrastructure in Region II (having inherited the incumbent network upon privatization of Telebrás) and we have been developing strategies to effectively protect our business, we expect that competition as a result of the entry of additional competitors into the market for local, long distance and mobile services in Region II, as well as significant industry consolidation, may adversely affect our revenues. We anticipate, however, that our growth in the Brazilian market will partially offset this competition, since we are able to offer long distance and data services on a nationwide basis in addition to mobile services in our region. While we expect that local traffic per line will continue to decline as we expand our network to lower-income customers who, on average, make fewer calls, we expect that our expansion into other new business areas will provide us with new growth opportunities.

The extent of any adverse effects on our results of operations and market share from competition will depend on a variety of factors that cannot now be assessed with precision, some of which are beyond our control. Among these factors are the technical and financial resources available to our competitors, their business strategies and capabilities, consolidation of competitors, prevailing market conditions, the regulations applicable to us and to any new entrants to the market, including those pertaining to providers of mobile telecommunications services, and the effectiveness of our efforts to be prepared for increased competition.

US GAAP Reconciliation

We prepare our Consolidated Financial Statements in accordance with Brazilian Corporate Law, which differs in certain significant respects from US GAAP. The following table sets forth a comparison of our net income (loss) and shareholders equity in accordance with Brazilian Corporate Law and US GAAP as of the dates and for the periods indicated:

	Year ended December 31,		
	2005	**2006**	**2007**
Net income (loss) in accordance with:		*(Thousands of reais)*	
Brazilian Corporate Law	(303,671)	432,391	797,287
US GAAP	168,790	687,299	766,874
Shareholders equity in accordance with:			
Brazilian Corporate Law	5,496,607	5,528,301	5,575,891
US GAAP	6,558,186	7,054,583	7,339,361

See Note 36 to our Financial Statements for a description of the principal differences between Brazilian Corporate Law and US GAAP as they relate to us, and a reconciliation of net income (loss) and shareholders equity for the dates and periods indicated therein.

Critical Accounting Policies

In preparing our consolidated financial statements, we have relied on estimates and assumptions derived from historical experience and various other factors that we deemed reasonable and relevant. Critical Accounting Policies are those that are important to the portrayal of our financial condition and results of operations and utilize management s most difficult, subjective or complex judgments, estimates and assumptions. The application of these critical accounting policies often requires judgments made by our management regarding the effects of matters that are inherently uncertain on the carrying value of our assets and liabilities and the results of our operations. Our results of operation and financial condition may differ from those set forth in our consolidated financial statements, if our actual experience differs from management s assumptions and estimates. The following is a discussion of our critical accounting policies, including some of the variables, assumptions and sensitivities underlying the estimates relating to:

- goodwill impairment;
- revenue recognition;
- allowance for doubtful accounts;
- depreciation of property, plant and equipment;
- valuation of property, plant and equipment;

- provisions for contingencies;
- deferred income taxes; and
- provision for pensions.

Goodwill Impairment

Under Brazilian Corporate Law, the amount of goodwill and other intangible asset impairment, if any, is measured based on projected undiscounted future operating cash flows. In connection with the Statement of Financial Accounting Standards No. 142, *Goodwill and other Intangible Assets*, or SFAS 142, we are required to perform an assessment of whether there was an indication that goodwill is impaired as of the date of adoption. To accomplish this, we are required to identify our reporting units and determine the carrying value of each reporting unit by assigning to it the assets and liabilities, including the existing goodwill and intangible assets associated with the operation of that reporting unit. We are required to determine the fair value of each reporting unit and compare it to the carrying amount of the reporting unit. To the extent the carrying amount of a reporting unit exceeds the fair value of the reporting unit, we are required to perform the second step of the transitional impairment test, as this would be an indication that the reporting unit goodwill may be impaired.

Under the terms of our operating concessions granted by the Federal Government, we are obliged to provide a certain minimum level of services over the entire area covered by its fixed-line operating licenses. Also, we do not possess discrete financial information that could allow a determination of assets and liabilities (and goodwill) allocation at a level below the entire fixed-line business segment, nor do we manage different areas of the concession as if they were separate businesses. Thus the entire fixed-line business is considered to be one reporting unit. In viewing all of our fixed-line assets and liabilities as one reporting unit and performing an initial assessment on this reporting unit including such assumptions and estimates as we considered appropriate, we were not required to recognize any impairment loss under either US GAAP or Brazilian Corporate Law. For the Internet segment we apply separate assessments for each reporting unit. We were not required to recognize an impairment loss under US GAAP for any of the periods presented.

A determination of the fair value and the undiscounted future operating cash flows of our segment businesses (fixed-telephone, data transmission and Internet) requires management to make certain assumptions and estimates with respect to projected cash inflows and outflows related to future revenues and expenditures and expenses. These assumptions and estimates can be influenced by different external and internal factors, such as economic tendencies, industry trends, and interest rates, changes in our business strategies and changes in the type of services we offer to the market. The use of different assumptions and estimates could significantly change our financial statements. For example, if we had used more conservative assumptions and estimates the expected future net cash flow could have led us to recognize impairment charges on goodwill, which would have decreased our results of operations and shareholders equity.

Revenue recognition

Under Brazilian Corporate Law and US GAAP, revenues are generally recognized on an accrual basis. Revenues from customer calls are based on time used, according to Brazilian law, and are recognized when services are provided (fixed and mobile telephony). Services provided and not billed at the end of each month are estimated and recorded on accrual basis. Considering their high turnover and short average life, revenues from phone cards for public telephones are recorded as the cards are sold. Revenues from sales of mobile phones and accessories are recorded when the goods are delivered and accepted by the subscriber. Revenues from pre-paid mobile services are recognized based on the use of the respective credits. Revenues from activation and installation fees are recognized upon the activation of customer services. Revenue is not accounted for if there is an uncertainty as to its realization.

Under Brazilian Corporate Law, revenues from activation and installation fees are recognized upon activation of customer services. Under US GAAP, revenues and related taxes from activation and installation fees are deferred and amortized over five years, the estimated average customer life.

Under Brazilian Corporate Law revenues from public telephone phone cards are recognized when the cards are sold. Under US GAAP, revenues generated from sales of public telephone phone cards are recognized as such services are provided. For US GAAP, deferred revenues at each consolidated balance sheet date are determined based upon estimates of sold but unused public phone card credits outstanding as of each consolidated balance sheet date.

We consider revenue recognition to be a critical accounting policy, because of the uncertainties caused by different factors such as the complex information technology required, high volume of transactions, fraud and piracy, accounting regulations, management s determination of collectibility and uncertainties regarding our right to receive certain revenues (mainly revenues for use of our network). Significant changes in these factors could cause us to fail to recognize revenues or to recognize revenues that we may not be able to realize in the future, despite our internal controls and procedures. We have not identified any significant need to change our revenue recognition policy for US GAAP or for Brazilian Corporate Law.

Allowance for doubtful accounts

Under Brazilian Corporate Law and US GAAP, we provide an allowance for doubtful accounts for accounts receivables for which recoverability is considered doubtful. We base our estimates on our historical collection experience and a review of the current status of all trade accounts receivable. This estimate considers the ratio of historical losses applied to the different categories of all outstanding amounts receivable from our customers. Additional allowance may be required in case the value of our estimated allowance for doubtful accounts differs from the amounts not actually collected due to deterioration in the financial condition of our customers or otherwise.

Depreciation of property, plant and equipment

Under Brazilian Corporate Law and US GAAP, depreciation of property, plant and equipment is provided using the straight-line method based on the estimated useful lives of the underlying assets. The principal depreciation rates are shown in Note 18 to the Consolidated Financial Statements. Given the complex nature of our property, plant and equipment, the estimates of useful lives require considerable judgment and are inherently uncertain, due to rapidly changing technology and industry practices, which could cause early obsolescence of our property, plant and equipment. If we materially change our assumptions of useful lives and if external market conditions require us to determine the possible obsolescence of our property, plant and equipment, our depreciation expense, obsolescence write-off and consequently net book value of our property, plant and equipment could be materially different.

Valuation of property, plant and equipment

The preparation of our financial statements in accordance with Brazilian Corporate Law involves certain assumptions and estimates, which are based upon historical experience and various other factors that we deem reasonable and relevant. A determination of the fair value of an asset requires management to make certain assumptions and estimates with respect to projected cash inflows and outflows related to future revenues and expenditures and expenses. These assumption and estimates can be influenced by different external and internal factors, such as economic tendencies, industry trends, interest rates and changes in the marketplace. The use of different assumptions and estimates could significantly change our financial statements, for example if we had used more conservative assumptions and estimates the expected future net cash flow may have led us to recognize impairment charges on our property, plant and equipment, which would have decreased our results of operations and shareholders equity. No impairment losses have been recognized for any of the periods presented.

Provisions for contingencies

Under Brazilian Corporate Law and US GAAP, provisions for contingencies are recognized for the amounts of probable losses based on legal advice from our in-house and external legal counsel and management s opinion of the outstanding contingent matters at the balance sheet date. We continually evaluate the provisions for contingencies based on changes in relevant facts, circumstances and events, such as judicial decisions, that may impact the estimates, which could have a material impact on our results of operations and shareholders equity. While management believes that the current provision for contingencies is adequate, there can be no assurance that these factors will not change in the future.

Deferred income taxes

We compute and pay income taxes based on results of operations under Brazilian Corporate Law. Under Brazilian Corporate Law and US GAAP, we recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts and the tax bases of assets and liabilities. We regularly review the deferred tax assets for recoverability and establish a valuation allowance if it is more likely than not that the deferred tax assets will not be realized, based on historical taxable income, projected future taxable income, and the expected timing of the reversals of existing temporary differences. When performing such reviews, we are required to make significant estimates and assumptions about future taxable income. In order to determine future taxable income, we need to estimate future taxable revenues and deductible expenses, which are subject to different external and internal factors, such as economic tendencies, industry trends, interest rates, changes in our business strategies and changes in the type of services we offer to the market. The use of different assumptions and estimates could significantly change our financial statements. For example, if we had used more conservative assumptions and estimates with respect to our expected future taxable income, we would be required to recognize valuation allowance charges on deferred income tax assets, which would decrease our results of operations and shareholders equity. If we operate at a loss or are unable to generate sufficient future taxable income, or if there is a material change in the actual effective tax rates, the time period within which the underlying temporary differences become taxable or deductible, or any change in our future projections, we could be required to establish a valuation allowance against all or a significant portion of our deferred tax assets resulting in a substantial increase of our effective tax rate and a material adverse impact on our operating results.

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Provision for post-retirement benefits

We are required to make assumptions and estimates regarding interest rates, investment returns, levels of inflation for future periods, mortality rates and projected employment levels relating to post-retirement benefit liabilities. The accuracy of these assumptions and estimates will determine whether we have created sufficient reserves for accrued pension and medical health care costs and the amount we are required to provide each year as our post-retirement benefit costs. These assumptions and estimates are subject to significant fluctuations due to different external and internal factors, such as economic trends, social indicators, our capacity to create new jobs and our ability to retain our employees. If these assumptions and estimates are not accurate, we may be required to review our provisions for pensions, which could materially reduce the results of our operations and shareholders equity.

Results of Operations for the Years Ended December 31, 2005, 2006 and 2007

The following discussion is based on and should be read in conjunction with our audited consolidated financial statements, as well as under the caption Selected Financial Data. The data at December 31, 2005, 2006 and 2007 has been derived from our audited consolidated financial statements, prepared in accordance with Brazilian Corporate Law.

The following table sets forth certain components of our net income (loss), as well as the percentage change from the prior year, for 2005, 2006 and 2007.

	Year ended December 31,			Percentage Changes	
	2005	2006	2007	2005 - 2006	2006 2007
	(thousands of *reais*, except percentages)				
Net operating revenues	10,138,684	10,296,659	11,058,546	1.6	7.4
Cost of services and goods sold	(6,525,898)	(6,466,463)	(6,384,073)	(0.9)	(1.3)
Gross profit	3,612,786	3,830,196	4,674,473	6.0	22.0
Operating expenses					
Selling expenses	(1,656,242)	(1,470,642)	(1,485,352)	(11.2)	1.0
General and administrative expenses	(1,264,741)	(1,314,119)	(1.340.029)	3.9	2.0
Other net operating income (expenses)	(626,306)	(262,134)	(499,803)	(58.1)	90.7
Operating income before net financial expenses	65,497	783,301	1,349,289	1,095.9	72.3
Net financial expenses	(596,239)	(289,662)	(263,087)	(51.4)	(9.2)
Operating income (loss)	(530,742)	493,639	1,086,202	(193.0)	120.0
Net non-operating income (expenses)	(149,024)	30,865	(2,454)	(120.7)	(108.0)
Income (loss) before taxes and minority interests	(679,766)	524,504	1,083,748	(177.2)	106.6
Income and social contribution tax benefits (expenses)	389,066	(95,035)	(288,291)	(124.4)	203.4
Income (loss) before minority interests	(290,700)	429,469	795,457	(247.7)	85.2
Minority interests	(12,971)	2,922	1,830	(122.5)	(37.4)
Net income (loss)	(303,671)	432,391	797,287	(242.4)	84.4

Net Operating Revenues

Net operating revenues increased 7.4% to R$11,058.5 million in 2007 from R$10,296.7 million in 2006. This growth in net revenues was principally due to: (i) a 20.7% increase in revenues from data transmission resulting from a 19.5% increase in our ADSL accesses in service; and (ii) an increase in the mobile service revenues representing a 26% increase in our mobile client base in 2007 from 2006, or R$1,919.3 million, an increase of R$596.0 million in comparison to 2006.

Net operating revenues increased 1.6% to R$10,296.7 million in 2006 from R$10,138.7 million in 2005. This growth in net revenues was principally due to: (i) a 30.7% increase in revenues from data transmission resulting from a 29.9% increase in our ADSL accesses in service; and (ii) an increase in the mobile service revenues representing a 52.6% increase in our mobile client base in 2006 from 2005, or R$1,323.3 million, an increase of R$590.9 million in comparison to 2005.

In 2006, we reclassified revenues related to monthly subscription and measured services charges from other revenues to local services. The year ended December 31, 2005 was reclassified to be consistent with the 2006 presentation, resulting in an increase in local services revenues of R$121,314.

Gross operating revenue is offset by value-added and other indirect taxes and discounts to customers. The composition of gross operating revenues by category of service is presented in our Financial Statements and discussed below before deduction of value-added and other indirect taxes. We do not determine net operating revenues for each category of revenue as we do not believe such information to be useful to investors.

The following table sets forth certain components of our consolidated net operating revenues, as well as the percentage change from the prior year, for 2005, 2006 and 2007.

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	Year ended December 31,			Percentage Changes	
	2005	2006	2007	2005-2006	2006-2007
Local services:	(thousands of *reais*, except percentages)				
Monthly subscription charges	3,516,562	3,517,369	3,541,429	0.0	0.7
Measured service charges[1]	3,613,698	3,337,509	2,977,551	(7.6)	(10.8)
Public telephones	496,766	540,610	546,007	8.8	1.0
Other	96,810	74,091	47,276	(23.5)	(36.2)
Total local services	7,723,836	7,469,579	7,112,263	(3.3)	(4.8)
Long-distance services:					
Intraregional[2]	2,626,464	2,464,387	2,662,498	(6.2)	8.0
Interregional and International	364,098	305,702	284,956	(16.0)	(6.8)
Total long-distance services	2,990,562	2,770,089	2,947,454	(7.4)	6.4
Data transmission	1,530,985	2,000,525	2,415,374	30.7	20.7
Network services	941,464	770,579	715,567	(18.2)	(7.1)
Mobile services	732,339	1,323,270	1,919,331	80.7	45.0
Other	768,053	777,276	887,399	1.2	14.2
Gross operating revenues	14,687,239	15,111,318	15,997,388	2.9	5.9
Value added and other indirect taxes	(4,219,054)	(4,285,952)	(4,353,809)	1.6	1.6
Discounts	(329,501)	(528,707)	(585,033)	60.5	10.7
Net operating revenues	10,138,684	10,296,659	11,058,546	1.6	7.4

(1) Includes VC-1 charges.
(2) Includes VC-2 and VC-3 charges.

Revenues from Local Service

Total revenues from local services decreased by 4.8% to R$7,112.3 million in 2007 from R$7,469.6 million in 2006. This decrease was primarily due to the decreasing penetration of fixed-line telecommunications services in our region, represented by a decrease in telephone density in our region to 18.2 lines in service per 100 inhabitants at December 31, 2007 from 19.4 lines in service per 100 inhabitants at December 31, 2006. The total number of active lines in service (total lines in service excluding blocked lines) decreased to 7.8 million at December 31, 2007 from 8.1 million at December 31, 2006. We expect a reduction in our fixed lines in service in the future due to migration of our customers to mobile services.

Total revenues from local services decreased by 3.3% to R$7,469.6 million in 2006 from R$7,723.8 million in 2005. This decrease was primarily due to the decreasing penetration of fixed-line telecommunications services in our region, represented by a decrease in telephone density in our region to 19.4 lines in service per 100 inhabitants at December 31, 2006 from 22.3 lines in service per 100 inhabitants at December 31, 2005. The total number of active lines in service (total lines in service excluding blocked lines) decreased to 8.1 million at December 31, 2006 from 9.6 million at December 31, 2005. In addition, on July 14, 2006 Anatel authorized a 0.42% decrease in local services tariffs.

Monthly Subscription Charges

Total revenues from monthly subscription charges increased by 0.7% to R$3,541.4 million in 2007 from R$3,517.4 million in 2006. This increase is primarily due to the increase of 24.3% in the number of local fixed alternative plan lines over 2006, totaling 3.9 million customers as of December 31, 2007, offset by a decrease in the lines in service.

Total revenues from monthly subscription charges remained stable at R$3,517.4 million in 2006 as compared to R$3,516.6 million in 2005. This stability is primarily due a rate decrease to residential clients of 0.42%, offset by a rate increase to non-residential clients of 2.18% .

Measured Service Charges

Total revenues from measured service charges, which include charges for minutes used in excess of the fixed monthly allowance and charges for local fixed-line to mobile handsets, decreased by 10.8% to R$2,977.6 million in 2007 from R$3,337.5 million in 2006. This decrease was primarily due to a 4.4% decrease in revenues from local calls made from a fixed-line to mobile handsets (VC-1), resulting from greater competition in the sector, where mobile operators are offering plans in which the cost of the mobile-mobile minute can be lower than the fixed-mobile minute.

Total billed pulses, which are the number of pulses that exceed the fixed monthly allowance, decreased by 65.9% to approximately 3.0 billion in 2007. In July of 2007, Anatel s requirements converted the charging system from pulses to minutes, which changed the traffic profile significantly from the third quarter of 2007 on. For comparison purposes and based on our usage profile, the conversion factors for the basic residential, non-residential and alternative plans averaged 1.7, 1.5 and 4.0 minutes of call time, respectively. The number of billed pulses per average lines in service per month decreased to 30.7 in 2007, compared to 81.3 in 2006, reflecting the conversion of the system from pulses to minutes and also the industry-wide trend of fixed-to-mobile substitution and increased use of our ADSL service instead of our dial-up connections. The number of billed minutes per average lines in services per month totaled 54.2 in 2007. By not automatically disconnecting delinquent clients at switch centers with idle capacity, we were able to continue to realize revenues by blocking only outgoing calls, enabling such clients to continue to generate fees for network service usage on calls they were permitted to receive on their blocked lines.

Total revenues from measured service charges, which include charges for pulses used in excess of the fixed monthly allowance and charges for local fixed-line to mobile handsets, decreased by 7.6% to R$3,337.5 million in 2006 from R$3,613.7 million in 2005. This decrease was primarily due to a 7.6% decrease in revenues from local calls made from a fixed-line to mobile handsets (VC-1), resulting from greater competition in the sector, where mobile operators are offering plans in which the cost of the mobile-mobile minute can be lower than the fixed-mobile minute.

Total billed pulses, which are the number of pulses that exceed the fixed monthly allowance, decreased by 9.5% to approximately 8.8 billion in 2006. A pulse represents an average of 2.5 minutes of call time. The number of billed pulses per average lines in service per month decreased to 81.3 in 2006, compared to 84.8 in 2005, reflecting lower overall economic growth during 2006, and is consistent with the industry-wide trend of fixed-to-mobile substitution and increased use of our ADSL service instead of our dial-up connections. By not automatically disconnecting delinquent clients at switch centers with idle capacity, we were able to continue to realize revenues by blocking only outgoing calls, enabling such clients to continue to generate fees for network service usage on calls they were permitted to receive on their blocked lines.

Public Telephones

Total revenue from public telephones increased by 1.0% to R$546.0 million in 2007 from R$540.6 million in 2006. Despite the 2.2% decrease in the number of public phone credits to 5.15 billion credits in 2007 from 5.26 billion credits in 2006, this increase in our revenue from public phone credits was partially driven by the increase of 2.1% in the public phone rates. In this period, we had an increase of 1.4% in the number of public telephones in service to 281,800 thousand at December 31, 2007 from 277,900 at December 31, 2006.

Total revenue from public telephones increased by 8.8% to R$540.6 million in 2006 from R$496.8 million in 2005. Despite the 3.7% decrease in the number of public phone credits to 5.26 billion credits in 2006 from 5.46 billion credits in 2005 and the 0.3% decrease in the number of public telephones in service to 277.9 thousand at December 31, 2006 from 296.9 thousand at December 31, 2005, this increase in our revenue from public phone credits was partially driven by an increase in public phone usage by prepaid mobile phone subscribers, because the rates charged for outgoing calls on fixed-line public telephones are lower than the rates charged on outgoing calls from prepaid mobile phones.

Other Local Services

Total revenues from other local services, which consist primarily of installation fees and collect calls, decreased by 36.2% to R$47.3 million in 2007 from R$74.1 million in 2006, due to a decrease in the revenues from collect calls. Although there was an increase of 3.1% in the tariff for address changes, the respective revenues decreased to R$7.2 million in 2007 from R$10.7 million in 2006, mainly due to higher discounts applied in these services. Revenues from collect calls decreased to R$11.1 million in 2007 from R$22.6 million in 2006, principally due to the increase of 21.1% in 2007 in the number of mobile lines in our region, according to Anatel estimates.

Total revenues from other local services, which consist primarily of installation fees, address change and collect calls, decreased by 23.5% to R$74.1 million in 2006 from R$96.8 million in 2005, due to a decrease in the revenues from address changes and revenues from collect calls. Although there was an increase in the number of address changes to 434,630 in 2006 from 336,344 in 2005, the respective revenues decreased to R$10.7 million in 2006 from R$21.1 million in 2005. This reduction is a result of the decrease in the tariff for address changes, which suffered an average reduction of 75%. Revenues from collect calls decreased to R$22.6 million in 2006 from R$36.5 million in 2005, principally due to the increase of 9.2% in 2006 in the number of mobile lines in our region, according to Anatel estimates.

Revenues from Long-Distance Services

Intraregional Long-distance

Our revenues from intraregional long-distance services increased by 8.0% to R$2,662.5 million in 2007 from R$2,464.4 million in 2006. This increase is due to: (i) a 2.1% tariff increase in the domestic long distance basket price; (ii) a 10.9% and 30.9% traffic growth in VC-2 and VC-3, respectively. The increase was offset by a decrease of 1.8% and 12.6% in intra-sector and intra-regional calls, respectively.

Our revenues from intraregional long-distance services decreased by 6.2% to R$2,464.4 million in 2006 from R$2,626.4 million in 2005. This decrease is due to: (i) a 2.77% tariff decrease in the domestic long distance basket price; (ii) a 7.3% and 20.8% traffic reduction in intra-sector and intra-regional calls, respectively. The decrease was offset by the increase in our estimated average market share to 90.7% from 90.6% in the intrastate segment, and to 85.8% from 84.1% in the interstate segment, due to our targeted and focused television, radio and newspaper advertising campaigns.

Interregional and International Long-distance

Revenues from interregional and international long-distance services decreased by 6.8% to R$285.0 million in 2007, from R$305.7 million in 2006. The decrease in 2007 was primarily due to a 7.4% and 3.1%reduction in interregional and international long distance traffic, respectively. Our estimated market share in 2007 was 64.0% and 38.6% in the interregional and international segments, respectively.

Revenues from interregional and international long-distance services decreased by 16.0% to R$305.7 million in 2006, from R$364.1 million in 2005. The decrease in 2006 was primarily due to a 14.2% and 23.4% traffic reduction in interregional and international long distance, respectively. Our estimated market share in 2006 was 62.9% and 36.6% in the interregional and international segments, respectively.

Revenues from Data Transmission

Total revenues from data transmission, which include revenues from ADSL, ATM, DialNet, Vetor, Dedicated IP and other similar products increased by 20.7% to R$2,415.4 million in 2007 from R$2,000.5 million in 2006. This growth was due to a 19.0% increase in ADSL accesses and a 7.6% increase in ATM, Frame Relay and Vetor. Total ADSL accesses in service were approximately 1.6 million on December 31, 2007 up from approximately 1.3 million on December 31, 2006, and generated average revenues per line of approximately R$71.7 during 2007. In addition, the 19% increase in ADSL subscribers was driven by increased residential demand while the increase in IP and network accesses was due to increased corporate demand. Overall growth in all data transmission services was due to the expansion of our corporate client base and our ability to provide integrated solutions to our customers through targeted and focused marketing campaigns.

Total revenues from data transmission, which include revenues from ADSL, ATM, DialNet, Vetor, Dedicated IP and other similar products increased by 30.7% to R$2,000.5 million in 2006 from R$1,531.0 million in 2005. This growth was due to a 29.9% increase in ADSL accesses and a 8.9% increase in ATM, Frame Relay or Dedicated IP. Total ADSL accesses in service were approximately 1.3 million on December 31, 2006 up from approximately 1.0 million on December 31, 2005, and generated average revenues per line of approximately R$67.27 during 2006. In addition, the 29.9% increase in ADSL subscribers was driven by increased residential demand while the increase in IP and network accesses was due to increased corporate demand. Overall growth in all data transmission services was due to the expansion of our corporate client base and our ability to provide integrated solutions to our customers through targeted and focused marketing campaigns.

Revenues from Network Services

Revenues from network services are generated primarily from interconnection fees paid to us by other telecommunications operators for use of our network and, to a lesser extent, from fees generated from mobile service providers for the leasing of our transmission facilities, infrastructure and other equipment, and fees from the rental of our assets, such as points of presence, to other long-distance and mobile operators.

Total revenues from network services decreased by 7.1% to R$715.6 million in 2007, from R$770.6 million in 2006, due to a reduction of 20.0% in TURL rate as of January 1, 2007. Total revenues from interconnection fees consisted of R$243.2 million from fixed-to-fixed traffic compared to R$298.2 million in 2006, R$114.4 million from mobile-to-fixed traffic compared to R$143.9 million in 2006, and R$357.9 million from leasing fees compared to R$328.4 million in 2006.

Total revenues from network services decreased by 18.2% to R$770.6 million in 2006, from R$941.5 million in 2005, due to our continued penetration of the interregional and international segments. Since we provide these services, we no longer receive interconnection fees from other telecommunications companies. Total revenues from interconnection fees consisted of R$298.2 million from fixed-to-fixed traffic compared to R$397.1 million in 2005, R$143.9 million from mobile-to-fixed traffic compared to R$236.6 million in 2005, and R$328.4 million from leasing fees compared to R$307.8 million in 2005.

Mobile Services

Total revenues from mobile services reached R$1,919.3 million in 2007, a 45% increase from R$1,323.3 million in 2006, consisting of: (i) R$270.5 million in sales of handsets and related equipment, up from R$286.2 million in 2006; and (ii) R$1,648.9 million derived from services, up from R$1,037.1 million in 2006, composed primarily of: (a) monthly subscription charges, which accounted for R$433.6 million at December 2007, up from R$305.4 million at December 2006, (b) utilization charges which include charges for minutes used in excess of the mobile monthly allowances and accounted for R$547.1 million at December 2007, up from R$388.2 million at December 2006 and (c) interconnection charges which accounted for R$624.7 million at December 2007, up from R$300.1 million at December 2006. The increase in the interconnection charges was primarily due to the effects of Anatel s new regulation (full bill), which established that all calls among mobile operators would be charged (previously only the calls in which the difference in outgoing and incoming traffic was superior to 55% were charged). By the end of 2007 we had approximately 4.3 million mobile subscribers, a 26.2% increase from the 3.38 million mobile subscribers at the end of 2006.

Total revenues from mobile services reached R$1,323.3 million in 2006, an 80.7% increase from R$732.3 million in 2005, consisting of: (i) R$286.2 million in sales of handsets and related equipment, up from R$299.4 million in 2005; and (ii) R$1,037.1 million derived from services, up from R$433.0 million in 2005, composed primarily of: (a) monthly subscription charges, which accounted for R$305.4 million at December 2006, up from R$167.8 million at December 2005, (b) utilization charges which include charges for minutes used in excess of the mobile monthly allowances and accounted for R$388.2 million at December 2006, up from R$209.7 million at December 2005 and (c) interconnection charges which accounted for R$300.1 million at December 2006, up from R$43.2 million at December 2005. The increase in the interconnection charges was primarily due to the effects of Anatel s new regulation (full bill), which established that all calls among mobile operators would be charged (previously only the calls in which the difference in outgoing and incoming traffic was superior to 55%). By the end of 2006 we had approximately 3.38 million mobile subscribers, a 52.6% increase from the 2.21 million mobile subscribers at the end of 2005.

Revenues from Other Services

Other services consist primarily of supplementary and value-added services such as toll-free, call forwarding and caller ID, as well as Internet access services. Total revenues from other services increased by 14.2% to R$887.4 million in 2007 from R$777.3 million in 2006. Revenues from supplementary and value-added services increased by 7.2% to R$394.0 million in 2007 from R$367.6 million in 2006 and revenues from internet access services increased by 25.1% to R$458.3 million in 2007 from R$366.3 million in 2006. We are the leader in the Brazilian Internet market, having generated 44.6 billion minutes of usage in 2007, with 1.34 million subscribers paying for services including broadband access and value-added services.

Total revenues from other services increased by 1.2% to R$777.3 million in 2006 from R$768.1 million in 2005. Revenues from supplementary and value-added services increased by 8.7% to R$367.6 million in 2006 from R$338.1 million in 2005. This growth was due to increased advertising campaigns promoting value added services as part of our strategy to increase average revenue per line. We are also the leader in the Brazilian Internet market, having generated 42.4 billion minutes of usage in 2006, with 1.4 million subscribers paying for services including broadband access and value-added services.

Charges Against Gross Operating Revenues

Value-added and Other Indirect Taxes

The total amount of value-added and other taxes increased by 1.6% to R$4,353.8 million in 2007 from R$4,286.0 million in 2006. The rate of growth in value-added and other taxes reflects the rate of growth in our gross operating revenue during the period and the change in revenue mix, as there is less tax applicable to certain services, such as interconnection services.

The total amount of value-added and other taxes increased by 1.6% to R$4,286.0 million in 2006 from R$4,219.1 million in 2005. The rate of growth in value-added and other taxes reflects the rate of growth in our gross operating revenue during the period and the change in revenue mix, as there is less tax applicable to certain services, such as interconnection services.

Discounts

Discounts are generally divided into rebates on: (i) pre-paid telephone cards (typically having commissions of approximately 10.0% over the face amount sold), (ii) local wireline calls, (iii) long-distance calls, and (iv) intelligent network services (such as caller ID, call forwarding and conference calling). Discounts reached R$585.0 million in 2007, compared to R$528.7 million in 2006 and R$329.5 million in 2005.

Cost of Services

Total cost of services decreased by 1.3% to R$6,384.1 million in 2007 from R$6,466.5 million in 2006. Our cost of services decreased primarily as a result of (i) a decrease in depreciation and amortization, which decreased by 11.8% to R$2,033.8 million in 2007 from R$2,306.6 million in 2006, and (ii) a 11.4% decrease in the cost of material that includes cost of mobile handsets and accessories to R$325.4 million in 2007 from R$367.1 million in 2006. These reductions were partially offset by an increase in third party services mainly due to interconnection services provided in 2007. As a percentage of net operating revenues, cost of services decreased to 57.7% in 2007 from 62.8% in 2006.

Total cost of services decreased by 0.9% to R$6,466.5 million in 2006 from R$6,525.9 million in 2005. Our cost of services decreased primarily as a result of (i) a decrease in third party services, which decreased by 2.5% to R$3,025.9 million in 2006 from R$3,102.8 million in 2005, and (ii) a 17.6% decrease in the cost of mobile handsets and accessories to R$294.7 million in 2006 from R$357.7 million in 2005. This decrease in third party services was largely due to the reduction in interconnection costs. As a percentage of net operating revenues, cost of services decreased to 62.8% in 2006 from 64.4% in 2005.

The following table sets forth certain components of our cost of services, as well as the percentage change from the prior year, for 2005, 2006 and 2007.

	Year ended December 31,	Percentage Changes

	2005	2006	2007	2005 - 2006	2006 2007
Cost of Services:	(thousands of *reais*, except percentages)				
Depreciation and amortization	(2,278,511)	(2,306,553)	(2,033,844)	1.2	(11.8)
Personnel	(160,721)	(193,021)	(184,443)	20.1	(4.4)
Mobile handsets and accessories	(357,680)	(294,727)	(255,429)	(17.6)	(13.3)
Materials	(73,871)	(72,394)	(69,951)	(2.0)	(3.4)
Services	(3,102,827)	(3,025,924)	(3,252,907)	(2.5)	7.5
Other	(552,288)	(573,844)	(587,499)	3.9	2.4
Total cost of services	(6,525,898)	(6,466,463)	(6,384,073)	(0.9)	(1.3)

Depreciation and Amortization

Total depreciation and amortization costs decreased by 11.8% to R$2,033.8 million in 2007 from R$2,306.6 million in 2006. This decrease was due to fully depreciated items.

Total depreciation and amortization costs increased by 1.2% to R$2,306.6 million in 2006 from R$2,278.5 million in 2005, mainly due to a depreciation of Brasil Telecom Cabos Submarinos Ltda.

Personnel

On December 31, 2007, our total number of employees was 16,769. The increase came from the addition, in December 2007, of 10,866 employees that work in the newly added call center business. As the addition occurred in December, there was no relevant impact in personnel costs in 2007.

Total personnel costs decreased by 4.4% in 2007 to R$184.4 million from R$193.0 million in 2006. The decrease resulted from additional expenses incurred in 2006 due to the downsizing of our workforce announced in February 2006 that created a non-recurring labor charge.

Total personnel costs increased by 20.1% in 2006 to R$193.0 million from R$160.7 million in 2005. This increase in personnel costs was primarily due to labor expenses related to the downsizing in our workforce announced in February 2006, an increase in our employees profit share and to the collective labor agreement.

Mobile handsets and accessories

Total costs related to mobile handsets and accessories decreased by 13.3% to R$255.4 million in 2007 from R$294.7 million in 2006. This decrease was primarily due to appreciation of the real against the US dollar and the Japanese yen, partially offset by an increase in the number of handsets sold.

Total costs related to mobile handsets and accessories decreased by 17.6% to R$294.7 million in 2006 from R$357.7 million in 2005. This decrease was primarily due to appreciation of the real against the US dollar and the Japanese yen, partially offset by an increase in the number of handsets sold.

Material

Total costs related to materials, such as plastic phone cards and materials for network maintenance (such as cable), decreased by 3.4% to R$69.9 million in 2007 from R$72.4 million in 2006. This decrease in cost of material was primarily due to a reduction in the issuance of pre-paid phone cards.

Total costs related to materials, such as plastic phone cards and materials for network maintenance (such as cables), decreased by 2.0% to R$72.4 million in 2006 from R$73.9 million in 2005. This decrease in cost of material was primarily due to a reduction in the issuance of pre-paid phone cards.

Services

The cost of third party services increased by 7.5% to R$3,252.9 million in 2007 from R$3,025.9 million in 2006. This increase in costs is largely due to a 9.6% increase in interconnection costs. Interconnection costs increased to approximately 14.5% of gross revenues, or R$2,318.9 million in 2007, from approximately 14.0%, or R$2,114.9 million, in 2006. This increase was due to higher mobile-penetration of the market (including other mobile operators), an increase in the number of fixed-to-mobile calls (mainly VC-2 and VC-3) and the readjustment of the VUM rates to

2.25% .

The cost of third party services decreased by 2.5% to R$3,025.9 million in 2006 from R$3,102.8 million in 2005. This decrease in costs is largely due to a 7.1% reduction in interconnection costs. Interconnection costs decreased to approximately 14.0% of gross revenues, or R$2,114.9 million in 2006, from approximately 15.5%, or R$2,275.8 million, in 2005. This decrease was due to our higher mobile penetration and by the usage of BrT GlobeNet s services, which assured the necessary autonomy to carry its own international traffic of voice, data and Internet protocol. In addition to the 45.0% fixed-to-mobile rate readjustment the interconnection costs presented a R$161.0 million decrease from 2005, reflecting our mobile economies.

Other Costs of Service

Other costs of service, which primarily include fees paid for the rental of equipment and infrastructure, insurance and a fee imposed by Anatel on providers of telecommunications services for the inspection of switching stations and mobile terminals, referred to as *Taxa de Fiscalização de Telecomunicações*, or FISTEL, increased by 2.4% to R$587.5 million in 2007 from R$573.8 million in 2006.

Other costs of service increased by 3.9% to R$573.8 million in 2006 from R$552.3 million in 2005.

Gross Profit

Our gross profit increased in 2007 by 22.0% to R$4,674.5 million from R$3,830.2 million in 2006, as a result of an increase in net operating revenues. As a percentage of net operating revenues, gross profit increased to 42.3% in 2007 from 37.2% in 2006.

Our gross profit increased in 2006 by 6.0% to R$3,830.2 million from R$3,612.8 million in 2005, as a result of a reduction in cost of services and an increase in net operating revenues. As a percentage of net operating revenues, gross profit increased to 37.2% in 2006 from 35.6% in 2005.

Operating Expenses

Total operating expenses, which include selling expenses, general and administrative expenses and other net operating expenses, increased by 9.1% to R$3,325.1 million in 2007 from R$3,046.9 million in 2006. This increase was primarily a result of the increase in net operating expenses, as discussed below.

Total operating expenses decreased by 14.1% to R$3,046.9 million in 2006 from R$3,547.3 million in 2005. This decrease was primarily a result of the decrease in selling expenses in the period, as discussed below.

The following table sets forth certain components of our operating expenses, as well as the percentage change from the prior year, for 2005, 2006 and 2007.

	Year ended December 31,			**Percentage Changes**	
	2005	**2006**	**2007**	**2005 - 2006**	**2006 - 2007**
Operating expenses:	(thousands of *reais*, except percentages)				
Selling expenses	(1,656,242)	(1,470,642)	(1,485,352)	(11.2)	1.0
General and administrative expenses	(1,264,741)	(1,314,119)	(1,340,029)	3.9	2.0
Other net operating expenses (income)	(626,306)	(262,134)	(499,803)	(58.1)	90.7
Total operating expenses	(3,547,289)	(3,046,895)	(3,325,184)	(14.1)	9.1

Selling Expenses

Total selling expenses increased 1.0% to R$1,485.3 million in 2007 from R$1,470.6 million in 2006. The increase was primarily due to marketing and advertising, which increased by R$15.3 million in 2007.

Bad debt and provisions for doubtful accounts decreased 9.5% in 2007 despite the increase in gross revenues. As a percentage of gross revenues, bad debt and provisions for doubtful accounts decreased to 2.2% of gross revenues in 2007 from 2.5% in 2006.

Total selling expenses decreased 11.2% to R$1,470.6 million in 2006 from R$1,656.2 million in 2005. The decrease was primarily due to third party services, which decreased R$154.5 million in 2006, largely due to a 35.9% reduction in marketing and advertising.

Bad debt and provisions for doubtful accounts decreased 14.5% in 2006 despite the increase in gross revenues. As a percentage of gross revenues, bad debt and provisions for doubtful accounts decreased to 2.5% of gross revenues in 2006 from 3.1% in 2005. These reductions reflect our continued focus on measures to control bad debt, such as the introduction of alternative plans to mitigate credit risk.

General and Administrative Expenses

Total general and administrative expenses increased 2.0% to R$1,340.0 million in 2007 from R$1,314.1 million in 2006. The increase was primarily due to an increase of R$40.6 million in third-party services of which R$16.3 million was contracted by information technology and R$24.3 million was contracted by general and administrative expenses. As a percentage of net operating revenues, general and administrative expenses declined to 12.1% in 2007 from 12.8% in 2006.

Total general and administrative expenses increased 3.9% to R$1,314.1 million in 2006 from R$1,264.7 million in 2005. The increase was primarily due to an increase of R$45.8 million in depreciation and amortization. As a percentage of net operating revenues, general and administrative expenses rose to 12.8% in 2006 from 12.5% in 2005.

Other Net Operating Expenses (Income)

In 2007, total other net operating expenses amounted to R$499.8 million, a 90.7% increase from R$262.1 million in 2006. This result is primarily due to a 33.4% increase in contingencies to R$649.7 million in 2007 from R$487.2 million in 2006. This increase in contingencies was mainly due to new civil and tax lawsuits and reassessments 2007, relating to discrepancies between loan and state government interpretations with respect to the Company s tax assessments, as well as R$127.9 million in recovery of taxes and recovered expenses registered in 2006.

In 2006, total other net operating expenses amounted to R$262.1 million, a 58.1% reduction in comparison to R$626.3 million in 2005. This result is primarily due to a R$237.5 million reduction in provisions and administrative costs for Pension Funds and a R$127.9 million increase in recovery of taxes and recovered expenses.

Operating Income (Loss) Before Net Financial Expenses

Our total operating income before net financial expenses increased by 72.3% to an income of R$1,349.3 million in 2007 from an income of R$783.3 million in 2006. This increase is due to an increase of 7.4% in net operating revenue, partially offset by a 90.7% increase in other operating income/expenses. As a percentage of net operating revenues, operating income before net financial expenses increased to 12.2% in 2007 from 7.6% in 2006.

Our total operating income before net financial expenses increased by 1,095.9% to an income of R$783.3 million in 2006 from an income of R$65.5 million in 2005. This increase is due to an increase of 6.0% in gross profits and a 58.1% decrease in other operating income/expenses. As a percentage of net operating revenues, operating income before net financial expenses increased to 7.6% in 2006 from 0.65% in 2005.

Net Financial Expenses

Total net financial expenses represent the net effect of interest income, interest expense and exchange rate and monetary restatement gain and loss.

In 2007, our net financial expenses decreased 9.2% to R$263.1 million from R$289.7 million in 2006 primarily as a result of the appreciation of the real against the US Dollar and the Japanese Yen, together with the reduction in interest expenses due to the redemption of all outstanding debentures of the 3rd public issuance, in the amount of R$500 million, and the reduction of the UMBNDES rate from -8.5% in 2006 to -16.8% in 2007, which reduced the cost of BNDES loans.

In 2006, our net financial expenses decreased 51.4% to R$289.7 million from R$596.2 million in 2005 primarily as a result of:

- a 46.8% reduction of swap contracts in foreign currency, to R$136.5 million in 2006 from R$256.8 million in 2005 due to the appreciation of the r*eal* in comparison to the Japanese Yen, which represented, in 2006, an effect of 23.5% in BrT s Receives position, against 9.5% in 2005;

- a reduction of R$94.7 million in loans in foreign currency referring to the appreciation of the *real* against the US dollar and the Japanese Yen.

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Operating Income (Loss)

Our total operating income increased to R$1,086.2 million in 2007 from R$493.6 million in 2006, primarily as a result of a 22.0% increase in gross profits, a 9.1% increase in operating expenses and a 9.2% decrease in net financial expenses. As a percentage of net operating revenues, operating income increased to 9.8% in 2007 from 4.8% in 2006.

Our total operating income (loss) decreased to R$493.6 million in 2006 from a loss of R$530.7 million in 2005, primarily as a result of a 6.0% increase in gross profits, a 14.1% decrease in operating expenses and a 51.4% decrease in net financial expenses. As a percentage of net operating revenues, operating income increased to 4.8% in 2006 from a loss of 5.2% in 2005.

Net Non-Operating Income (Expenses)

Net non-operating income (expenses) consist principally of equipment disposal in connection with the modernization of our network. Total net non-operating income (expenses) reverted to an expense of R$2.4 million in 2007 from income of R$30.9 million in 2006, due to the increase in expenses of R$44.5 million from the write-off of non-operating assets, offset by R$14.5 million in provision for tax incentive losses registered in 2006 that did not occur in 2007.

Total net non-operating income (expenses) reverted to an income of R$30.9 million in 2006 from expenses of R$149.0 million in 2005. Net non-operating expenses are comprised mainly of the amortization of goodwill we acquired as a result of the merger with CRT in December 2000. Goodwill amortization for CRT became fully amortized in 2006 and totaled R$7.8 million for the year ended December 31, 2006 from R$126.0 million for the year ended December 31, 2005. (See Note 8 to our audited consolidated financial statements).

Income (Loss) Before Taxes and Minority Interests

Our income (loss) before taxes and minority interests increased to an income of $1,083.7 million in 2007 from R$524.5 million in 2006 primarily as a result of the increase in operating loss and net non-operating expense. As a percentage of net operating revenues, income before taxes and minority interests reverted to an income of 9.8% in 2007 from income of 5.1% in 2006.

Our income (loss) before taxes and minority interests reverted to an income of R$524.5 million in 2006 from a loss of R$679.8 million in 2005 primarily as a result of the increase in operating loss and net non-operating expense. As a percentage of net operating revenues, income before taxes and minority interests reverted to an income of 5.1% in 2006 from a loss of 6.7% in 2005.

Income and Social Contribution Tax Benefits (Expenses)

Income and social contribution tax expenses increased to an expense of R$288.3 million in 2007 from an expense of R$95.0 million in 2006, due to an increase in income before taxes and minority interest of R$1,083.7 million in 2007 from income of R$524.5 million in 2006.

Income and social contribution tax benefits reverted to an expense of R$95.0 million in 2006 from an income of R$389.1 million in 2005, due to an increase in income before taxes and minority interest of R$524.5 million in 2006 from a loss of R$679.8 million in 2005.

Minority Interests

In 2007, we allocated R$1.8 million of gain to minority shareholders, originating from their stakes in iG Cayman and Agência o Jornal da Internet. In 2006, we allocated R$2.9 million of gain to minority shareholders, originating from their stakes in iG Cayman, Opinia Cayman and Agência o Jornal da Internet. In 2005, we allocated R$13.0 million of loss to minority shareholders, originating from their stakes in iBest and iG.

Net Income (Loss)

Our net income increased to R$797.3 million in 2007 from R$432.4 million in 2006, as a result of the increase in operating income. As a percentage of net operating revenues, net income increased to 7.2% in 2007 from 4.2% in 2006.

Our net income (loss) reverted to a net income of R$432.4 million in 2006 from a net loss of R$303.7 million in 2005, as a result of the increase in operating income and reduction of net non-operating expenses. As a percentage of net operating revenues, net income reverted to 4.2% in 2006 from a loss of 3.0% in 2005.

Information per Business Segment

Our business segments presented in this annual report were identified based on their performance and management structure, as well as internal management information. Income and other information by segment takes into consideration the items directly attributable to the segment as well as those that can be reasonably allocated to such segment.

	Company reportable segments as of December 31, 2007				
	Fixed Telephony, Data Transmission and Call Center (1)	Mobile Telephony	Internet	Eliminations	Consolidated
Net operating revenue	9,754,044	1,745,934	379,515	(820,947)	11,058,546
Gross income (loss)	4,245,633	214,242	324,312	(108,724)	4,675,463
Operating income (loss)before financial revenues (expenses)	1,757,555	(332,083)	(76,318)	135	1,349,289

(1) In November 2007, Brasil Telecom Call Center S.A. commenced operations, rendering call center services to us and our subsidiaries that demand this type of service. Previously, the call center services were outsourced.

	Company reportable segments as of December 31, 2006				
	Fixed Telephony and Data Transmission	Mobile Telephony	Internet	Eliminations	Consolidated
Net operating revenue	9,419,265	1,247,377	299,542	(669,525)	10,296,659
Gross income (loss)	3,649,832	71,294	153,978	(43,666)	3,831,438
Operating income (loss) before financial revenues (expenses)	1,321,772	(477,353)	(61,177)	59	783,301

	Company reportable segments as of December 31, 2005				
	Fixed Telephony and Data Transmission	Mobile Telephony	Internet	Eliminations	Consolidated
Net operating revenue	9,734,282	699,848	513,187	(808,633)	10,138,684

Gross income (loss)	3,823,126	(259,403)	175,403	(123,944)	3,615,182
Operating income (loss) before financial revenues (expenses)	906,350	(847,864)	6,998	13	65,497

Fixed Telephony, Data Transmission and Call Center

	Year ended December 31,			Percent change	
	2005	**2006**	**2007**	**2005-2006**	**2006-2007**
Net Operating Revenue	9,734,282	9,419,265	9,754,044	(3.2)	3.6
Cost of Services Rendered and Goods Sold	(5,911,156)	(5,769,433)	(5,508,411)	(2.4)	(4.5)
Gross Income	3,823,126	3,649,832	4,245,633	(4.5)	16.3
Operating Expenses, Net	(2,916,776)	(2,328,060)	(2,488,078)	(20.2)	6.9
Selling Expenses	(1,227,199)	(986,621)	(898,192)	(19.6)	(9.0)
General and Administrative Expenses	(1,079,120)	(1,123,975)	(1,158,858)	4.2	3.1
Management Compensation	(9,196)	(7,767)	(8,290)	(15.5)	6.7
Other Operating Expenses	(601,261)	(209,697)	(422,738)	(65.1)	101.6
Operating Income Before Financial Revenues (Expenses)	906,350	1,321,772	1,757,555	45.8	33.0

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Net Operating revenues

Net operating revenue increased 3.6% to R$9,754.0 million at December 31, 2007 from R$9,419.3 million at December 31, 2006. This increase was due to a 22.3% increase in data transmission revenue, partially offset by a 19.1% decrease in intraregional long-distance services and a 5.2% decrease in local services. In addition, the commencement of operations by our new call center in November of 2007 contributed R$20.9 thousand to our net operating revenue.

Net operating revenue decreased 3.2% to R$9,419.3 million at December 31, 2006 from R$9,734.3 million at December 31, 2005. This decrease was due to a 4.0% decrease in local services revenue and a 5.9% decrease in intraregional long-distance services, which was partially offset by a 18.4% increase in data transmission revenue.

Revenue from local services decreased to R$6,571.1 million at December 31, 2007 from R$6,941.6 million at December 31, 2006. This decrease was primarily due to a 20.2% decrease in measured service charges and a 4.4% decrease in charges for local fixed-line to mobile handsets. Revenues from measured service charges, which include charges for minutes used in excess of the fixed monthly allowance and charges for local fixed-line to mobile handsets, decreased to R$1,105.7 million in 2007 from R$1,386.2 million in 2006, primarily due to the increase of 24.3% in the number of local fixed alternative plan lines over 2006, which resulted in the 0.7% increase of the monthly subscription revenues. The decrease of 4.4% in revenues from local calls made from a fixed-line to mobile handsets (VC-1) is the result of greater competition in the sector, where mobile operators are offering plans in which the cost of the mobile-mobile minute can be lower than the fixed-mobile minute.

Revenue from local services decreased to R$6,941.6 million at December 31, 2006 from R$7,228 million at December 31, 2005. This decrease was primarily due to a 2.9% decrease in monthly subscription charges and a 7.6% decrease in charges for local fixed-line to mobile handsets. The decrease in monthly subscription resulted from a decreased penetration of fixed-line telecommunications services in our region attributable to a decrease in telephone density in our region to 19.4 lines in service per 100 inhabitants at December 31, 2006 from 22.3 lines in service per 100 inhabitants at December 31, 2005. The total number of active lines in service decreased to 8.1 million at December 31, 2006 from 8.6 million at December 31, 2005. Revenue from local calls made from a fixed-line to mobile handsets decreased by 7.6%, resulting from greater competition in the sector, where mobile operators were offering plans in which the cost of the mobile-mobile minute can be lower than the fixed-mobile minute.

Revenue from intraregional long-distance services increased by 8.1% to R$2,672.5 million at December 31, 2007 from R$2,471.7 million at December 31, 2006 due to: (i) a 2.1% tariff increase in the domestic long distance basket price; (ii) a 10.9% and 30.9% traffic growth in VC-2 and VC-3 calls, respectively. The increase was offset by the decrease of 1.8% and 12.6% traffic reduction in intra-sector and intra-regional calls, respectively.

Revenue from intraregional long-distance services decreased by 5.9% to R$2,471.7 million at December 31, 2006 from R$2,626.6 million at December 31, 2005 due to: (i) a 2.77% tariff decrease in the domestic long distance basket price; and (ii) a 7.3% and 20.8% traffic reduction in intra-sector and intra-regional calls, respectively. The decrease was offset by the increase in our estimated average market share to 90.7% from 90.6% in the intrastate segment and to 85.8% from 84.1% in the interstate segment, due to the success of our advertising campaigns.

Data transmission revenue, which includes revenue from ADSL, ATM, DialNet, Vetor, Dedicated IP and other similar products increased by 25.5% to R$2,456.1 million at December 31, 2007 from R$1,957.7 million at December 31, 2006. This growth was due to a 29.9% increase in ADSL subscribers and a 8.9% increase in ATM, Frame Relay or Dedicated IP. Total ADSL subscribers in service were approximately 1,567.8 million on December 31, 2007 up from approximately 1,317.7 million on December 31, 2006. In addition, the 29.9% increase in ADSL subscribers was driven by increased residential demand while the increase in IP and network accesses was due to increased corporate demand. Overall growth in data transmission services was due to the expansion of our corporate client base and our ability to provide integrated solutions to our customers.

Data transmission revenue, which includes revenue from ADSL, ATM, DialNet, Vetor, Dedicated IP and other similar products increased by 18.4% to R$1,957.7 million at December 31, 2006 from R$1,654 million at December 31, 2005. This growth was due to a 29.9% increase in ADSL accesses and a 8.9% increase in ATM, Frame Relay or Dedicated IP. Total ADSL accesses in service were approximately 17.7 million on December 31, 2006 up from approximately 1.0 million on December 31, 2005. In addition, the 29.9% increase in ADSL subscribers was driven by increased residential demand while the increase in IP and network accesses was due to increased corporate demand. Overall growth in data transmission services was due to the expansion of our corporate client base and our ability to provide integrated solutions to our customers.

Value-added and other tax expense was R$3,899.3 million at December 31, 2007 from R$3,926.6 million at December 31, 2006. Discounts reached R$280.2 million at December 31, 2007. Net operating revenues increased 3.6% to R$9,754.0 million at December 31, 2007 from R$9,419.3 million at December 31, 2006, mainly due to the increase in gross revenue.

Value-added and other tax expense was R$3,929.6 million at December 31, 2006 from R$3,963.5 million at December 31, 2005. Discounts reached R$307.6 million at December 31, 2006. Net operating revenues decreased 3.2% to R$9,419.3 million at December 31, 2006 from R$9,734.3 million at December 31, 2005, mainly due to the increase in gross revenue.

Cost of services rendered and goods sold

Cost of services rendered and goods sold decreased by 4.5% to R$5,508.4 million at December 31, 2007, from R$5,769.4 million at December 31, 2006. Our cost of services decreased primarily as a result of a decrease in depreciation, which decreased by R$308.9 million during 2007, largely due to the increase in fully depreciated items.

Cost of services rendered and goods sold decreased by 2.4% to R$5,769.4 million at December 31, 2006, from R$5,911.2 million at December 31, 2005. Our cost of services decreased primarily as a result of a decrease in third party services, which decreased by R$246.4 million during 2006, largely due to the reduction in interconnection cost. As a percentage of net operating revenues, interconnection costs increased to 25.8% in 2006 from 24.0% in 2005. The reduction in interconnection costs was mainly driven by decreasing traffic from local fixed-line calls to mobile handsets.

Gross income

Gross income increased 16.3% to R$4,245.6 million at December 31, 2007 from R$3,649.8 million at December 31, 2006, primarily due to a 3.6% increase in net operating revenue, despite a 4.5% decrease in costs of services rendered and goods sold.

Gross income decreased 4.5% to R$3,649.8 million at December 31, 2006 from R$3,823.1 million at December 31, 2005, primarily due to a 3.2% decrease in net operating revenue, despite a 2.4% decrease in costs of services rendered and goods sold.

Selling Expenses

Selling expenses decreased 9.0% to R$898.2 million at December 31, 2007 from R$986.6 million at December 31, 2006 primarily due to third party services and bad debt and provisions for doubtful accounts. Third party services decreased R$8.0 million in 2007. Bad debt and provisions for doubtful accounts decreased 17.3% in 2007 despite the increase in gross revenue. As a percentage of gross revenue, bad debt and provisions for doubtful accounts decreased to 1.9% of gross revenues in 2007 from 2.5% in 2006 as a result of our continued focus on measures to control bad debt, such as the introduction of alternative plans to mitigate credit risk. The decrease resulted from additional expenses incurred in 2006 due to the downsizing of our workforce announced in February 2006 that created a non-recurring labor charge, partially offset by the addition of 10,866 employees that work in our newly added call center business.

Selling expenses decreased 19.6% to R$986.6 million at December 31, 2006 from R$1,227.2 million at December 31, 2005 primarily due to third party services and bad debt and provisions for doubtful accounts. Third party services decreased R$57.8 million in 2006, largely due to a 30.4% reduction in marketing and advertising. Bad debt and provisions for doubtful accounts decreased 14.5% in 2006 despite the increase in gross revenue. As a percentage of gross revenue, bad debt and provisions for doubtful accounts decreased to 2.5% of gross revenues in 2006 from 3.1% in 2005 as a result of our continued focus on measures to control bad debt, such as the introduction of alternative plans to mitigate credit risk.

General and administrative expenses

General and administrative expenses increased 3.1% to R$1,158.9 million at December 31, 2007 from R$1,124.0 million at December 31, 2006 primarily due to an increase in subcontracted services.

General and administrative expenses increased 4.2% to R$1,124.0 million at December 31, 2006 from R$1,079.1 million at December 31, 2005 primarily due to an increase of R$35.0 million in depreciation and amortization.

Management compensation

Management compensation increased 6.7% to R$8.3 million in 2007 from R$7.8 million in 2006, mainly due to the addition of executives to our senior management team in 2007.

Management compensation decreased 15.5% to R$7.8 million in 2006 from R$9.2 million in 2005, mainly due to extraordinary costs related to changes (lay-offs) in our senior management team in 2005.

Other Operating Expenses

Other operating expenses increased 101.6% to R$422.8 million at December 31, 2007 from R$209.7 million at December 31, 2006 due to the reassessment of tax, civil and labor contingencies and also an increase in operating expenses due to a recovery of taxes and recovered expenses.

Other operating expenses decreased 65.1% to R$209.7 million at December 31, 2006 from R$601.3 million at December 31, 2005 due to a reduction in provisions and administrative costs for Pension Funds and an increase in recovery of taxes and recovered expenses.

Mobile Telephony

	Year ended December 31,			**Percent change**	
	2005	**2006**	**2007**	**2005-2006**	**2006-2007**
Net Operating Revenue	699,848	1,247,377	1,745,934	78.2	40.0
Cost of Services Rendered and Goods Sold	(959,251)	(1,176,083)	(1,531,692)	22.6	30.2
Gross Income (Expense)	(259,403)	71,294	214,242	(127.5)	200.5
Operating Expenses, Net	(588,461)	(548,647)	(546,325)	(6.8)	0.4
Selling Expenses	(487,783)	(432,432)	(453,909)	(11.3)	5.0
General and Administrative Expenses	(128,092)	(125,930)	(128,803)	(1.7)	2.3
Other Operating Income	27,414	9,715	36,387	(64.6)	274.5
Operating Loss Before Financial Income (Expenses)	(847,864)	(477,353)	(332,083)	(43.7)	(30.4)

Net Operating revenues

Net operating revenues from mobile services reached R$1,745.9 million at December 31, 2007, a 40.0% increase from R$1,247.4 million at December 31, 2006, consisting of gross revenue of R$270.5 million in sales of handsets and related equipment at December 31, 2007, compared to R$286.2 million at December 31, 2006 and R$2,175.3 million derived from services at December 31, 2007, up from R$1,502.8 million at December 31, 2006, composed primarily of (i) monthly subscription charges of R$433.6 million at December 31, 2007, up from R$305.4 million at December 31, 2006, mainly due to an increase of 26.2% in our mobile network in 2007, as we reached 4.2 million users at December 31, 2007, up from 3.3 million users at December 31, 2006, (ii) utilization charges of R$561.7 million at December 2007, up from R$417.6 million at December 31, 2006, mainly due to the aforementioned increase in our mobile network in 2007, and (iii) interconnection charges of R$1,032.1 million at December 2007, up from R$633.4 million at December 2006. The increase in the interconnection charges was primarily due to the increase in our mobile subscriber base and a 2.25% adjustment in the VU-M rate. Value-added and other taxes increased by 23.7% to R$316.9 million at December 31, 2007 from R$316.9 million at December 31, 2006. The rate of growth in value-added and other taxes mainly reflects the rate of growth in our gross operating revenue. Discounts reached R$307.8 million at December 31, 2007. Net operating revenues increased 40.0% to R$1,745.9 million at December 31, 2007 from R$1,247.4 million at December 31, 2006, mainly due to the increase in gross revenues.

Net operating revenues from mobile services reached R$1,247.4 million at December 31, 2006, a 78.2% increase from R$699.8 million at December 31, 2005, consisting of gross revenue of R$286.2 million in sales of handsets and related equipment at December 31, 2006, compared to R$299.4 million at December 31, 2005 and R$1,502.8 million derived from services at December 31, 2006, up from R$689.9 million at December 31, 2005, composed primarily of (i) monthly subscription charges of R$305.4 million at December 31, 2006, up from R$167.8 million at December 31, 2005, mainly due to an increase of 52.6% in our mobile network in 2006, as we reached 3.4 million users at December 31, 2006, up from 2.2 million users at December 31, 2005, (ii) utilization charges of R$417.6 million at December 2006, up from R$209.7 million at December 31, 2005, mainly due to the aforementioned increase in our mobile network in 2006, and (iii) interconnection charges of R$633.4 million at December 2006, up from R$276.2 million at December 2005. The increase in the interconnection charges was primarily due to new Anatel regulation requiring all calls among mobile operators to be charged (previously, charges were only assessed on calls in which the difference in outgoing and incoming traffic was greater than 55%). By the end of 2006, we had approximately 3.38 million mobile subscribers, a 52.6% increase from the 2.21 million mobile subscribers at the end of 2005. Value-added and other taxes increased by 69.8% to R$316.9 million at December 31, 2006 from R$186.6 million at December 31, 2005. The rate of growth in value-added and other taxes mainly reflects the rate of growth in our gross operating revenue. Discounts reached R$224.7 million at December 31, 2006. Net operating revenues increased 78.2% to R$1,247.4 million at December 31, 2006 from R$699.8 million at December 31, 2005, mainly due to the decrease in gross revenues.

Cost of services rendered and goods sold

Cost of services rendered and goods sold increased 30.2% to R$1,531.7 million at December 31, 2007 from R$1,176.1 million at December 31, 2006 primarily due to a R$303.3 million increase in interconnection costs resulting mainly from the increase in our mobile subscriber base.

Cost of services rendered and goods sold increased 22.6% to R$1,176.1 million at December 31, 2006 from R$959.3 million at December 31, 2005 primarily due to a R$166.5 million increase in interconnection costs resulting from the increase in our subscriber base and the effects of Anatel s new regulation (full bill).

Gross income

Gross income amounted to R$214.2 million at December 31, 2007 from R$71.3 million at December 31, 2006, basically due to the 40.0% increase in net operating revenues combined with the 30.2% increase in cost of services rendered and goods sold.

Gross income amounted to R$71.3 million at December 31, 2006 from an expense of R$259.4 million at December 31, 2005, basically due to the 78.2% increase in net operating revenues combined with the 22.6% increase in cost of services rendered and goods sold.

Selling Expenses

Selling exepenses increased 5.0% to R$453.9 million at December 31, 2007 from R$432.4 million at December 31, 2006 mainly due to a 2.8% decrease in advertising and marketing campaigns and an increase in provision for doubtful accounts.

Selling expenses decreased 11.3% to R$432.4 million at December 31, 2006 from R$487.8 million at December 31, 2005 mainly due to a 35.9% decrease in advertising and marketing campaigns.

General and administrative expenses

General and administrative expenses increased 2.3% to R$128.8 million at December 31, 2007 from R$125.9 million at December 31, 2006, mainly due to an increase of 16.5% in information technology service expenses.

General and administrative expenses decreased 1.7% to R$125.9 million at December 31, 2006 from R$128.1 million at December 31, 2005, mainly due to a decrease of 34.3% in personnel expenses and a 29.5% decrease in information technology service expenses.

Other Operating Income

Other operating income increased 274.5% to R$36.4 million at December 31, 2007 from R$9.7 million at December 31, 2006.

Other operating income decreased 64.6% to R$9.7 million at December 31, 2006 from R$27.4 million at December 31, 2005.

Internet

	Year ended December 31,			Percent change	
	2005	**2006**	**2007**	**2005-2006**	**2006-2007**
Net Operating Revenue	513,187	299,542	379,515	(41.6)	26.7
Cost of Services Rendered and Goods Sold	(337,784)	(145,564)	(55,203)	(56.9)	(62.1)
Gross Income	175,403	153,978	324,312	(12.2)	110.6
Operating Expenses, Net	(168,405)	(215,155)	(400,630)	27.8	86.2
Selling Expenses	(115,034)	(135,687)	(274,212)	18.0	102.1
General and Administrative Expenses	(58,640)	(76,575)	(68,475)	30.6	(10.6)
Management Compensation	(2,499)	(213)	(808)	(91.5)	279.3
Other Operating Income (Expenses)	7,768	(2,680)	(57,135)	(134.5)	2,031.9
Operating Income (Loss) Before Financial Income (Expenses)	6,998	(61,177)	(76,318)	(974.2)	24.7

Net operating revenues increased 26.7% to R$379.5 million at December 31, 2007 from R$299.5 million at December 31, 2006 and decreased 41.6% to R$299.5 million at December 31, 2006 from R$513.2 million at December 31, 2005.

Gross income increased 110.6% to R$324.3 million at December 31, 2007 from R$154.0 million at December 31, 2006 and decreased 12.2% to R$154.0 million at December 31, 2006 from R$175.4 million at December 31, 2005.

Liquidity and Capital Resources

Cash Flow

The following table sets forth our main source of funds and cash flows for the years indicated.

	Year ended December 31,		
Cash flows provided by (used in):	**2005**	**2006**	**2007**

		Millions of Reais	
Operating activities	2,460.8	2,525.7	3,109.1
Investing activities	(2,059.2)	(1,866.6)	(2,105.7)
Financing activities	(1,069.3)	152.4	(1,168.0)
Increase (decrease) in cash and cash equivalents[1]	(667.7)	811.5	(164.6)

(1) Cash and cash equivalents is comprised of cash, banks and temporary investments.

We use the net cash generated from our operations and from external financing to fund capital expenditures for our network expansion and modernization, to pay dividends, to meet our anticipated debt-service and to invest in new businesses.

We believe that we have sufficient sources of liquidity and capital to meet these requirements for approximately the next three years although we cannot assure you in this regard.

Cash Flow from Operating Activities

Our primary source of funds continues to be cash generated from operations. Our cash flow from operating activities increased 23.1% to R$3,109.1 million in 2007 from R$2,525.7 million in 2006. This increase is primarily due to a 7.4% increase in gross operating revenues compared to 2006. Our cash flow from operating activities increased 2.6% to R$2,525.7 million in 2006 from R$2,460.8 million in 2005. This increase is primarily due to a 14.1% decrease in operational expenses compared to 2005.

Cash Flow from Investing Activities

Acquisitions of property, plant and equipment continue to be our primary use of cash flow and other capital resources. Our cash flow used in investing activities increased 12.8% to R$2,105.7 million in 2007 from R$1,866.6 million in 2006. Our cash flow used in investing activities decreased 9.4% to R$1,866.6 million in 2006 from R$2,059.2 million in 2005. In 2007, we invested R$1,317.7 million in the expansion and modernization of our mobile and fixed-line telephone operations, primarily for the expansion of our data communications network and the implementation of regulatory projects to meet Anatel s requirements.

In 2006, we invested R$1,504.8 million in the expansion and modernization of our mobile and fixed-line telephone operations primarily for the expansion of our data communications network and the implementation of regulatory projects to meet Anatel s requirements. During 2005, we invested R$1,956.6 million to implement our mobile network, expand and modernize our fixed telephone network to facilitate the introduction of new products and services, enhance responsiveness to competitive challenges, increase the operating efficiency and productivity of our network and meet our network expansion and modernization goals.

Cash Flow from Financing Activities

We realized a cash outflow from financing activities of R$1,168.0 million in 2007, as compared to an inflow of R$152.4 million in 2006 primarily due to (i) R$601.0 million in new loans incurred in 2007, compared to R$1,915.9 million in new loans incurred in 2006, (ii) a R$22.0 million decrease in loans repaid for a total of R$1,417.0 million in loans repaid in 2007, compared to a total of R$1,439.0 million in loans repaid in 2006, and (iii) an increase in dividends and interest on shareholders equity paid by R$27.5 million to R$352.0 million in 2007, from R$324.5 million in 2006. See Indebtedness below.

We realized a cash inflow from financing activities of R$152.4 million in 2006, as compared to an ouflow of R$1,069.3 million in 2005 primarily due to (i) R$1,915.9 million in new loans incurred in 2006, compared to R$522.7 million in new loans incurred in 2005, (ii) a R$480.9 million increase in loans repaid for a total of R$1,439.0 million in loans repaid in 2006, compared to a total of R$958.1 million in loans repaid in 2005, and (iii) a decrease in interest on shareholders equity paid by R$247.1 million to R$324.5 million in 2006, from R$571.6 million in 2005. See Indebtedness below.

Increase (Decrease) in Cash and Cash Equivalents

In 2007, our cash and cash equivalents decreased by R$164.6 million to R$2,377.0 million, compared to a increase in cash and cash equivalents by R$811.5 million to R$2,541.6 million in 2006 from 2005. The decrease in our cash and cash equivalents was primarily due to a higher cash outflow from investment and financing activities, despite the growth in the cash flow from operating activities.

Indebtedness

At December 31, 2007, we had R$4,383.3 million of indebtedness, a decrease of 18.5% from R$5,375.2 million at December 31, 2006. Our net debt position at the end of 2007 was R$1,952.8 million (calculated as total debt minus cash and cash equivalents), compared to R$2,744.2 million at December 31, 2006, representing a decrease of 28.8% .

In 2007, our interest expense (including accrued interest) decreased by 24.5% to R$392.6 million from R$519.9 million in 2006, as a result of lower interest rates in Brazil in 2007 compared to 2006 and the reduction in our total indebtedness discussed above.

At December 31, 2006, we had R$5,375.2 million of indebtedness, an increase of 9.5% from R$4,908.2 million at December 31, 2005. Our net debt position at the end of 2006 was R$2,744.2 million, compared to R$3,178.1 million at December 31, 2005, representing a decrease of 3.7% .

In 2006 our interest expense (including accrued interest) decreased by 5.1% to R$519.9 million from R$548.2 million in 2005, as a result of lower interest rates in Brazil in 2006 compared to 2005 and the changes in indebtedness discussed above.

New Loans

On January 9, 2008, BNDES approved a new loan of up to R$259.1 million to our subsidiary, 14 Brasil Telecom Celular S.A. The proceeds will be used to finance our investment in our wireless network. The loan will be payable in nine and a half years, with a grace period of thirty months, and will bear interest of TJLP + 3.52% per annum. The proceeds are expected to be disbursed in fiscal years 2008 and 2009.

Existing Loans

On June 1, 2006, we publicly issued simple, nominative, non-convertible debentures. The debentures are guaranteed by our Parent and mature on June 1, 2013. Each debenture amortizes by approximately 33%, on June 1 of 2011, 2012 and 2013. Interest on the debentures is equivalent to 104% of the CDI rate and is payable on a semi-annual basis, on June 1 and December 1 of each year, until maturity.

On November 1, 2006, we entered into a new loan agreement with BNDES, in a total amount of R$2.104 billion, guaranteed by our Parent that matures on May 5, 2014. The proceeds will be used to finance our investment in wireline network and operational improvements to meet our targets under the PGMU and in the PGMQ. On November 21, 2006, we received the first tranche of the direct portion of this facility, in the amount of R$495.9 million, from which R$465.9 million bears interest at TJLP + 4.3% per annum and R$30.0 million bears interest at TJLP + 2.3% per annum. On November 22, 2006, we received the first tranche of the indirect portion of this facility from the pool of financial institutions, in the amount of R$304.1 million, bearing interest at TJLP + 4.3% per annum. On October 29 and November 27, 2007, we received the second tranche of the direct and indirect portions of this facility, in the amount of R$600.0 million, bearing interest at TJLP + 4.3% per annum. The remaining disbursements of the loan are expected to occur by the end of 2008.

See Item 10. Additional Information Material Contracts for additional information on our indebtedness.

Amortization of existing loans

On March 28, 2007, we notified the holders of our 4th series of debentures, being the 3rd public issuance, that we would exercise our option to redeem the debentures in while on April 17, 2007. Each debenture was entitled to a payment equal to the face value of R$10,000.00 plus accrued interest and a redemption premium equal to 0.55% of the face value plus interest.

The following table sets forth the repayment schedule of our indebtedness:

	At December 31, 2007		
	(thousands of *reais*)		
	Indebtedness	**Swap Adjustments**	**Total Indebtedness**

2008	377,791	118,984	496,775
2009	493,750	114,713	608,463
2010	609,107	110,607	719,714
2011	724,661	53,808	778,469
2012	640,969	-	640,969
2013	641,720	-	641,720
2014 and after	497,293	-	497,293
Indebtedness	3,985,291	398,112	4,383,403

Although our indebtedness decreased to R$4,383.4 million in 2007, and our interest expenses (including capitalized interest) decreased to R$392.6 million in 2007, we expect to be able to repay substantially all of the principal and interest on our indebtedness with internally generated funds. Net cash flow from our operating activities was R$3,109.1 million in 2007 compared to R$2,525.7 million in 2006.

Capital Expenditures

The following table sets forth our capital expenditures on plant expansion and modernization for each of the years ended December 31, 2005, 2006 and 2007.

	Year ended December 31, (millions of *reais)*		
	2005	**2006**	**2007**
Conventional Telephone	256.5	262.7	145.7
Data Network	411.5	275.0	240.2
Network Operation	292.2	249.8	226.3
Information Technology	180.8	97.0	127.0
Other (1)	395.4	285.0	380.7
Total Fixed Telephone	1,536.4	1,169.5	1,120.0
Total mobile Telephone	441.4	281.5	278.8
Total capital expenditures	1,977.8	1,451.0	1,398.8

(1) These investments include the acquisition of PCS licenses, the acquisition of Grupo BrT Cabos Submarinos, Brasil Telecom Comunicação Multimidia, iBest, Vant and iG, the investments in these enterprises and in transmission backbone, special platforms, technical and operational support such as telecommunications management network systems (not including regulatory and interconnection projects that are in Conventional Telephone).

Our capital expenditures decreased by approximately 3.6% to R$1,398.8 million in the year ended December 31, 2007, from R$1,451.0 million for the corresponding period in 2006. Of our total 2007 capital expenditures, R$1,120.0 million related to fixed-line telephone and internet operations and R$278.8 million to mobile telephone operations. The capital expenditures on the expansion and modernization of our fixed-line telephone operations related primarily to upgrading the capacity of our transmission backbone, the expansion of the data network and implementation of regulatory projects to meet Anatel s requirements.

Our capital expenditures decreased by approximately 26.6% to R$1,451.0 million in the year ended December 31, 2006, from R$1,977.8 million for the corresponding period in 2005. Of our total 2006 capital expenditures, R$1,169.5 million related to fixed-line telephone and internet operations and R$281.5 million to mobile telephone operations. The capital expenditures on the expansion and modernization of our fixed-line telephone operations related primarily to upgrading the capacity of our transmission backbone, the expansion of the data network and implementation of regulatory projects to meet Anatel s requirements.

We expect to finance our capital expenditures with funds generated from operations and loans from BNDES.

Acquisition of PCS Licenses

As part of our strategy of providing integrated solutions to our clients, we acquired PCS licenses for R$191.5 million at an auction held on November 19, 2002, and for R$28.6 at an auction held on April 25, 2004.

With respect to the November 19, 2002 auction, on December 18, 2002, we paid the equivalent of 10.0%; on December 18, 2005, we paid the equivalent of 15.0%; on December 18, 2006, we paid the equivalent of 15%; and on December 18, 2007, we paid the equivalent of 15.0%, of the total bid amount at auction. The remaining 45.0% will be paid in four equal installments annually, each respectively due 12, 24, 36 and 48 months after the last payment date (December 18, 2007). The amount of the installments will be adjusted monthly by the IGP-DI Index plus 1.0% interest rate over the indexed amount calculated from the execution date.

With respect to the April 25, 2004 auction, on April 25, 2004, we paid the equivalent of 10.0%; on April 25, 2007, we paid the equivalent of 15.0% of the total bid amount at auction. The remaining 75.0% will be paid in four equal installments annually, each respectively due 12, 24, 36 and 48 months after the last payment date (April 25, 2007). The amount of the installments will be adjusted monthly by the IGP-DI Index plus 1.0% interest rate over the indexed amount calculated from the execution date.

Acquisition of Licenses of Explotation of Multimedia Communication

At a May 6, 2003 auction by Anatel, Vant acquired the registration of licenses relating to the use of radiofrequency blocks associated with the offering of multimedia communication services and paid, on the same date, the equivalent of 10.0% of the bid amount (R$9.1 million) for these licenses. In April 2006, the registration of these licenses was transferred from Vant to BrT Multimídia. In connection with the transfer, BrT Multimídia assumed the outstanding balance of the license. On May 6, 2006, we paid the equivalent of 15.0% and on May 6, 2007, we paid the equivalent of 15% of the total bid amount at auction. The remaining 60.0% will be paid in four equal annual installments, each respectively due 12, 24, 36 and 48 months after the last payment date (May 6, 2007). The amount of the installments will be adjusted monthly by the IGP-DI Index plus 1.0% interest rate over the indexed amount calculated from the execution date.

Trading Activities

We do not engage in any trading activities involving commodity contracts. The only risk management activity that we engage in is the protection of some of our dollar, Japanese Yen and *Cesta de Moeda*-denominated indebtedness. See Item 11. Quantitative and Qualitative Disclosures About Market Risk Quantitative information about market risk Exchange Rate Risk.

Dividends

We are required to distribute to our shareholders, either as dividends or as tax deductible interest on shareholder equity, 25.0% of our Adjusted Net Income. Preferred Shareholders are entitled to receive a minimum non-cumulative Preferred Dividend equal to the greater of (i) 6.0% per year of the value of our total share capital divided by our total number of shares and (ii) 3.0% per year of the book value of our shareholders equity divided by the total number of our shares. In 2005, 2006 and 2007 we paid dividends of approximately R$571.6 million, R$324.5 million and R$352.0 million, respectively.

Pension Plans

We sponsor supplementary pension plans related to retirement for our employees and assisted participants, and, in the case of the latter, medical assistance in some cases. These plans are managed by the following foundations: (i) Fundação 14 de Previdência Privada; (ii) Fundação BrTPREV, formerly CRT, a company merged into us on December 28, 2000; and (iii) Fundação SISTEL de Seguridade Social, created from certain companies in the former Telebrás System.

The following is a brief summary of the plans:

Administration	Plan	Contribution	Sponsor	Status
SISTEL	PBS-A/PAMA	Defined benefit	Multiemployer	Overfunded
Fundação 14	TCSPREV	Defined contribution, settled	Single employer	Overfunded

		benefit and defined benefit		
BrT	PAMEC-BrT	Defined benefit	Single employer	Underfunded
FBrTPREV	BrTPREV	Defined contribution and settled benefit	Single employer	Underfunded
	Founder and alternative plan	Defined benefit	Single employer	Underfunded

For a more detailed description of our pension plans, see Note 29.a and Note 37.a to our Consolidated Financial Statements.

Research and Development

We conduct research and development in the area of telecommunication services, but historically have not independently developed new telecommunication technology. In 2006, we set up an structure under the responsibility of a Technology Architecture Deputy Director, responsible, for the development of new technologies. Our research is performed in cooperation with equipment and systems suppliers which also includes the joint development of new services. In 2007 we have been moving towards converged network architecture. This convergence includes the unified treatment of all medias (voice, data and video) in a unique transport structure for both fixed and mobile accesses in an integrated environment between the IT and Telecom worlds. As a first step to this new concept we launched new services such as IPTV, Metroethernet and the evolution of the service "Único" to include Wi-Fi access and GSM seamless integration. Also, several pre-commercial deployments, like Wi-Max, FTTx and 3G, will be launched in 2008. As a result of this work, we are the first Brazilian carrier to launch services that use next generation network architecture.

We strongly encourage our employees to develop innovative solutions through an incentive program to protect our intellectual property. In addition to the four requests for patent registration done in 2006, in 2007, our research and development team registered two other requests for patent registration on INPI.

Also, we participate in telecommunications standards bodies, technical associations and committee Forums such as the European Telecommunication Standards Institute (ETSI), the Telecommunication and Internet Services and Protocols for Advanced Networking (TISPAN), the Third Generation Partnership Project (3GPP), and the Fixed Mobile Convergence Alliance (FMCA) in order to contribute and gather expertise in globally applicable technical specifications, technical reports and telecommunications standards.

Another step towards research and development was our investment in a technology laboratory. Using this laboratory, our team has been able to explore new and emerging technologies to create cutting-edge telecommunications solutions and research. In 2007, we added new research and development functions to the lab, such as OSS-Operation Support System, BSS-Business Support System and Information Security. The lab facilities include space for equipment test and assembly. Also in 2007, we conducted trials of several technologies from different vendors keeping the focus on the evaluation and researching new products for deployment for our customers.

Research and development costs in our lab totaled R$10 million, and R$7.5 million in 2006 and 2007, respectively.

Since prior to the breakup of Telebrás, we, and each of the other former operating subsidiaries of Telebrás, have contributed to the Center, which is a research and development center formerly operated by Telebrás that develops telecommunications technology to be applied in Brazil. On August 3, 2001 we signed two service agreements with the Center, one in the amount of R$7.0 million per year for a three-year period (amended in 2004 and 2006 in the amount of R$9.0 million for each year), in order to maintain our access to telecommunications software developed by the Center, and the other in the amount of R$10.0 million per year for a 2-year period, (amended in 2004 and 2006 in the amount of R$15.0 million for each year), in order to receive technological services provided by the Center, including equipment testing, consulting and training services.

Our aggregate expenditures with the Center were R$16.8 million, R$17.9 million, and R$12.0 million in 2005, 2006, and 2007, respectively.

Contractual Obligations

The following tables set forth our obligations to make future payments under contracts, such as debt and lease agreements, and under contingent commitments, such as debt guarantees.

Contractual Obligations	Payments due by period at December 31, 2007[1] Less than 1 year	1-3 years	4-5 years	After 5 years	Total
			(thousands of *reais*)		
Indebtedness	377,791	1,827,518	1,282,689	497,293	3,985,291
Swap Adjustments	118,984	279,128	-	-	398,112
Rental commitments	25,361	9,805	-	-	35,166
Unconditional purchase obligations	191,980	-	-	-	191,980
Expected contributions for next period	100,290	300,870	200,580	88,160	689,900
Unrecognized long-term obligations [2]	-	-	-	10,463	10,463
Other long-term obligations	78,844	167,163	7,469	-	253,476
Total contractual cash obligations	893,250	2,584,484	1,490,738	595,916	5,564,388

(1) Not including interest payments on debt or payments under interest rate swap agreements. Interest payments on debt for years following 2007 have not been estimated. We are not able to determine such future interest payments because we cannot accurately predict future interest rates, our future cash generation, or future business decisions that could significantly affect our debt levels and consequently this estimate. For an understanding of the impact of a change in interest rates applicable to our long-term debt obligations, see Item 11. Quantitative and Qualitative Information About Market Risk Exchange Rate Risk. For additional information on the terms of our outstanding debt, see Operating and Financial Review and Prospects Indebtedness.

(2) Due to uncertainties in the timing of payments related to FIN 48 non-current obligations, which include interest and penalties, these amounts are included in "After 5 years."

New Accounting Pronouncements

CVM

In July 2007, CVM issued Instruction 457/07, which established that public companies shall, starting from reporting periods ending in 2010, present their consolidated financial statements according to International Financial Reporting Standards IFRS, as issued by the International Accounting Standards Board IASB. Pursuant to that instruction, companies have the option to implement this Instruction with respect to their consolidated financial statements for the reporting period ending as of December 31, 2009. We are currently evaluating the impact of adopting this instruction on our financial statements.

In November 2007, CVM issued Deliberation 527/07, which prescribed procedures that an entity should apply to ensure that its assets are carried at no more than their recoverable amount, through use or sale of the asset. The standard requires the entity to recognize an impairment loss if the carrying amount exceeds the recoverable amount of the asset. The standard also specifies when an entity should reverse an impairment loss and prescribes disclosures. Deliberation 527/07 is correlated to IAS 36 (Impairment of Assets) and will be effective for accounting periods ended as of December 2008. We expect no significant impact on our consolidated statements in adopting this standard.

On December 28, 2007, Law No. 11638 amended the provisions of the Brazilian Corporate Law Law No. 6.404/76. This new law sets forth several amendments regarding the preparation of financial statements, aiming at aligning them with international accounting standards, and grants to the CVM the power to issue standards for publicly traded companies. The main amendments introduced by this law are effective as of January 2008 and refer to: (i) replacement of the DOAR (Statements of Changes in Financial Position) for the Statement of Cash Flows; (ii) mandatory preparation of the DVA (Statement of Value Added); (iii) possible inclusion of tax bookkeeping in commercial bookkeeping, with segregation between commercial and tax statements; (iv) creation of subgroup Asset Appraisal Adjustment in shareholders' equity; (v) standardization of financial instruments measurement and classification criteria; (vi) mandatory evaluation of non-current assets recovery level; (vii) change on subsidiaries measurement parameters under the equity method of accounting; (viii) possible recognition of the Tax Incentive Reserve; and (ix) mandatory recognition of new assets at fair value, in cases of merger, consolidation or spin-off. The new rules are effective for the fiscal year ending December 2008, and early adoption is permitted only in the case of full application of the matters referenced in the law. We are currently evaluating the impact of these changes on our consolidated financial statements.

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In January 2008, CMV issued Deliberation 534/08 to prescribe how to include foreign currency transactions and foreign currency operations in the financial statements of an entity and how to translate financial statements into a presentation currency. The principal issues are which exchange rate to use and how to report the effect of changed rates in financial statements. This standard is correlated to IAS 21 (The Effects of Changes in Foreign Exchange Rates) and is effective as of January 2008. We expect no significant impact on our consolidated statements in adopting this standard.

FASB

In June 2006, the FASB issued FIN 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statements No. 109, which clarifies the accounting for uncertainty in tax positions. This interpretation requires that we recognize, in our consolidated financial statements, the impact of a tax position, if such position is more likely than not of being sustained upon examination, based on the technical merits of the position. FIN 48 is effective for fiscal years beginning after December 15, 2006. We have evaluated FIN 48 and have reclassified interest expenses on unrecognized benefits from operating income to financial expenses under US GAAP.

In September 2006, the FASB issued FAS 157, Fair Value Measurements. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosures about fair value measurements. This statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, this pronouncement does not require any new fair value measurements. However, for some entities within our group, the application of this statement will change current practice. This statement is effective for annual periods beginning after November 15, 2007. We are in the process of evaluating the impact of this standard on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132R. This Statement requires an employer to recognize the over-or under-funded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through accumulated and other comprehensive income. SFAS No. 158 also requires an employer to measure the funded status of a plan at its year-end for fiscal years ending after December15, 2006. All plan assets and benefit obligations are measured as of December 31, 2007.

In February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities. This Statement permits entities to choose to measure many financial instruments and certain other items at fair value, providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This statement also establishes presentation and disclosure requirements. This statement is effective for fiscal year starting after November 15, 2007. We did not elect any financial asset or liability to measure at fair value.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), Business Combinations. The SFAS 141 Revised 2007 was issued to converge US GAAP to IFRS; therefore, several changes were made regarding accounting treatment for business combinations. The major changes provided by this statement are related to accounting for business combinations costs, which can no longer be considered as part of the total consideration paid; accounting for all assets acquired, liabilities assumed and non-controlling interests of the acquired entity at fair value, at full amounts of their fair values, and not on the percentage of the shares acquired; measurement and recognition of contractual contingencies as of the acquisition date, and also provides guidance on the subsequent accounting treatment for these situations; and recognition of contingent consideration as part of the goodwill computation on the date of acquisition, and not after the contingency is resolved, the statement also defines the concept of bargain purchase, in which the fair value of the acquired assets, assumed liabilities and noncontrolling interest of the acquired company are higher than the total consideration paid, and defines which bargain purchases shall be recognized as a gain on income from operations when they arise, and not allocated to eligible assets. This statement is effective as of the beginning of an entity s fiscal year that begins after December 15, 2008, and the entity cannot apply it before that date. We are in the process of evaluating the financial impact of adopting SFAS 141 Revised 2007.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling interests in Consolidated Financial Statements an amendment of ARB No. 51. This statement was issued to converge US GAAP to IFRS. The major changes provided by this statement are related to classification of noncontrolling interest as part of equity, and not as a liability or a mezzanine section between liabilities and equity, as well as the classification of the noncontrolling interest on income from operations, which now should be shown as income attributable to noncontrolling interest, and no longer recognized as an expense or gain to arrive at net income from operations. This Statement also provides guidance on the deconsolidation of a subsidiary, in order to measure the gain or loss on this deconsolidation using the fair value of any noncontrolling equity investment rather than the carrying amount of the retained investment. This statement is effective as of the beginning of an entity s fiscal year that begins after December 15, 2008, and the entity cannot apply it before that date. We are in the process of evaluating the financial impact of adopting SFAS 160.

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ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES

Board of Directors and Senior Management

Board of Directors

The following sets forth information with respect to our current board of directors as of March 1, 2008. Their terms expire at the annual general meeting of shareholders to be held in 2008.

Name (Age)	Position	Date Elected
Sergio Spinelli Silva Junior (41)	Chairman	September 30, 2005
Pedro Paulo Elejalde de Campos (53)	Director	September 30, 2005
Elemér André Surányi (42)	Director	September 30, 2005
Ricardo Ferraz Torres (40)	Director	January 31, 2006
Antonio Cardoso dos Santos ** (58)	Director	April 29, 2005

**Elected by the preferred shareholders.

Sergio Spinelli Silva Jr., the Chairman of our Board of Directors, is a partner and head of the Capital Markets Group at Mattos Filho, Veiga Filho, Marrey Jr. and Quiroga Advogados. He is also a member of the Board of Directors of Opportrans Concessão Metroviária S.A., Zain Participações S.A., Daleth Participações S.A., Invitel S.A Mem Celular Participações S.A., Oeste Participações S.A. and 525 Participações S.A., and is the chairman of the Board of Directors of Telemig Celular Participações S.A. and Tele Norte Celular Participações S.A.

Pedro Paulo Elejalde de Campos, the Vice-Chairman of our Board of Directors, is a partner of Angra Partners. He is also a member of the Board of Directors of the following companies: Telemig Participações S.A., Telenorte Celular Participações S.A., Solpart S.A., Argolis Participaçõs S.A., Mem Participações S.A., Petropar S.A. and Impacta S.A. Prior to joining Angra Partners, he was a Managing Director at Citigroup for Latin America, the Chief Executive Officer of GE Capital for Latin America, the President of GE Capital Bank, a Managing Director at Oppenheimer & Co., and a Vice-President at JP Morgan & Co. He is also a former member of the Board of Directors at Latasa SA, GE Dako S.A. and LatinTech S.A.

Elemér André Surányi is a member of the board of directors of Brasil Telecom S.A., Brasil Telecom Participações S.A., Solpart Participações S.A., Amazônia Celular S.A., Tele Norte Celular Participações S.A., Telemig Celular S.A., Telemig Celular Participações S.A., Ret Participações S.A., Telinvest S.A., Capitalpart Participações S.A., and Longdis S.A. Mr. Surányi holds a bachelor s degree in economics from University of São Paulo and an MBA from Harvard Business School, and currently works as a contracted consultant to Citigroup Venture Capital International Brazil, L.P., in São Paulo. In the past, Mr. Surányi served as an Advisor to Banco J. Safra S.A.; Chief Financial Officer, Investor Relations Director and member of the board of UOL Inc. S.A.; Chief Administrative Officer and Statutory Director of Merrill Lynch & Co. in Brazil; Vice President of Investment Banking for Merrill Lynch & Co. in São Paulo; Associate in the Latin America Investment Banking Group of Merrill Lynch & Co. in New York; Manager at the Brazilian Foreign Creditor Banks Debt Restructuring Committee at Citibank in New York; and Assistant Manager at the Financial Institutions Division at Citibank in São Paulo.

Ricardo Ferraz Torres, effective member of the Board of Directors, has an MBA in Finance at IBMEC, an MBA in Finance and Law at FGV, Business Administration at State University of Rio de Janeiro, Bank Management for

Superior Results University of Texas (EUA), and has completed Courses of Financial Derivatives, Logistics, Investment Funds Management at IBMEC, Courses of Economical and Financial Analysis of Projects, Marketing Management and Finance for Management and Development at FGV, Courses of Introduction to Consulting and Basic Marketing at Estácio de Sá, Courses of Financial Analysis for Credit, Balance Sheet Analysis, Profitability Analysis, Foreign Trade Basics, Sale Strategy Development, Strategic Management Fundamentals, Future Manager, Financial Mathematics and Negotiation at Banco do Brasil. Mr. Torres professional background includes an Accounts Manager of the Corporate Division of Banco do Brasil and Strategic Companies Follow-up Mana ger a t PRE VI, w hich is his current position.

Antonio Cardoso dos Santos has served as a member of our board of directors since April 2005 and is a member of the Board of Directors of Telemig Celular Participações S.A. Previously Mr. Cardoso occupied several positions within *TELEBRÁS Telecomunicações Brasileiras S.A.,* Mr. Cardoso holds a Latu Sensu Graduate degree in Business Management from AEUDF-Brasilia. Formerly, Mr. Cardoso was an Auditing Supervisor of Arthur Young Auditories Associados S/C Ltda. and a university professor of accounting and auditing.

Senior Management

Our senior management consists of a Chief Executive Officer, a Chief Financial Officer, a Chief Operations Officer, a Vice President of Strategy, Planning and Regulatory, Vice President of Governance and Business Development and Vice President of Supply Chain Management, each elected by the board of directors for a term of three years. The board of directors is also responsible for attributing to one officer the responsibility of investor relations, which may be exercised in conjunction with executive functions. An executive officer may be removed from office at any time by our board of directors.

The following sets forth information with respect to our executive officers as of March 1, 2008.

Name (Age)	**Position**	**Date elected/appointed**
Ricardo Knoepfelmacher (41)	Chief Executive Officer	September 30, 2005
Francisco Aurélio Sampaio Santiago (53)	Chief Operations Officer	September 30, 2005
Luiz Francisco Tenório Perrone (65)	Vice President of Strategy, Planning and Regulatory	September 30, 2005
Paulo Narcélio Simões Amaral (45)	Chief Financial Officer / Investor Relations Officer	April 25, 2007
Fabio de Oliveira Moser (40)	Vice President of Governance and Business Development	April 25, 2007
André Rizzi de Oliveira (35)	Vice President of Supply Chain Management	April 25, 2007

Ricardo Knoepfelmacher, has been our Chief Executive Officer since August 2005. An economist, he is a graduate of the University of Brasilia and has a MIM from Thunderbird, Arizona (US). In 1995, after working as a consultant at McKinsey & Company, he was one of the founding partners of MGDK & Associated, a company focused on corporate restructuring. As a main executive officer, Board member or consultant, he has participated in 14 financial and operational restructuring projects. In 2000, after serving as the main executive in charge of the restructuring and sale project of Pegasus Telecom, he founded Angra Partners, a corporate and funds management company, that began its activities assisting foreign private equity funds to restructure their operations in Brazil, where he worked until August 2005.

Francisco Aurélio Sampaio Santiago, has been the Technical Executive Officer at Brasil Telecom Participações S.A. since August 2003. He has also been our Chief Operations Officer since 1980, as well as the Chief Operations Officer of Brasil Telecom Participações S.A. From December 2000 to September 2002, he occupied the post of Director of Targets Fulfillment and Network Director, and has been responsible for the Area of Operations since June 2001. He also occupied the post of Regional Network Director in the Mid-West and Southern Regions. He has been in this sector for 28 years, having been among other roles, the Director of Engineering, Human Resources and the Cellular Department of Telebrasília from 1997 to 1998. He has a degree in Electrical Engineering from the University of Brasilia (UnB), with a postgraduate in Telecommunications from *École Nationale Supérieure des*

Télécommunications (ENST), in Paris, and in Teleinformática from UnB.

Paulo Narcélio Simões Amaral joined the Brasil Telecom group in April 2007, and is currently our Chief Financial Officer /Investor Relations Officer. Mr. Amaral holds a degree in economics from UERJ, and an MBA in Finance from IBMEC . Mr. Amaral has extensive post-graduate coursework in business administration at FGV-RJ , Foreign Exchange at UFRJ, Integration Finance and Marketing at Wharton (EUA), and the Advanced Management Program at INSEAD (France). Formerly, Mr. Amaral was the Chief Financial Officer at Grupo Folha de São Paulo (Universo Online S.A. and Empresa Folha da Manhã S.A.) and Alternate Board Member at Jornal Valor Econômico, Chief Financial Officer at Pegasus Telecom, TIM Nordeste, Tele Centro Oeste Celular, and the Structured Finance Officer at Banco Inter-Atlântico.

Luiz Francisco Tenório Perrone, joined the group in August 2005. He is the Vice-President of Strategic Planning and Regulatory Affairs at Brasil Telecom S.A. He is a graduate of Aeronautical Technological Institute (ITA), with a degree in Electronic Engineering, and also studied in France, Holland and the US. He began his professional career at Telefunken do Brasil and Rhode Und Schwarz (Munich, Germany) in 1964. From 1967 to 1968, he worked for the National Communications Department and from 1968 to 1997, he also worked at Embratel, where he held the post of Director of Services and Substitute President. He has occupied directorship posts at Intelsat, in Washington (US). He was vice-president of Anatel from 1997 to 2001 and CEO of Hispamar Satélites S.A. from 2002 to 2005. He has represented Brazil as a delegate and delegation head at various international conferences of Intelsat, Inmarsat, United Nations, Unión Internacional de Telecomunicaciones, Citel and other telecommunication bodies.

André Rizzi de Oliveira, is the Vice-President of Supply Chain Management,. He holds a degree in Civil Engineering from Escola Politécnica da Universidade de SP, an MBA with emphasis on Finance and Operations from the Kellogg School of Business (USA). He is a founding partner at Angra Partners and a member of The Boston Consulting Group. Formerly, Mr. Oliveira was a consultant and project leader at MGDK & Associados, and a consultant engineer at Mills do Brasil Estruturas e Serviços. He is also a member of the Board of Directors of Metrô do Rio de Janeiro.

Fábio de Oliveira Moser is the Vice-President of Governance and Business Development at Brasil Telecom S.A. He holds a degree in Business Administration at Faculdade Cândido Mendes and a Masters degree in Business Administration with emphasis on Finance at IBMEC. Mr. Moser is the Chairman of the Board of Directors at Fundação Sistel de Seguridade Social, Chairman of the Deliberative Council at Fundações BrTPREV and F14 Administration Officer and Investor Relations Officer at Fiago Participações S.A.

Compensation

For the year ended December 31, 2007, the aggregate amount of total compensation that we paid to all of our directors and executive officers was approximately R$7.0 million. This value excludes the amount of bonuses paid to our executive officers, see "—Performance Bonus Plan." The total amount of management compensation in 2007 was R$ 9.1 million.

For the year ended December 31, 2007, the aggregate amount for pension, retirement or similar benefits for our directors and executive officers was approximately R$2.0 million.

Stock Option Plans

On November 6, 2007, our shareholders approved a new stock option plan for officers and employees to replace the plan approved on April 28, 2000, discussed further below.

Plan Approved on April 28, 2000

The rights vested through stock option agreements while this previously approved plan was effective remain valid and effective according to the terms of those agreements. The plan is divided into two separate programs:

Program A

This program prescribed that stock options were granted as the performance goals of the Company, established by the Board of Directors for a five-year period, were attained. No options were granted under this program.

Program B

The exercise price of options granted under this program is established by the managing committee based on the market price of one thousand shares on the option grant date and is monetarily adjusted based on the IGP-M variation between the agreement execution date and payment date.

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Options granted under the plan are generally exercisable for a period of ten years from the date of grant.

Information related to previous stock option plan grants is summarized below:

	2006		2007	
	Preferred stock options (thousand)	Average exercise price R$	Preferred stock options (thousand)	Average exercise price R$
Opening balance	410,737	13.00	270,802	13.00
Lapsed options	(139,935)	13.00	(13,947)	17.30
Closing balance	270,802	13.00	256,855	16.88

Assuming all options will be fully exercised, as of December 31, 2007, the opportunity cost of the premiums of the respective options, calculated by the Black-Scholes method, would be R$1,761, as compared to R$532 as of December 31, 2006.

Plan Approved on November 6, 2007

On November 6, 2007, our shareholders authorized a new share option plan for officers and certain employees. The new plan authorizes the grant of stock options, allowing plan participants, under certain conditions, to purchase or subscribe, in the future, for shares that are part of a basket of shares defined as UP (Performance Unit), at a preestablished price. The amount corresponding to the number of UPs granted may not exceed 10% of the book value of our common and preferred shares.

At the meeting held on December 14, 2007, our Board of Directors ratified the approval of two programs related to the new stock option plan, which is effective as of July 1, 2007 and consists of the following:

Program 1

Options under this program are granted as a one-time concession and do not allow new grants for a period of up to four years. The exercise price of the UP has been established by the Board of Directors, under the terms defined in the plan and is subject to indexation by the IGP-M, plus 6% p.a., to be discounted by the amounts paid as dividends and/or interest on own capital declared during the relevant period.

Program 2

Stock options under this program are granted annually, on July 1 of every year. Stock options under Program 2 were granted on July 1, 2007 and the exercise price of the UP has been established by the Board of Directors, under the terms defined in the plan, to be discounted by the amounts paid as dividends and/or interest on own capital declared during the relevant period.

The stock options balance (UPs) as of December 31, 2007 represents 2.23% of our shareholders' equity.

Assuming that the options included in programs 1 and 2 will be fully exercised, the amount of the premiums on the related options, calculated according to the Binomial stock options pricing model, would be R$53,462.

For more information on our stock option plans, see Note 29.b to our Consolidated Financial Statements.

Board Practices

We are administered by a board of directors (*Conselho de Administração*) and our senior management (*Diretoria*), and overseen by a Fiscal Council (*Conselho Fiscal*).

Board of Directors

The board of directors, whose functions resemble those of a U.S. board of directors, must be comprised of at least three individual shareholders resident in Brazil or non-resident, provided that the latter is represented in Brazil by an attorney-in fact. Under Brazilian law, the duties of the board of directors include directing the company s business; electing, removing, and establishing the duties and responsibilities of the company s executive officers; inspecting the activities of the executive officers and the company records and documents, including those with third parties; calling general shareholders meetings as deemed appropriate or required; commenting on reports of the officers and their accountants; providing prior commentary on company acts or contracts, as provided for in the by-laws; approving share issues or dividends; deciding on the disposal of assets, encumbrances, guarantees and obligations assumed on behalf of third parties, unless the by-laws provide otherwise, and selecting and dismissing our independent auditors. Financial statements, including annual balance sheet, accumulated profit and loss statement, income statement of operations and source and application of funds statement must be prepared under the direction of the board of directors, and audited and approved by shareholders. We do not have a separate audit or remuneration committee.

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Currently, our board of directors consists of five directors; four of which are elected by holders of our Common Shares and one of which is elected by holders of our Preferred Shares. Our directors are replaced during any absence, impediment or vacancy, by their respective alternate. In the case of a vacancy in the position of an effective director, the remaining directors will appoint among them an alternate, who will take on the role until the time of the first meeting. Anyone who occupies positions in companies with which we compete, in particular, on advisory committees, board of directors or fiscal councils; or anyone who has interests which conflict with ours may not be elected to the board of directors.

The board of directors generally meets once a month and holds special meetings whenever called by the Chairman or by two members of the board of directors. Voting takes place by majority of those present.

In order to comply with the rules established for companies qualified under the Level 1 of BOVESPA Special Corporate Governance, when a director or executive officer is elected, his investiture is conditioned upon the execution and delivery of a statement of consent (*Termo de Anuência dos Administradores)*, by means of which he personally undertakes to comply with the Differentiated Corporate Governance Practice Rules established by BOVESPA for Level 1 companies. Our directors and executive officers must also report to BOVESPA the volume and characteristics of any securities directly or indirectly held by them, including derivatives. See Share Ownership below.

Fiscal Council

Brazilian Corporate Law requires us to provide in our by-laws for the existence of a board of auditors which we refer to as our fiscal council, but does not require us to have one on a permanent basis. We have adopted by-laws which require us to have a permanent fiscal council that consists of at least three and not more than five members and an equal number of alternates. Currently our fiscal council is composed of four members, three of which are elected by holders of our Common Shares and one which is elected by holders of our preferred shares. The members of our fiscal council are elected at the annual general shareholders meeting and are not part of our board of directors. The fiscal council operates independently from our senior management and from our external auditors and, under Brazilian law, has the following legal authorities:

- to supervise the acts of our senior management and ensure that they comply with their legal and statutory duties;

- to give an opinion on the annual report of the management, including the supplementary information deemed necessary or useful for deliberation at a general meeting;

- to give an opinion on any proposals of senior management and the board of directors to be submitted to a general meeting relating to an alteration in the capital, the issue of debentures or subscription bonuses, investment plans or capital budgets, dividend distribution, transformation, merger, consolidation or division;

- to report any error, fraud or criminal acts it may discover to the senior management and the board of directors, and, if those bodies fail to take the necessary steps to protect the interests of our shareholders, to a general meeting of shareholders with a suggestion on the appropriate course of action;

- to call the annual general meeting should the senior management and board of directors delay doing so for more than one month, and an extraordinary general meeting whenever serious or urgent matters occur, including in the agenda of the meeting such matters as it may deem necessary;

- to examine, at least every three months, the trial balance sheet and other financial statements that we periodically prepare;

- to examine the accounts and financial statements for the fiscal year and to provide an opinion on them;

- to exercise such responsibilities during a liquidation, taking into account the special provisions which regulate liquidations.

As with our directors and executive officers, members of our fiscal council must also comply with the rules established for companies qualified under Level 1 of BOVESPA Special Corporate Governance, including the execution and delivery of a *Termo de Anuência dos Membros do Conselho Fiscal*.

Our fiscal council also serves the function of an audit committee for purposes of SEC and NYSE, rules and regulations.

For the year ended December 31, 2007, the aggregate amount of total compensation that we paid to all of the members of our fiscal council was approximately R$408.3 thousand. The following are the current members of our fiscal council:

Name (Age)	**Date Elected**
José Arthur Escodro (56)	April 10, 2007
Roberto Henrique Gremler (48)	April 10, 2007
Carlos Alberto Caser (47)	April 10, 2007
Fernando Pereira Tostes* (62)	April 10, 2007

* Elected by the preferred shareholders.

Corporate Governance Practices

The significant differences between our corporate governance practices and the NYSE standards can be found on our website, *www.brasiltelecom.com.br/ir/*. The information found at this website is not incorporated by reference into this document.

Employees

On December 31, 2007, our total number of employees was 16,769. The increase came from the addition of 10,866 employees that work in the newly added call center business.

Adding those employees in the call center business, our work force is allocated in the following way: approximately 12% of our employees work in the network operations area, 12% in marketing and sales, 2% in information technology, 65% in the caal center operation, and 9% in support areas.

Approximately 47.5% of our employees are affiliated to one of the following labor unions: Federação Nacional dos Trabalhadores em Telecomunicações (National Federation of Telecommunications Workers) or Federação Interestadual dos Trabalhadores em Telecomunicações (the Interstate Federation of Telecommunications Workers). Following labor laws, every year we negotiate with the unions to define the required adjustments in salaries and other compensation itens to reflect eventual inflation losses calculated using the accrued INPC index of the previous 12 months.

The following table sets forth the breakdown of our employees by geographic region:

	2005	**2006**	**2007**
	(%)	*(%)*	*(%)*
Offices			
Distrito Federal	37.8	36.5	12.9
Rio Grande do Sul	12.8	11.8	4.0
Paraná(1)	16.2	11.4	28.7
Santa Catarina(1)	9.7	13.8	11.9
Goiás/Tocantins(1)	7.4	6.7	25.2
Mato Grosso do Sul(1)	4.0	3.8	11.3

	2005	2006	2007
	(%)	(%)	(%)
Mato Grosso[1]	4.0	3.9	1.3
Rondônia	2.4	2.6	0.9
Acre	0.7	0.7	0.3
São Paulo	3.4	7.9	3.4
Rio de Janeiro	1.4	0.6	N/A
U.S., Venezuela and Bermudas Islands	0.2	0.3	0.1
Total	**100.0**	**100.0**	**100.0**

[1] The increase in headcount in 2007 reflects the addition of the call center operation.

Performance Bonus Plan

We renewed the collective labor agreement with several labor unions in the context of which we would pay a bonus to the employees who reached their operational targets, according to the terms and conditions set forth in the norms of the bonus plan for performance. As additional incentive for our officers, we retained our performance bonus program.

For the years ended December 31, 2005, 2006 and 2007, respectively, we distributed R$48.0 million, R$79.7 million, and R$80.5 million in performance bonuses to our officers, executives and employees.

Share Ownership

According to Brazilian Corporate Law, all members of the board of directors of a Brazilian publicly held company must be shareholders of the company. All members of our board of directors own at least one of our shares. The following table sets forth certain information as of December 31, 2007, regarding the beneficial ownership of our directors, executive officers and members of our Fiscal Council. All numbers quoted in the table are inclusive of options to purchase shares that are exercisable within 60 days of December 31, 2007.

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Amount and nature of beneficial ownership, as of December 31, 2007

	Common shares beneficially owned excluding options	Options exercisable within 60 days of December 31, 2007	Percent of common shares beneficially owned[(1)]	Preferred shares beneficially owned excluding options	Options for preferred shares exercisable within 60 days of December 31, 2007	Percent of preferred shares beneficially owned
Sergio Spinelli Silva Junior *Chairman*	0	0	0.00	1	0	0.00
Pedro Paulo Elejalde de Campos *Director*	0	0	0.00	1	0	0.00
Elemér André Surányi *Director*	0	0	0.00	1	0	0.00
Ricardo Ferraz Torres *Director*	1	0	0.00	0	0	0.00
Antonio Cardoso dos Santos *Director*	0	0	0.00	79,267	0	0.00
Ricardo Knoepfelmacher *Chief Executive Officer*	0	0	0.00	0	0	0.00
Paulo Narcélio Simões Amaral *Financial Executive Officer/Investor Relations Officer*	0	0	0.00	0	0	0.00
Francisco Aurélio Sampaio Santiago *Chief Operations Officer*	0	0	0.00	0	0	0.00
Luiz Francisco Tenório Perrone *Human Resources Executive Officer*	0	0	0.00	0	0	0.00
André Rizzi de Oliveira *Vice President of Supply Chain Management*	0	0	0.00	0	0	0.00
Fabio de Oliviera Moser *Vice President of Governance and Business Development*	0	0	0.00	0	0	0.00
José Arthur Escodro *Fiscal Council Member*	0	0	0.00	0	0	0.00
	0	0	0.00	0	0	0.00

Roberto Henrique Gremler *Fiscal Council Member*						
Carlos Alberto Caser *Fiscal Council Member*	0	0	0.00	0	0	0.00
Fernando Pereira Tostes *Fiscal Council Member*	0	0	0.00	0	0	0.00
All directors and executive officers as a group (11 persons)	1	0	0.00	79,270	0	0.03
All directors, executive officers and Fiscal Council members as a group (15 persons)	1	0	0.00	79,270	0	0.03

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(1) None of our directors, members of our fiscal council or senior managers own beneficially as much as 1% of any class of our capital stock.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS

Major Shareholders

Our capital stock is comprised of Preferred Shares and Common Shares, all without par value. At December 31, 2007, there were 297,675,140 Preferred Shares outstanding and 249,597,049 Common Shares outstanding. Of the two classes of our capital stock outstanding, only our Common Shares have full voting rights. Our Preferred Shares have voting rights under the following limited circumstances:

- in any decision taken at the General Shareholders Meeting related to any management service agreement, including any technical assistance agreement, to be entered into by us with any foreign entity affiliated with Techold or Timepart; and

- in any decision taken at a General Shareholders Meeting, related to any matter, but only if we shall have failed to pay Preferred Dividends for three or more consecutive years.

The following table sets forth information at December 31, 2007, concerning the ownership of our Preferred Shares and Common Shares (i) by our Parent and, (ii) by our directors and senior management as a group. We are not aware of any other shareholder of record owning more than 5.0% of our Common Shares.

Name of Owner	Number of Preferred Shares Owned	% of Outstanding Preferred Shares	Number of Common Shares Owned	% of Outstanding Common Shares
Brasil Telecom Participações S.A. and certain indirect shareholders	120,911,021	38.83	247,317,180	99.09
All directors and executives officers as a group	79,270	0.03	1	0.00

At December 31, 2007, our Preferred Shares were held by approximately 433,826 registered holders, 433,469 of which were located in Brazil. At December 31, 2007, our Common Shares were held by 148,444 registered holders, 148,388 of which were located in Brazil.

At December 31, 2007, our Parent, and certain indirect shareholders owned approximately 99.09% of our Common Shares. Accordingly, our Parent has the ability to elect six of our seven directors.

At December 31, 2007, Solpart owned approximately 51.0% of our Parent s common stock. Accordingly, Solpart has the ability to control the election of the board of directors of our Parent and, indirectly, our board of directors. At December 31, 2007, to the best of our knowledge, Techold and Timepart owned approximately 99.98% and 0.02%, respectively, of the voting and capital stock of Solpart. See below Recent Disclosures by our Shareholders. For a description of Solpart s Shareholders Agreement, see Voting Control of the Company.

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CONTROLLING SHAREHOLDERS AS OF FEBRUARY 29, 2008

OS = Ordinary Share
PS = Preferred Share

Voting Control of the Company

There is no shareholders agreement at the Brasil Telecom S.A. level, but the following shareholders have agreements disclosed herein in accordance with the requirements of the Brazilian Corporate Law: Zain Participações S.A. Shareholders Agreement *(Acordo de Acionistas de Zain Participações S.A.)*; Invitel S.A. Shareholders Agreement *(Acordo de Acionistas de Invitel S.A.)*; Solpart Shareholders Agreement *(Acordo de Acionistas de Solpart Participações S.A.);* and BTP Voting Agreement *(Acordo de Voto de Brasil Telecom Participações S.A.)*. We are directly controlled by our Parent. Solpart, the entity that controls our Parent, has a shareholders agreement, the Solpart Shareholders Agreement. On July 19, 1998, Timepart, Techold, TII, and others, entered into an Amended and Restated Shareholders Agreement, setting forth the shareholders respective rights and obligations with respect to their interests in Solpart and in the companies controlled by Solpart. The Solpart Shareholders Agreement provides, among other things, for the following:

- the rules for the nomination of directors and executive officers;
- a right of first offer, rights of first refusal and tag-along rights for TII; and
- rights of first refusal for Techold with respect to the sale of TII s shares in Solpart.

Under the Solpart Shareholders Agreement, upon the fulfillment of certain conditions, Techold and TII may be entitled to nominate and elect members of our Board of Directors and of our senior management. In addition, under the Solpart Shareholders Agreement, the parties thereto have agreed, among other things, that the:

- approval of our business plan, dividend policy and Bylaws;
- sale of any of our material assets;
- issuance by our company of additional securities;
- increase or reduction of our capital;
- incurrence by our company of additional indebtedness; and
- merger of our company with another company;

require (i) the prior approval of an absolute majority of the voting capital of Solpart and (ii) the affirmative vote of TII in the matters defined therein as Supermajority Matters. See Item 3. Key Information Risk Factors Risks Related to Our Business Certain indirect beneficial owners control a large percentage of our voting shares and their interests may conflict with the interests of our other shareholders, including minority shareholders and Disputes among our controlling shareholders have had and could in the future have a material adverse effect on our management and operations.

In April 28, 2005, the parties entered into a 2nd Amendment to the Solpart Shareholders Agreement. With the conclusion of the transfer of the shares TII held in Solpart to Techold (through Brasilco see Recent Disclosures by our Shareholders below), the Solpart Shareholders Agreement and the April 28, 2005 amendment were further amended. By such amendment, Techold agreed to succeed TII with respect to its obligations under the Solpart Shareholders Agreement.

On September 16, 2003, Solpart, Opportunity Logica II FIA, OPP I FIA, Opportunity I FIA, Opportunity Fund and CVC/Opportunity Equity Partners LP entered into the BTP Voting Agreement. The Voting Agreement establishes that the above-mentioned shareholders shall vote as a block, in order to reinforce the exercise of the control of our company by our current controlling shareholders.

On October 30, 1998, Opportunity Zain S.A., Opportunity Fund, CVC/Opportunity Equity Partners FIA, now named Investidores Institucionais FIA, PRIV FIA, Tele FIA, Fundação Petrobrás de Seguridade Social, Fundação Sistel de Seguridade Social, Caixa de Previdência dos Funcionários do Banco do Brasil and Fundação Embratel de Seguridade Social entered into the Invitel Shareholders Agreement, providing rules regarding (i) the appointment of officers and directors at the levels of Invitel, Techold, Solpart and our Parent; (ii) the exercise of voting rights by the parties and the board members appointed by Invitel; and (iii) rights of first refusal on the transfer of shares issued by Invitel.

Control over Solpart and the right of our board of directors to take certain actions without a shareholders meeting was the subject of a number of judicial and arbitration proceedings.

Recent Disclosures by Our Shareholders

During the period of TII s indirect ownership in us, our licensed territories overlapped with those of TIM and its affiliates. In an attempt to address the overlapping license issues that arose from common ownership by TII, Anatel required, among other things, that TII divest itself of direct ownership in Solpart and also restricted its Solpart voting rights.

On October 27, 2006, Anatel approved the transfer of TII s stake in Solpart to Brasilco S.r.l., a TII subsidiary independently managed, in trust, by Credit Suisse Securities (Europe) and affirmed that such measure ended the overlapping licenses.

On July 18, 2007, Previ, Petros and Funcef (collectively, the Pension Funds), on one side, and Brasilco, on the other, executed a Share Purchase Agreement with TII, Solpart, II FIA, CVC International LP, CVC International Brazil, LLC as intervening parties, through which the Pension Funds committed to purchase all of the shares of Solpart held by Brasilco, which constituted approximately 38% of the voting and total capital of the company (the Brasilco Shares), for the price of US$515 million.

On the same date, two other agreements were executed:

(i) a Letter Agreement, signed by Techold and TII, in which Techold was granted a right of first refusal to purchase the Brasilco Shares; and

(ii) a Mutual Release Agreement, signed by us, our Parent, Techold, Solpart, 14 BT Celular S.A., Zain, Invitel, Previ, Petros, Funcef, II FIA, Fundação 14 de Previdência Privada, Valia, CVC International Brazil, LP, CVC International Brazil Ltd., International Equity Investments Inc., Citibank N.A., Priv FIA, Tele FIA, Angra Partners Consultoria Empresarial e Participações Ltda., on one side,; and TII N.V., Telecom Italia S.p.A., Brasilco, Credit Suisse Securities (Europe) Limited, TIM Brasil Serviços e Participações S.A. and TIM International N.V., on the other, by which the signing parties commited, provided that they were authorized by the competent corporate bodies and subject to the effective acquisition by the Pension Funds or Techold, as the case might be, of the Brasilco Shares, to withdraw from all claims and end disputes before the Judiciary and International Arbitral Courts involving the parties and some related parties, subject to certain conditions.

On October 11, 2007, Techold exercised its right of first refusal to acquire the Brasilco Shares, as provided for in the Solpart Shareholders Agreement, in accordance with the terms, conditions and price established in the Share Purchase Agreement and Letter Agreement.

On December 3, 2007, Anatel approved the acquisition by Techold of the Brasilco Shares through Act 68,889, published in the *Diário Oficial da União* (Official Journal of the Union) on December 5, 2007, pending compliance with all the conditions subsequent stipulated in the Share Purchase Agreement and the Letter Agreement.

On December 5, 2007, Brasilco transferred the Brasilco Shares to Techold through annotation and signature on the Solpart Share Transfer Book and the corresponding Record of Registered Shares. Techold paid the total amount of US$515 million as stipulated in the Share Purchase Agreement and the Letter Agreement. As a consequence of this transfer, Techold holds approximately 99.98% of the total and voting capital of Solpart.

With the transfer of the Brasilco Shares to Techold, the Mutual Release Agreement is effective, and the settlement of all existing disputes among the parties to the Mutual Release Agreement will be concluded upon the delivery of several petitions to the relevant judicial or arbitral bodies. Most of these judicial proceedings have been terminated. The parties are waiting, after filing the proper withdrawal intruments, for ratification by the appropriate courts of those proceedings which have not yet been terminated. We expect final resolution of these issues soon.

Related Party Transactions

Related party transactions refer to operations with our Parent and with the subsidiaries mentioned in Note 1 of our financial statements.

Operations between related parties and us are carried out under regular market prices and conditions. The main transactions are:

Brasil Telecom Participações S.A.

Sureties and Guarantees: (i) Our Parent guarantees loans and financings owed by us to the lending financial institutions. In 2007, with respect to guarantees, we recorded expenses in favor of our Parent in the amount of R$3,401; and (ii) our Parent guarantees insurance policies and contractual liabilities, which amounted to R$97,457. In 2007, in return for such guarantees, we registered an operating expense of R$117.

Related parties eliminated in the Consolidated Financial Statements for the year ended December 31, 2007:

BrTI

Advances for future capital increase: As of December 31, 2007, we have granted R$6,696 to BrTI as advances for future capital increase, as compared to R$6,695 as of December 31, 2006.

Amounts receivable, revenues and expenses: We have amounts receivable, revenues and expenses resulting from transactions related to the utilization of facilities, logistics support and telecommunications services. The balance receivable as of December 31, 2007 is R$23,633, as compared to R$2,662 receivable as of December 31, 2006. The amounts accounted for against income in 2007 represented R$38,062 of operating income, as compared to R$24,280 in 2006, and R$38 of operating expenses in 2007, as compared to R$17,746 in 2006.

BrT Celular

Amounts payable, revenues and expenses: We have amounts payable, revenues and expenses resulting from transactions related to the utilization of facilities, logistics support and telecommunications services. The balance payable as of December 31, 2007 is R$16,833, as compared to R$20,087 payable as of December 31, 2006. The amounts accounted for against income in 2007 represented R$223,124 of operating income, as compared to R$196,550 in 2006, and R$439,684 of operating expenses in 2007, as compared to R$373,339 in 2006.

VANT

Amounts receivable, revenues and expenses: We have amounts receivable, revenues and expenses resulting from transactions related to telecommunications services. The balance receivable as of December 31, 2007 is R$1,820, as compared to R$1,355 receivable as of December 31, 2006, and the amounts accounted for against income in 2007 represented R$2,555 of operating income, as compared to R$5,056 for 2006, and R$922 of operating expenses in 2007, as compared to R$2,032 for 2006.

BrT SCS Bermuda

Amounts receivable and revenues: We have amounts receivable and revenues resulting from transactions related to telecommunications services. The balance receivable as of December 31, 2007 is R$130, as compared to R$316 receivable as of December 31, 2006. The amounts accounted for against income in 2007 represented R$189 of operating income, as opposed to R$163 in 2006.

BrT of America

Amounts payable, revenues and expenses: We have amounts payable, revenues and expenses resulting from transactions related to telecommunications services. The balance payable as of December 31, 2007 is R$2,753, as compared to R$1,343 payable as of December 31, 2006. The amounts accounted for against income in 2007 represented R$86 of operating income, as compared to R$87 in 2006, and R$7,331 of operating expenses in 2007, as compared to R$7,202 in 2006.

BrT CS

Amounts payable and expenses: We have amounts payable and expenses resulting from transactions related to telecommunications services. The balance payable as of December 31, 2007 is R$4,241, as compared to R$3,480 payable as of December 31, 2006. The amounts accounted for against income in 2007 represented R$11 of operating income and R$43,803 of operating expenses in 2007, as compared to R$31,761 in 2006.

Freelance S.A.

Amounts payable, receivable, revenues and expenses: We have amounts payable, receivable, revenues and expenses resulting from transactions related to telecommunications services. The balance payable as of December 31, 2007 is R$5,689, as compared to R$1,622 receivable as of December 31, 2006. The amounts accounted for against income in 2007 represented R$5,311 of operating income, as compared to R$3,974 in 2006, and R$23,770 of operating expenses in 2007, as compared to R$13,450 in 2006.

iG Brasil

Amounts receivable, revenues and expenses: We have amounts receivable, revenues and expenses resulting from transactions related to telecommunications services. The balance receivable as of December 31, 2007 is R$6,971, as compared to R$1,579 receivable as of December 31, 2006. The amounts accounted for against income in 2007 represented R$10,539 of operating income, as compared to R$1,824 for 2006, and R$6,729 of operating expenses in 2007, as compared to R$3,601 for 2006.

BrT Multimídia

Amounts payable, revenues and expenses: We have amounts payable, revenues and expenses resulting from transactions related to telecommunications services. The balance payable as of December 31, 2007 is R$6,341, as compared to R$5,434 payable as of December 31, 2006. The amounts accounted for against income in 2007 represented R$331 of operating income, as compared to R$739 for 2006, and R$24,655 of operating expenses in 2007, as compared to R$23,603 for 2006.

Advances for future capital increase: We have made advances for future capital increase. As of December 31, 2007, the existing amount granted is R$27,130, as compared to R$23,000 as of December 31, 2006.

BrT Call Center

Amounts payable, revenues and expenses: We have amounts payable, revenues and expenses resulting from transactions related to telecommunications services. The amount payable as of December 31, 2007 is R$16,447. The amounts accounted for against income in 2007 represented R$779 of operating income and R$17,305 of operating expenses.

Advances for future capital increase: We have made advances for future capital increase. As of December 31, 2007, the existing amount as advanced for future capital increase granted is R$14,820.

Other Related Party Transactions for the year ended December 31, 2006:

Until 2006, due to the existence of common partners in our control chain and in the control chain of the companies mentioned below, the operations among them were classified as “related-party transactions.” As a result of various changes in our control chain, none of the following relationships were classified as “related party transactions” in the year ended December 31, 2007.

Telemig Celular

We maintain agreements with Telemig Celular relating to the operation of telecommunications services, consisting of CSP 14 – Operator Selection Code, infrastructure rental and co-billing agreements. The amount payable resulting from these agreements was R$5,925 on December 31, 2006. The amounts recorded in income in 2006 are represented by operating expenses of R$39,483 (R$32,979 in 2005) and operating revenues of R$74 (R$151.0 in 2005).

Amazônia Celular

We maintain agreements with Amazônia Celular relating to the operation of telecommunications services, consisting of CSP 14 – Operator Selection Code and co-billing agreements. The amount payable resulting from these agreements was R$1,299 on December 31, 2006. The amounts recorded in income in 2006 are represented by operating expenses of R$13,162 (R$6,101 in 2005).

TIM Celular

We maintain agreements with TIM's cell phone companies concerning the operation of telecommunications services, consisting of lease of means and co-billing agreements, as well as relationships resulting from CSP. The amount payable resulting from these transactions was R$65,319 on December 31, 2006. The amounts recorded in income in 2006 are represented by operating revenues of R$116,034 (R$152,611 in 2005) and operating expenses of R$503,175 (R$516,048 in 2005).

Credit Suisse

As of December 31, 2006, we maintained in Credit Suisse an overnight financial investment in the amount of R$111,868, backed by bonds issued by the U.S. treasury, yielding between 5.0% p.a. and 5.2% p.a. The yields of such investment in 2006 was R$113.0.

Other Related Party Transactions for the year ended December 31, 2005:

Until 2005, due to the existence of certain parties in our chain of control, the following transactionw as classified as a "related party transaction." As a result of various changes in our control chain, the following relationship was not classified as such in the year ended December 31, 2007.

Telecom Capital Fund

Based on the set of information available to our management in December 2005, we concluded that in 2003 we invested in Telecom Capital Fund ("TCF"), an investment fund created in Curacao, Netherlands Antilles, with a view to "obtaining return rates above the average with moderate risk to investors" by means of investments in "infrastructure in Latin America focused on telecommunications, Internet and data applications." As the single provider of TCF, we transferred US$84 million to make an investment in promissory notes of MetroRED in the amount of US$41 million (which were subsequently converted into MetroRED shares), and promissory notes of Highlake International Business Company Ltd., or Highlake, in the amount of US$43 million. The Highlake promissory notes accrued interest at the rate of 1.5% p.a., with an option to Highlake to settle the outstanding amount through conversion into Highlake shares.

With the proceeds of our investment, Highlake acquired the interest held by Telesystem International Wireless Latin America ("TIW") in the capital of Telpart Participações S.A., parent company of Telemig Celular Participações S.A. and Tele Norte Celular Participações S.A. In addition, we identified that Opportunity Fund owned 95% of the interest in Highlake. In light of this ownership by Opportunity Fund, one of our former controlling shareholders, we determined that our investment in Highlake should be classified as a "related party transaction."

In March 2005, Highlake paid in full the outstanding balance under the promissory note held by TCF without conversion into equity, and we subsequently requested the liquidation of TCF. On April 25, 2005, TCF was liquidated, and the balance of fund quotas was redeemed. In 2005, until the redemption date, as a result of these transactions, we recorded a financial loss of R$640, due to the exchange loss of the U.S. dollar during that period.

ITEM 8. FINANCIAL INFORMATION

Consolidated Statements and Other Financial Information

See Item 18. Financial Statements.

Legal Proceedings

Breakup of Telebrás

The legality of the breakup of Telebrás and privatization of Telebrás was challenged in numerous legal proceedings, and, although a majority of the claims have been dismissed, a number are still pending. Also, Telebrás is a defendant in a number of legal proceedings and is subject to certain other claims and contingencies. Under the terms of the breakup of Telebrás, liability for any claims arising out of acts committed by Telebrás prior to the effective date of the breakup of Telebrás remains with Telebrás, except for labor and tax claims (for which Telebrás and the 12 new holding companies into which it was broken-up are jointly and severally liable by operation of law) and any liability for which specific accounting provisions have been assigned to us. Our management believes that the chances of any such claims materializing and having a material adverse financial effect on us are remote.

We are a party to certain legal proceedings arising in the normal course of business, including civil, administrative, tax, social security and labor proceedings. We have provided for or deposited in court amounts to cover our estimated losses due to adverse legal judgments. We believe that such actions, if decided adversely to us, are not likely to have a material adverse effect on our business or financial condition.

Antitrust Proceedings

In 2004, Embratel and other companies filed administrative complaints before Anatel, the Secretariat of Economic Law of the Ministry of Justice and CADE charging us with carrying out cartel-like practices with Telemar and Telefônica in violation of the antitrust laws of Brazil. While we believe these antitrust complaints are baseless, an adverse decision by CADE could result in the imposition of a penalty against us that could be assessed between 10%-30% of our total annual revenue for 2003, the period immediately before the complaint.

Labor-Related Legal Proceedings

On December 31, 2007 our reserves for labor litigation included in probable risk of losing were in the total amount of approximately R$421.8 million. On December 31, 2007, the reserves made for labor litigation included in possible risk of losing were in the total amount of approximately R$540.7 million. As of December 31, 2007, Brasil Telecom was involved in approximately 15,925 lawsuits involving labor litigation, of which 7,901 were filed against CRT. The total amount estimated to be involved in these litigations is approximately R$184.7 million.

In 2007 a reduction was observed on the contingency for labor litigation for which the risk of losing was considered probable in the total amount of R$65.5 million. This reduction occurred mainly due to: (i) plans for 2007; (ii) dismissal of several lawsuits by payment of the debt; (iii) reevaluation of contingency risks; and (iv) monetary adjustments related to the reevaluation of the contingency for labor litigation. Our labor litigations are related to our reclamation over performance bonuses, employees promotion, dangerous work conditions (high-risk premium), extra hours, subsidiary responsibility, productivity, employment relationship recognition, return to the position and voluntary dismissal plans.

As successor of Telepar, we are a defendant on a Public Civil Action brought by the Labor General Attorney s Office of Curitiba, based on our dismissals of employees aged 40 or more (with an average of 20 years or more serving) that was part of our restructuring program. During 2001, interim relief was given in this matter, ordering the reintegration of all the dismissed employees and dismissing their monetary compensation requests. We initiated an appeal against this decision before the Labor Regional Court. The Public Civil Action was dismissed and the Labor General Attorney s Office appealed that decision before the Labor Regional Court. The Court s decision ordered the reintegration of all the dismissed employees. Both parts appealed that decision (as the General Attorney dismissed an appeal requesting the reintegration of the employees and did not order their reintegration) before the Labor Superior Court on September 16, 2006. The Labor Supreme Court ordered transfer of the appeal to the Labor Regional Court in order to proceed with the analysis of the motion for clarification of the judgment. The Regional Court has accepted our motion in order to bring in question upon the record the matter and has the procedural ability to have another appeal judged by the Superior Court, which is now waiting to be judged on the Labor Superior Court.

As successors of Telesc, we are a defendant in a labor lawsuit initiated by 1,478 employees in 1984, demanding the payment of salary differences due to our Internal Rules at that time, which established different criteria according to the service time of the employee. In 1988, a decision was rendered in the matter, ordering the payment of the salary differences. Since that decision, the parties have been discussing the amounts involved in the action. A specific appeal was filed before the Regional Labor Court, which determined the exclusion of the employees contracted after October 1976. The Regional Labor Court determined that only 818 employees had the right to reclamation. In September 2007, we settled with 653 employees in an estimated amount of R$78.63 million (including taxes and social security contributions). After this settlement, there is still a provision of R$26.25 million to cover amounts to be paid if we do not settle with the remaining employees, including legal and social security costs.

In 1984, 1,480 employees filed a labor claim against our predecessor company, Telesc, in the State of Santa Catarina, demanding the payment of profit participation bonuses since 1970 that had been withheld by Telesc. In 1985 the Labor Justice denied the claims. An appeal was filed before the Regional Labor Court, which ordered the payment of the profit participation bonuses. However, only 1,096 employees were entitled to receive such compensation, and eight further employees were excluded from the claim, leaving 1,088 claimants. Telesc filed an appeal before the Superior Labor Court and also before the Supreme Court, but the Regional Labor Court's decision was upheld. In 1990, a settlement agreement was entered into with the claimants providing for payment of the profit participation bonuses. In 1995, however, Governmental Resolution No. 10 established a new method for the calculation of the profit participation bonuses that was less favorable to the claimants when compared to the settlement. As a result, Telesc did not pay the profit participation bonuses as agreed to but instead began to pay as established in the Resolution. In 1997, the Labor Union (SINTEEL), and certain of the claimants requested the reopening of the labor claim to examine the differences between the profit participation bonus payments. The Labor Judge did not grant their request, but on appeal, the Regional Labor Court admitted the employee s request. Despite later appeals by us, this decision was upheld. As of December 31, 2007, we have settled with 1,057 of the claimants for a total cost of R$50 million. Our provision for the remaining 31 claimants is R$4.1 million.

Legal Tax Proceedings

Application of ICMS on Cellular Activation and Other Fees

In June 1998, the governments of certain Brazilian States approved an Agreement (Convênio 69/98) to interpret existing Brazilian tax law to broaden the application of the state value added tax, ICMS, effective July 1, 1998, to certain services, including cellular activation and installation services, to which the ICMS had not previously been applied.

The administrative tax authorities in the Federal District and in the States of Santa Catarina, Tocantins, Acre and Rio Grande do Sul have assessed us on this issue regarding the period of five years preceding June 30, 1998. However, we obtained favorable judicial decisions confirming that ICMS cannot be applied retroactively to services rendered during the period prior to the Convênio 69/98 (June 30, 1998).

Recently, the STJ decided in the Special Appeal 601.056 -BA and the Special Appeal 694.429 -SP that no ICMS should be levied on the cellular installation and activation services established in Convênio 69/98. With regard to the payments of ICMS tax on such cellular activation and installation services as of July 1, 1998, we have filed judicial claims (declaratory actions) in the States of our region to avoid such collections. As of December 31, 2007, we deposited in court approximately R$195.2 million in order to suspend the liability of said ICMS without the application of interest and fees. If the legality of *Convênio* 69/98 is confirmed by Superior Courts, the deposited amount will be converted into revenue to the state treasury department without new disbursements having to be made by us. However, if the Superior Courts decide that the terms of *Convênio* 69/98 are illegal, the deposited amount may be returned to us.

Services Tax Application to Complementary Telecommunications Services

Several municipal governments assessed us in order to collect services tax on the complementary telecommunications services, such as call ID, alarm clock, answering machine and other similar services. These assessments constitute a relevant contingency for us. As of December 31, 2007, the amount of this tax contingency is approximately R$312.5 million. The likelihood of loss relating to this contingency is possible and, consequently, we did not record a provision. This amount is not reserved on our balance sheet. The cases in which management assesses our chance of success as remote have been provided for in the amount of R$2.2 million as of December 31, 2007.

State Value-Added Tax Credits

The treasury departments of several States have assessed us regarding our use of the ICMS tax credits, specially: (i) the recognition of ICMS in the acquisition of consumption material; and (ii) reversal of ICMS debits accounted when rendering communication services. We presented administrative and judicial defenses against the assessments. In some administrative proceedings, the decision at the first administrative level was unfavorable to us. According to the State tax authorities, the procedure adopted by us for registering the ICMS credits is not in accordance with the law. As of December 31, 2007, the amount involved in the matter that corresponds to a possible contingency is approximately R$20.1 million. The cases in which management assesses our chance of success as remote have been provided for in the amount of R$38.3 million as of December 31, 2007.

State Value-Added Tax Credits ICMS electrical energy

The treasury departments of several States have assessed us regarding our use of the ICMS tax credits from the acquisition of electrical energy. We defended against the assessments. In some administrative proceedings, the decision at the first administrative level was unfavorable to us but we have obtained favorable decisions at the judicial level. According to the State tax authorities, the procedure adopted by us for registering the ICMS credits is not in accordance with the law. As of December 31, 2007, the amount involved in the matter that corresponds to a possible contingency is approximately R$221.3 million. The part of the debit considered with chance of success as remote have been provided for in the amount of R$59.9 million as of December 31, 2007.

State Value-Added Tax Credits ICMS non-executed services

The treasury departments of some States have assessed us regarding our use of the ICMS tax credits from services that we did not execute. Although we have presented administrative defenses to this assessment, as of December 31, 2007, there has been no resolution of this issue As of December 2007, the amount involved in the matter that corresponds to a possible contingency is approximately R$68.3 million. The part of the debit considered with chance of success as remote have been provided for in the amounts of R$90.7 million as of December 31, 2007.

State Value-Added Tax Application to International Telecommunications Services

The treasury departments of several States have assessed us regarding collection of the ICMS tax on international telephone calls. The tax authorities allege that international telephone calls are services rendered in Brazil and are subject to ICMS tax since the request and the payment for the services are executed in Brazil. We have presented administrative defenses against the assessments. As of December 31, 2007, the amount involved in the administrative proceedings that corresponds to a possible contingency is approximately R$36.4 million. This amount is not provisioned for on our balance sheet.

Social Security Contribution Application on Several Issues

The National Welfare Agency has filed administrative and judicial proceedings against us to collect the INSS, which is levied on payments of salaries, commissions, vacations, overtime allowance made to our employees. We have presented defenses against all these proceedings. As of December 31, 2007, the amount involved in those proceedings that corresponds to a possible contingency is approximately R$349.9 million. As of December 31, 2007, the amounts involved in these proceeds in which management assesses our chance of success as remote have been provided for in the amount of R$28.8 million.

State Value-Added Tax Application to Sale of Pre-paid Telephone Cards

The treasury department of the States of Mato Grosso and Tocantins have assessed us regarding collection of the ICMS on sales of pre-paid telephone cards used in public telephones. We presented administrative defenses against all these assessments. As of December 31, 2007, the amount involved in the administrative proceedings that corresponds to a possible contingency is approximately R$26.9 million. The cases in which management assesses our chance of success as remote have been provided in the amount of R$4.8 million as of December 31, 2007.

Costs of the Social Contribution on Gross Revenue Transferred to the Users of the Telecommunications services

Several civil class actions have been filed against us by a federal prosecutor and ANDEC in order to suspend the transfer of the cost of the PIS/COFINS to the users of telecommunications services. As of December 31, 2007, the amount involved in these judicial proceedings that corresponds to a possible contingency is approximately R$311.3

million. This amount is not provisioned for on our balance sheet.

REFIS

The REFIS is a program created by the Federal government in order to provide the opportunity to legal entities to pay their debts related to taxes on an installment schedule (60 installments) with a 40% reduction of the applicable penalty fee. The program is managed by the SRF and INSS. On November 16, 2000, we filed a request to include in the REFIS program our debts related to the taxes managed by the SRF and INSS. As of December 2006, the REFIS account was liquidated according to our calculation. However, this amount does not encompass the tax credits intended to be used by us to offset debts included in the REFIS. Therefore, whether the Federal Revenue Service definitely ratifies the offsetting of the tax credits against the debts requested by us, we decided to include a provision of R$13 million which chance of success is classified as remote.

PAES

The PAES is a program created by the Federal government in order to provide the opportunity to taxpayers to pay their debts (related to taxes managed by the INSS) in 120 installments. In 2004, we filed the request to pay our federal tax debts in installments. As of February 2007, we finished the payment of the installments. Notwithstanding the proposition of an administrative request questioning the part of the value (R$73.4 million) included in the PAES by the Brazilian Internal Revenue, all the installments have been paid regularly. The chance of success (in our favor) with respect to the remaining part of the debits is classified as probable.

Civil Legal Proceedings

On December 31, 2007, our reserve for obligations arising from civil litigation for which we have classified the risk of loss as probable was approximately R$398.8 million, as compared to R$346.2 million on December 31, 2006. The increase in the amount of this reserve is mainly due to monetary adjustments, new judicial lawsuits filed against us and a reevaluation of the risk of loss. On December 31, 2007, our reserve for obligations arising from civil litigation for which we have classified the risk of loss as possible was approximately R$1,129.1 billion, as compared to R$606.9 million on December 31, 2006. The increase in the amount of this reserve is due to monetary adjustments occurring during that period, new judicial lawsuits filed against us and a reevaluation of the risk of loss associated with current lawsuits.

The majority of the civil litigation that has been filed against us, if an unfavorable decision were to be rendered, would not cause any material or adverse effects on our operating results or financial condition. Significant civil litigation actions filed against us include:

Due to the acquisition of CRT by TBS and subsequent acquisition of TBS by us, we have been substituted for CRT in many judicial lawsuits that originated from the privatization of CRT. The majority of these actions request that the privatization be declared null and void. Judicial actions filed in 1998 and 1999 alleged illegal bidding in connection with the sale of CRT s capital, miscalculation of the number of shares offered, defects in the corporate authorization for the sale of the shares and mistakes in the valuation of the shares. Although the preliminary claims in these actions were rejected by various courts, we are still awaiting final adjudication of certain of the claims.

As the successor of CRT we are defendants in various actions brought by subscribers of phone services in many districts of the state of Rio Grande do Sul. The claimants in these actions seek either the right to shares allegedly arising from financial participation contracts entered into between the claimants and CRT in accordance with Regulation no. 1.361/1976 of the Communications Ministry, or monetary compensation for material damages equal to the value of such shares. The equity value of each share was calculated by dividing the net worth of CRT by the number of shares issued outstanding as of the time of the proposed issuance of the shares. The claimants allege that the shares were improperly issued without taking into consideration a monetary adjustment equal to the amount paid upon acquisition of the phone lines. The Rio Grande do Sul Court determined that the procedure we used to issue the shares in connection with this program was incorrect and that a subscription period of 12 months in a period of high inflation was abusive. We were ordered to indemnify the claimants through monetary compensation. Although these actions are currently in different stages of the litigation process, on December 31, 2007, the total amount of contingency related to civil litigation involving our branch located in Rio Grande do Sul was approximately R$648.3 million. Of this amount, R$166.4 million is related to a probable risk of loss associated with these actions, R$437.2 million are related to a possible risk of loss associated with these actions, and R$44.7 million are related to a remote risk of loss associated with these actions.

As a successor to CRT, we are also currently a defendant in a public civil action brought by the Attorney General s Office of Rio Grande do Sul against CRT, seeking compensation for clients arising out of alleged abusive commercial practices in connection with CRT s provision of 0900/900 services. Although the final decision in this action did not grant any financial compensation to the claimants, we were prohibited from offering 0900/900 services and required to terminate the 0900/900 services of certain clients. Appeals by both parties to the Supreme Federal Court and to the Superior Court of Justice were not granted, and the final decision was upheld that claimants seeking a refund must bring an individual action against us. The amount we reserve for these actions will depend upon how many individual actions are brought against us, and we cannot currently evaluate our exposure.

Splice do Brasil Telecomunicações e Eletrodomésticos Ltda. brought an action against us seeking compensation for payments owed under an equipment supply contract. Following a decision in favor of the claimant, we appealed the judgment to the State Court, offering as collateral to guarantee the payment a telecommunications plant located in the state of Paraná. A third party expert has been appointed by the court to determine the value of the final judgment. We have reserved R$49.5 million against the risk of loss associated with this action.

Community Telephone Program CTP

As the successor of Telems, Telegoias and Telemat, we are a defendant in several actions related to the implementation of the Community Phone Program, or PCT, a financing program for the installation or extension of phone lines in the states of Mato Grosso do Sul, Goiás, Tocantins and Mato Grosso. These actions demand the payment of equity shares and other compensation allegedly owed under agreements with Telems, Telegoias and Telemat relating to the installation of the phone lines. In connection with these actions related to Telems customers, as of December 31, 2007, we have reserved R$46.2 thousand against risks of loss classified as probable and R$85.6 million for risks of loss classified as possible. We also registered a fund in the amount of R$8.0 million that can be capitalized in order to issue shares to the claimants in the event of an unfavorable decision. In connection with these actions related to Telegoiás and Telemat customers, we have reserved R$24.4 million against risk of losses classified as probable and R$308.9 thousand against risk of losses classified as possible.

According to the terms of the Telebrás spin-off agreement dated February 28, 1999, Telebrás retained sole responsibility for obligations of any kind (including, without limitation, labor, social security, civil, tax, environmental and commercial obligations) related to acts or events occurred during or before the date of the spinoff. We therefore have filed motions with the State Court of Mato Grosso do Sul to join Telebrás to these actions.

Telephone Catalogues

The Federal Attorney General s office has commenced 18 civil public actions against us demanding the publication and delivery of Obligatory Free Phone Lists for our users, eleven of which were settled by agreement on December 19, 2006. As of December 31, 2007, we have reserved R$5.3 million on our balance sheet against losses in connection with the remaining actions.

Stores

We have also been named as a defendant in 39 civil public actions relating to the reopening of consumer attention stores, brought by the Attorney General s Office and by several consumer rights agencies and organizations. Of these actions, 24 have reached a preliminary decision affirming a provisional remedy against us. We have appealed these preliminary determinations, and have reserved R$17.9 million on our balance sheet against losses associated with these actions.

Disputes with and among entities that hold stakes in our company

Under Opportunity-appointed management, we have instituted lawsuits to recover damages suffered as a result of actions taken by TII and the board members nominated by TII to our board of directors. As part of the negotiations relating to the Merger Agreement entered into on April 28, 2005, our former management agreed to terminate these lawsuits without compensation. As of the date hereof, certain of our indirect shareholders have brought lawsuits with regard to this termination of claims and other agreements executed on April 28, 2005. We filed a complaint with the Brazilian Securities Commission charging prior management of misuse of our resources including controlling shareholder s abuses, breaches of fiduciary duties, conflict of interests, violations of Brazilian Law and our By-Laws, including the April 28, 2005 agreements. Disputes among our controlling shareholders and entities that manage our controlling shareholders have had and could in the future have a material adverse effect on our management and operations.

On March 9, 2005, International Equity Investments, Inc. as the sole shareholder of CVC/LP which holds a substantial indirect stake in our Parent through its direct ownership in Zain, a company that indirectly owns a majority of the voting interests in Solpart, and therefore indirectly owns a majority of our voting shares issued a public notice regarding the ouster of Opportunity Ltd., from the management of CVC LP, replaced by CVC International Brazil. The notice also stated that CVC International Brazil entered into shareholders´ agreements with Investidores Institucionais FIA, Previ, Funcef and Petros regulating the exercise of controlling rights in our company and restrictions on transfer of shares.

Under the Agreements, CVC LP and Investidores Institucionais FIA, with combined holdings of approximately 90% of the voting shares of Zain, will jointly exercise the corporate control of Zain and Invitel, a company controlled by Zain with approximately 68% of its voting shares, and in which Previ, Funcef, Petros and other Brazilian pension entities hold nearly all of the remaining shares. The Agreements also establish that the parties are to attempt to disinvest, under identical terms, jointly and in an organized manner, their shareholdings in Zain and Invitel, companies which control, among other companies, us, our Parent, and our subsidiary, BrT Celular.

In connection with the execution of the Agreements, Previ, Funcef and Petros signed the Put Option on Shares issued by Zain granting CVC LP a put option on its Zain shares, which may be exercised under certain circumstances during a limited period of time, but not before November 2007. CVC LP s right to exercise the put option is conditioned on the occurrence of certain future events, some of which are beyond the control of CVC LP, Investidores Institucionais FIA, Previ, Funcef and Petros. If CVC LP exercises its put option, the exercise price is set at approximately R$1.05 billion, adjusted by the variation of the IGP-DI Index + 5% p.a. The fulfillment of the conditions to the exercise of such put option granted by Previ, Funcef and Petros does not depend and is not tied to the occurrence of any operation or business involving, directly or indirectly, property or other assets owned by Zain, Invitel or any of their controlled companies, including us, our Parent and BrT Celular.

On March 17, 2005, the United States District Court Southern District of New York granted a preliminary injunction (i) compelling CVC Ltd to register the change of the general partner of CVC LP from CVC Ltd to CVC International Brazil before the competent authorities of the Cayman Islands and (ii) enjoining CVC Ltd from taking any action that would impair the value of CVC LP or that would interfere with the authority and power of CVC International Brazil.

On March 18, 2005, we were apprised that CVC Ltd filed a formal statement before the competent authorities of the Cayman Islands in which it registered the substitution.

On April 12, 2005, Anatel issued a decision approving, among other things: (i) the replacement of Opportunity Ltd. by CVC International Brazil as the general partner of CVC LP; (ii) the replacement of CVC/Opportunity Equity Partners Administradora de Recursos Ltda. by Angra Partners Consultoria Empresarial e Participações Ltda. as the new manager of Investidores Institucionais FIA, an indirect shareholder of our Parent and us; and (iii) certain changes resulting from the Agreements entered into by CVC LP and Investidores Institucionais. This decision was published in the Federal Gazette (*Diário Oficial*) on April 14, 2005. After reviewing our appeal filed by prior management related to Opportunity Ltd., Anatel upheld its April 12, 2005 decision.

On October 6, 2003, Fundação 14, successor to Fundação Sistel de Seguridade Social, was prevented by the other shareholders of Investidores Institucionais FIA from exercising its voting rights at the Investidores Institucionais FIA s Unitholders Meeting. At such meeting, Banco Opportunity S.A. was ousted from the administration of Investidores Institucionais FIA. Consequently, Fundação 14 brought an ordinary action before the 5th Federal Court of Rio de Janeiro against Previ and several investors in Investidores Institucionais FIA, seeking a declaration that the resolutions adopted at the Investidores Institucionais FIA s Unitholders Meeting held on October 6, 2003 were invalid. On May 18, 2005, an injunction granted on May 17, 2005 in favor of Fundação 14 by a federal tribunal in Rio de Janeiro, which would have allowed Banco Opportunity S.A. to return to the management of Investidores Institucionais FIA, was revoked by a decision granted by the STJ. On July 12, 2005, Fundação 14 filed before the 5th Federal Court of Rio de Janeiro a motion to abandon this lawsuit. To the best of our knowledge, this STJ decision is being challenged by Banco Opportunity S.A.

On July 27, 2005, at an Extraordinary General Shareholders Meeting, members of the Board of Directors of our Parent who were linked to the company s former manager were dismissed from the Board. At a Board meeting held on August 25, 2005, a new Senior Management was elected, with the Technical Director remaining in place.

At an Extraordinary General Shareholders Meeting held on September 30, 2005, the members of our Board of Directors were also dismissed, with new members being elected in their place. On the same date, at a meeting of the Board of Directors, it was decided to dismiss the Chairman then presiding, and to elect new members to the Senior Management, with the Network Officer being re-elected. These decisions were ratified by our Board of Directors at a meeting held on October 5, 2005.

The process of replacing the directors and officers of our Parent and us was litigious, as evidenced by the several material facts released by the companies during 2005 and the various lawsuits filed by our former manager seeking to resume management of the companies, which are still ongoing.

Actions in Respect of Litigation Trust

In September 2003, the prior management team established an Irrevocable Trust Agreement and Declaration, for the benefit of Brasil Telecom, and transferred to the Trust our rights described in some of the lawsuits mentioned herein and in others which may yet be filed regarding the same general matters. By means of the execution of the Trust, Mr. Roberto Mangabeira Unger (the Trustee), was given the authority to lead the conduct of such proceedings, in court or out of court, in the manner that best suits our interests, as the sole beneficiary of the Trust.

There is an administrative proceeding before the CVM that deals with the creation of the Trust by us in which there is a request to determine whether the creation of the Trust was an act of abusive control. We and our Parent have been providing all information requested in this proceeding. In September 2004, the *Superintendência de Relações com Empresas* SEP (one of CVM s divisions) decided in favor of us and our Parent, recognizing the effectiveness of the Trust in Brazil. To the best of our knowledge, this decision, however, is pending an appeal presented by the complainants before CVM s board of directors.

On July 12, 2006, we commenced litigation in the Probate Court of the Commonwealth of Massachusetts, U.S.A. (In re Brasil Telecom S.A. Irrevocable Trust, No. 06P3268T1), asking the court to appoint Professor Claudio M. Considera in place of Roberto M. Unger as trustee of the Brasil Telecom S.A. Irrevocable Trust. The trust contains certain causes of action held by our company in the courts of Brazil but is governed by Massachusetts law. CVC/Opportunity Equity Partners Administradora de Recursos Ltda. opposes our request, as it is currently empowered under the trust to appoint the successor trustee to Roberto M. Unger.

In the Spring of 2007, we commenced a second action in the Probate Court of the Commonwealth of Massachusetts, U.S.A. (Brasil Telecom S.A. v. Opportunity Equity Partners Administradora de Recursos Ltda. and Roberto Mangabeira Unger, No. 07E0035). This action, which has been consolidated with the action described in the preceding paragraph, seeks a declaration of our authority to unilaterally amend the trust to eliminate Opportunity's right to appoint the successor trustee, or in the alternative, a reformation of the trust to that effect. Mr. Unger filed certain counterclaims against us and we have filed a motion for leave to amend complaint to assert certain claims against Mr. Unger. The cases are currently in the discovery stage and resolution is expected in 2008.

Consumer Litigation related to the legality of our Basic Monthly Subscription Fees

We are a defendant in a considerable number of lawsuits, both individual and collective, which contest our right to charge users of our fixed-line service a basic monthly subscription fee for continuous access to the service. These lawsuits have been stayed by a preliminary decision in the conflict of jurisdiction proceeding brought by Anatel before the SCJ, in which we submitted a brief. As a result, all preliminary and final decisions in the basic monthly subscription fee lawsuits were suspended. The lawsuits are no longer submitted to a brief due to the conflict of jurisdiction litigation. The conflict of jurisdiction disputes has already been resolved and the lawsuits resumed their regular course. There are 85,000 lawsuits contemplating the monthly subscription fees issue. Of these lawsuits, only 8,400 have had trial court judgments favorable to the temporary dismissal of the fees for fixed-line services access. The Supreme Court has already ruled on the grounds of the action, ruling in our favor with respect to the legality of charging a monthly subscription fee.

Dividend Policy

Pursuant to our by-laws, we are required to distribute a Mandatory Dividend. The Preferred Dividend has priority in the allocation of Adjusted Net Income. Remaining amounts to be distributed are allocated first to the payment of a dividend to holders of our Common Shares in an amount equal to the Preferred Dividend, and subsequently distributed equally among holders of Preferred Shares and Common Shares. Under the Brazilian Corporate Law, a company is permitted to suspend the Mandatory Dividend in respect of common shares and preferred shares not entitled to a fixed or minimum dividend if its board of directors and fiscal council report at the annual shareholders meeting that the distribution would be incompatible with the financial circumstances of such company and the shareholders ratify this conclusion at the shareholders meeting. In this case, (i) the board of directors must forward to the CVM within five days of the shareholders meeting an explanation justifying the information transmitted at the meeting and (ii) the profits which were not distributed for such reason are to be recorded as a special reserve and, if not absorbed by losses in subsequent fiscal years, are to be paid as dividends as soon as the financial situation of such company permits. Our Preferred Shares are entitled to a minimum dividend and thus the Mandatory Dividend may be suspended only with respect to the Common Shares. See Priority and Amount of Preferred Dividends.

Under our by-laws, we may pay dividends out of retained earnings or accumulated profits in any given fiscal year. For purposes of the Brazilian Corporate Law, accumulated profits are defined as net income after income and social contribution taxes for such fiscal year, net of any accumulated losses from prior fiscal years and any amounts allocated to founders shares, income bonds, employees and management s participation in a company s profits. Retained earnings are defined as the amount of our net income in prior years that was not paid out as dividends in the year in which it was earned, but rather was retained in accordance with a proposal of the board of directors duly approved at a shareholders meeting.

At each annual shareholders meeting, our board of directors is required to recommend how net profits for the preceding fiscal year are to be allocated. Under the Brazilian Corporate Law, we are required to maintain a Statutory Reserve to which we must allocate 5.0% of net profits for each fiscal year until the amount of such reserve equals 20.0% of our paid-up share capital. This reserve can only be used to increase capital or offset accumulated losses. Net losses, if any, may be charged against the statutory reserve.

The Brazilian Corporate Law also provides for two additional discretionary allocations of net profits that are subject to approval by shareholders at the annual shareholders meeting. First, a percentage of net profits may be allocated to the Contingency Reserve for anticipated losses that are deemed probable in future years. Any amount so allocated in a prior year must be either (i) reversed in the fiscal year in which the loss was anticipated if such loss does not in fact occur or (ii) reversed in the event that the anticipated loss occurs. Second, if the amount of Unrealized Revenue exceeds the sum of (i) the Statutory Reserve, (ii) the Contingency Reserve and (iii) retained earnings, such excess may be allocated to the Unrealized Revenue Reserve. Such allocations may not hinder the payment of minimum dividends on our Preferred Shares.

Priority and Amount of Preferred Dividends

Our by-laws provide for a minimum non-cumulative dividend of Preferred Dividend equal to the greater of (i) 6.0% per year of the value of our total share capital divided by the total number of shares or (ii) 3.0% per year of the book value of our shareholders equity divided by our total number of shares. As a result of such provision, holders of Preferred Shares are entitled to receive, in any year, distributions of cash dividends prior to the holders of Common Shares receiving any distribution of cash dividends in such year. In addition, distributions of cash dividends in any year are made:

- first, to the holders of Preferred Shares, up to the amount of the Preferred Dividend of our Preferred Shares for such year;

- then, to the holders of Common Shares, until the amount distributed in respect of each Common Share is equal to the amount distributed in respect of each Preferred Share; and

- thereafter, to the Common Shares and Preferred Shares on a pro rata basis.

If the Mandatory Dividend in any year is less than or equal to the Preferred Dividend payable to the holders of Preferred Shares in such year, the holders of Common Shares will not be entitled to receive any cash dividends distributed by us in such year, unless the holders of Common Shares approve dividends in excess of the Mandatory Dividend. In such circumstances, however, holders of Preferred Shares will be entitled to the amount available for payment of dividends up to an aggregate amount equal to the Preferred Dividend plus, in the event the Preferred Dividend is higher than the amount available for payment of dividends for such year, any retained earnings from previous years may be used to make up for such shortfall. If the Preferred Dividend is not paid for a period of three years, holders of Preferred Shares shall be entitled to full voting rights until such time as the minimum dividend is paid in full for any year.

Payment of Dividends

We are required by Brazilian law (Law 6,404, article 132) and our by-laws to hold an annual shareholders meeting within four months after the end of each fiscal year at which, among other things, an annual dividend may be declared by decision of the shareholders on the recommendation of our executive officers and our board of directors. The payment of annual dividends is based on our financial statements prepared for each fiscal year ended December 31 in accordance with Brazilian Corporate Law. Under Brazilian Corporate Law, dividends are required to be paid within 60 days following the date the dividend distribution is declared to shareholders of record, unless a shareholders meeting resolution sets forth another date of payment, which must occur prior to the end of the fiscal year in which such dividend distribution was declared. A shareholder has a three-year period from the dividend payment date to claim dividends in respect of its shares, after which hawse have no liability for such payment. Because our shares are issued in book-entry form, dividends with respect to any share are automatically credited to the account holding such share and no action is required on the part of the shareholder. We are not required to adjust the amount of paid-in capital for inflation. Annual dividends may be paid to shareholders of newly issued shares on a pro rata basis according to the date when the subscription price for such newly issued shares was paid to us.

Shareholders who are not residents of Brazil must register with the Brazilian Central Bank in order for dividends, sales proceeds or other amounts with respect to their shares to be eligible to be remitted outside of Brazil. The Preferred Shares underlying the ADSs are held in Brazil by Banco Bradesco S.A., as agent for the Depositary, which has registered with the Brazilian Central Bank as the registered owner of our shares.

Payments of cash dividends and distributions, if any, will be made in Brazilian currency to Banco Bradesco S.A., as custodian for our Preferred Shares represented by the ADSs, on behalf of the Depositary. Banco Bradesco S.A. will then convert such proceeds into dollars and will cause such dollars to be delivered to the Depositary for distribution to holders of ADSs. In the event that the custodian is unable to immediately convert the Brazilian currency received as dividends into dollars, the amount of dollars payable to holders of ADSs may be adversely affected by devaluations of the Brazilian currency that occur before such dividends are converted and remitted. Dividends in respect of our Preferred Shares paid to resident and non-resident shareholders, including holders of ADSs, are not currently subject to Brazilian withholding tax. See Item 10. Additional Information Taxation Brazilian Tax Considerations.

ITEM 9. THE OFFER AND LISTING

Offer and Listing Details

Our Preferred Shares commenced trading separately on the Brazilian stock exchanges on July 10, 1992. The following table sets forth the reported high and low closing sale prices for our Preferred Shares on BOVESPA and the approximate average daily trading volume for the annual periods indicated.

	Nominal *reais* per 1,000 Preferred Shares		
	High	**Low**	**Average Daily Trading Volume**
			(millions of shares)
Year-end 2003	14.08	9.37	1,137.6
Year-end 2004	18.00	9.13	1,335.0
Year-end 2005	12.59	8.14	1,647.2
Year-end 2006	10.74	7.08	1,397.1
Year-end 2007*	18.50	9.77	1,354.1

Source: Bloomberg
* Nominal reais per Preferred Share

The following table sets forth the reported high and low closing sale prices for our Preferred Shares on BOVESPA and the approximate average daily trading volume for the quarterly periods indicated.

	Nominal *reais* per 1,000 Preferred Shares		
	High	**Low**	**Average Daily Trading Volume**
			(millions of shares)
First quarter 2005	11.89	9.71	1,626.4

Second quarter 2005	10.62	8.78	1,901.8
Third quarter 2005	10.14	8.14	1,624.7
Fourth quarter 2005	12.59	9.58	1,428.6
First quarter 2006	10.07	8.50	1,474.1
Second quarter 2006	10.07	7.54	1,616.9

	Nominal *reais* per 1,000 Preferred Shares		
	High	**Low**	**Average Daily Trading Volume**
Third quarter 2006	8.31	7.08	1,171.1
Fourth quarter 2006	10.74	7.63	1,326.5
First quarter 2007	11.45	9.48	1,449.0
Second quarter 2007*	14.09	10.84	1,617.9
Third quarter 2007*	17.55	13.70	1,237.5
Fourth quarter 2007*	18.50	15.40	1,104.0

Source: Bloomberg
* Nominal reais per Preferred Share

The following table sets forth the reported high and low closing sale prices for our Preferred Shares on BOVESPA and the approximate average daily trading volume for the monthly periods indicated.

	Nominal *reais* per 1,000 Preferred Shares		
	High	**Low**	**Average Daily Trading Volume**
			(millions of shares)
September 2007	17.50	16.30	778.3
October 2007	18.50	16.80	957.0
November 2007	17.55	15.40	1,448.4
December 2007	18,34	16,70	961.7
January 2008	19.61	14.15	1,716.6
February 2008	18.78	16.74	1,088.0

Source: Bloomberg

Our ADSs, each representing 3 Preferred Shares, commenced trading on the NYSE on November 16, 2001. The following table sets forth the reported high and low closing sale prices for our ADSs on the NYSE and the approximate average daily trading volume for the periods indicated.

	Nominal dollars per ADS		
	High	**Low**	**Average Daily Trading Volume**
			(number of shares)
Year-end 2003	16.22	7.80	7,978
Year-end 2004	19.19	8.46	21,332

Year-end 2005	17.05	10.50	45,427
Year-end 2006	15.04	9.64	79,805
Year-end 2007	31.32	13.79	92,626

Source: Bloomberg

The following table sets forth the reported high and low closing sale prices for our ADSs on the NYSE and the approximate average daily trading volume for the quarterly periods indicated.

	Nominal dollars per ADS		
	High	**Low**	**Average Daily Trading Volume**
			(number of shares)
First quarter 2005	14.85	11.80	37,889
Second quarter 2005	13.63	11.37	28,413
Third quarter 2005	14.33	10.50	61,689
Fourth quarter 2005	17.05	12.74	53,490
First quarter 2006	14.32	11.54	74,480
Second quarter 2006	14.46	9.87	67,420
Third quarter 2006	11.67	9.64	45,495

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	Nominal dollars per ADS		
	High	Low	Average Daily Trading Volume
Fourth quarter 2006	15.04	10.54	131,437
First quarter 2007	16.72	13.30	86,617
Second quarter 2007	21.61	15.94	92,290
Third quarter 2007	28.20	22.89	119,260
Fourth quarter 2007	30.35	28.98	81,217

Source: Bloomberg

The following table sets forth the reported high and low closing sale prices for our ADSs on the NYSE and the approximate average daily trading volume for the monthly periods indicated.

	Nominal dollars per ADS		
	High	Low	Average Daily Trading Volume
			(number of shares)
September 2007	28.31	25.10	81,600
October 2007	31.01	27.76	102,322
November 2007	30.47	25.23	67,676
December 2007	31.32	27.45	71,165
January 2008	32.80	24.32	112,319
February 2008	33.20	28.88	87,370

Source: Bloomberg

There are no restrictions on ownership of our Preferred Shares or Common Shares by individuals or legal entities domiciled outside Brazil.

The right to convert dividend payments and proceeds from the sale of shares into foreign currency and to remit such amounts outside Brazil is subject to restrictions under foreign investment regulations which generally require, among other things, that the relevant investments have been registered with the Brazilian Central Bank. Banco Bradesco S.A., as custodian for our Preferred Shares represented by the ADSs, has registered with the Brazilian Central Bank on behalf of the Depositary the Preferred Shares that it will hold. This enables holders of ADSs to convert dividends, distributions or the proceeds from any sale of such Preferred Shares, as the case may be, into dollars and to remit such dollars abroad. However, holders of ADSs could be adversely affected by delays in, or a refusal to grant any, required government approval for conversions of Brazilian currency payments and remittances abroad of the Preferred Shares underlying our ADSs.

In Brazil, there are a number of mechanisms available to foreign investors interested in trading directly on the Brazilian stock exchanges or on organized over-the-counter markets.

Under Resolution 2,689, foreign investors seeking to trade directly on a Brazilian stock exchange or on an organized over-the-counter market, must meet the following requirements:

- Investments must be registered with a custody, clearing or depositary system authorized by CVM or the Brazilian Central Bank;
- Trades of securities are restricted to transactions performed on the stock exchanges or organized over-the-counter markets authorized by the CVM;
- A holder of ADSs must establish a representative in Brazil;
- A holder of ADSs must complete a form annexed to the Resolution 2,689; and
- A holder of ADSs must register with the CVM and register the inflow of funds with the Brazilian Central Bank.

If these requirements are met, foreign investors will be eligible to trade directly on the Brazilian stock exchanges or on organized over-the-counter markets. These rules extend favorable tax treatment to all foreign investors investing pursuant to these rules. See Item 10. Additional Information Taxation. These regulations contain certain restrictions on the offshore transfer of the title of the securities, except in the case of corporate reorganizations effected abroad by a foreign investor.

A certificate of foreign capital registration has been issued in the name of the Depositary with respect to the ADSs and is maintained by Banco Bradesco S.A., as custodian for our Preferred Shares represented by the ADSs, on behalf of the Depositary. Pursuant to such certificate of foreign capital registration, we expect that Depositary will be able to convert dividends and other distributions with respect to the Preferred Shares represented by ADSs into foreign currency and remit the proceeds outside of Brazil.

In the event that a holder of ADSs exchanges such ADSs for Preferred Shares, such holder will be entitled to continue to rely on the Depositary s certificate of foreign capital registration for five business days after such exchange, following which such holder must seek to obtain its own certificate of foreign capital registration with the Brazilian Central Bank. Thereafter, any holder of Preferred Shares may not be able to convert into foreign currency and remit outside Brazil the proceeds from the disposition of, or distributions with respect to, such Preferred Shares, unless such holder qualifies under Resolution 2,689 or obtains its own certificate of foreign capital registration. A holder that obtains a certificate of foreign capital registration will be subject to less favorable Brazilian tax treatment than a holder of ADSs. See Item 10. Additional Information Taxation Brazilian Tax Considerations.

Under current Brazilian legislation, the Federal Government may impose temporary restrictions on remittances of foreign capital abroad in the event of a serious imbalance or an anticipated serious imbalance of Brazil s balance of payments. For approximately six months in 1989 and early 1990, the Federal Government froze all dividend and capital repatriations held by the Brazilian Central Bank that were owed to foreign equity investors in order to conserve Brazil s foreign currency reserves. These amounts were subsequently released in accordance with Federal Government directives. There can be no assurance that the Federal Government will not impose similar restrictions on foreign repatriations in the future.

Markets

Our Common Shares and our Preferred Shares are traded on BOVESPA under the symbols BRTO3 and BRTO4, respectively. At December 31, 2007, we had approximately 440,451 shareholders.

Our Preferred Shares are also listed on the NYSE in the form of ADSs under the symbol BTM, with each ADS representing 3 Preferred Shares, issued by the Depositary pursuant to the deposit agreement, dated November 16, 2001, among us, the Depositary and the registered holders and beneficial owners from time to time of ADSs. Preferred Shares represented by ADSs are held in custody in Brazil by Banco Bradesco S.A., as custodian for our Preferred Shares represented by the ADSs.

Trading on BOVESPA

BOVESPA is a non-profit entity owned by its member brokerage firms. Trading on BOVESPA is limited to member brokerage firms and a limited number of authorized non-members. The stocks are traded on an electronic trading system allowing purchase or selling orders to be registered via computer terminals. The matching of offers and closing of business is automatically carried out by BOVESPA s computer. In 1999, BOVESPA began operating an after-market which allows for limited after-hours trading to take place. There are no specialists or market makers for our shares on BOVESPA. Trading in securities listed on BOVESPA may be effected off the exchanges in certain circumstances, although such trading is very limited.

Settlement of transactions is effected three business days after the trade date without adjustment of the purchase price for inflation. Payment for shares or delivery of shares are made through the facilities of separate clearinghouses for each exchange, which maintain accounts for member brokerage firms. The clearinghouse for BOVESPA is *Companhia Brasileira de Liquidação e Custódia S.A.*

In order to better control volatility, BOVESPA has adopted a circuit breaker system pursuant to which trading sessions may be suspended for a period of 30 minutes or one hour whenever the indices of this stock exchange fall below the limit of 10.0% in relation to the index registered in the previous trading session.

At December 31, 2007, the aggregate market capitalization of all of the companies listed on BOVESPA was approximately R$2,478 billion. Although all the outstanding shares of an exchange-listed company may trade on the BOVESPA, in most cases less than half of the listed shares are actually available for trading by the public, the remainder being held by small groups of controlling persons that rarely trade their shares. For this reason, data showing the total market capitalization of BOVESPA tends to overstate the liquidity of the Brazilian equity securities market.

The Brazilian equity market is relatively small and illiquid as compared to major world markets. In 2007 the daily trading volume on BOVESPA averaged approximately R$4,895 million. In 2007, the ten most actively traded issues represented approximately 50.4% of the total trading in the cash market (standard lot) on BOVESPA.

Trading on BOVESPA by nonresidents of Brazil is subject to certain limitations under Brazilian foreign investment legislation, which generally require, among other things, that the relevant investments have been registered with the Brazilian Central Bank, according to Resolution 2,689. See Offer and Listing Details.

The Special Corporate Governance Levels of BOVESPA

On December 11, 2000, BOVESPA launched three new listing segments designed for the trading of shares issued by publicly held companies: the Special Corporate Governance Level 1, the Special Corporate Governance Level 2 and the Novo Mercado of BOVESPA.

Such new listing segments were designed for the trading of shares issued by companies that voluntarily undertake to abide by more stringent corporate governance practices and disclosure requirements than those currently requested by the Brazilian legislation.

The inclusion of a company in any of the new segments implies the compliance of such company with a series of corporate governance rules known generally as good corporate governance practices. These rules, which are consolidated in the listing regulations of the exchange, are meant to enhance the quality of information provided by Brazilian corporations and increase shareholder s rights, depending on the considered level.

On March 27, 2002, our board of directors approved our compliance with the Special Corporate Governance Level 1 of BOVESPA. Our shares joined the Special Corporate Governance Level 1 of BOVESPA on May 9, 2002.

In order to join the Special Corporate Governance Level 1, we agreed to undertake the following corporate governance practices:

- the maintenance of a free-float of at least 25.0% of our capital stock;
- holding of public offerings for share placements through mechanisms that favor capital dispersion to a broader spectrum of shareholders;
- disclosing improved quarterly information, including consolidated figures and special audit revisions on a quarterly basis;
- complying with the enhanced disclosure rules of the exchange for transactions involving assets, including transactions with our controlling shareholders and our management;
- disclosing shareholder agreements and stock option programs; and
- the publication of an annual calendar of corporate events.

Regulation of Brazilian Securities Markets

The Brazilian securities markets are regulated by the CVM, which has authority over stock exchanges and the securities markets generally, and by the Brazilian Central Bank, which has, among other powers, licensing authority over brokerage firms and regulates foreign investment and foreign exchange transactions. The Brazilian securities market is governed by Law 6,385 as amended and the Brazilian Corporate Law.

Under the Brazilian Corporate Law, a company is either publicly held, a *companhia aberta*, as we are, (whose shares are publicly traded on the BOVESPA) or privately held, a *companhia fechada*. All publicly held companies are registered with the CVM and are subject to reporting requirements. A company that is registered with the CVM may have its securities traded either on the Brazilian stock exchanges or on the Brazilian over-the-counter market. The shares of a public company may also be traded privately, subject to certain limitations. To be listed on the Brazilian stock exchanges, a company must apply for registration with the CVM and the stock exchange where the head office of the company is located. Once this stock exchange has admitted a company to listing and the CVM has accepted its registration as a publicly held company, its securities may be traded on BOVESPA.

Trading in securities on BOVESPA may be suspended at the request of a company in anticipation of a material announcement. Trading may also be suspended on the initiative of BOVESPA or the CVM, among other reasons, based on or due to a belief that the company has provided inadequate information regarding a material event or has provided inadequate responses to inquiries by the CVM or the relevant stock exchange.

Brazilian securities Law 6,385, that governs the Brazilian securities market, provides for, among other things, disclosure requirements, restrictions on insider trading and price manipulation, and protection of minority shareholders. However, the Brazilian securities markets are not as highly regulated and supervised as the U.S. securities markets or markets in certain other jurisdictions.

ITEM 10. ADDITIONAL INFORMATION

Memorandum and Articles of Association

The summary of the material provisions concerning our Preferred Shares and Common Shares, our by-laws, and Brazilian Corporate Law contained in Item 10. Additional Information Memorandum and Articles of Association under Amendment 1 to our registration statement on Form 20-F (File 1-15256), filed with the SEC on October 31, 2001, as amended is incorporated herein by reference. Such description contained in the registration statement is qualified to the extent applicable by this section, as well as by reference to our by-laws, which have been filed (together with an English translation) as an exhibit to this annual report, and to Brazilian Corporate Law. A copy of our by-laws (together with an English translation) is available for inspection at the principal office of the Depositary.

Material Contracts

The following summaries are not intended to be complete and reference is made to the agreements themselves, which are included as exhibits to this Form 20-F or other filings with the SEC as indicated below.

Our Concessions and Authorizations for Local and Intraregional Fixed-Line Switched Telecommunications Services

As successor in interest to each of Telesc, Telegoiás, Telebrasília, Telemat, Telems, Teleron, Teleacre, CTMR and CRT, we have assumed their public regime concessions to provide fixed-line local switched telecommunications services for calls originating in the following geographic areas: Paraná, Santa Catarina, Distrito Federal, Goiás, Tocantins, Mato Grosso, Mato Grosso do Sul, Rondônia, Acre and Rio Grande do Sul.

The initial term of our respective concessions, which were originally granted free of charge, ended on December 31, 2005. Notwithstanding the foregoing, we have the right to a one-time extension of twenty years for each concession provided that we meet certain conditions set forth in each such concession. We have requested and have been granted a twenty year extension of our concessions to provide fixed-line local switched telecommunications calls originating in the geographic areas listed above. On June 20, 2003, Anatel approved a new PGMQ and the concession contract model under which all fixed-line telecommunications carriers began operating on January 1, 2006. On June 28, 2003, Decree 4769 was entered approving the PGMU. See Obligations of Telecommunications Companies New Telecommunications Regulations. Every second year during the 20-year extension period, companies will be required to pay biannual fees equal to 2.0% of their annual net revenues from the provision of telecommunications services (excluding taxes and social contributions) during the immediately preceding year.

On January 20, 2004 we were granted an open-ended authorization to provide fixed-line local telecommunications services in Regions I and III.

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Our Authorizations for Interregional Fixed-Line Switched National Long-distance Telecommunications services and International Fixed-Line Switched Long-distance Telecommunications services.

On January 20, 2004 we were granted open-end authorizations to (i) originate long-distance calls in Regions I and III and terminate such calls anywhere within the Brazilian territory, and (ii) originate long-distance international calls anywhere in Brazil.

Our Authorizations for Mobile Telecommunications Services (PCS)

On December 18, 2002 we were granted three authorizations to render mobile services: (i) one authorization for the states of Santa Catarina and Paraná; (ii) one authorization for the state of Rio Grande do Sul; and (iii) one authorization for the States of Acre, Goiás, Mato Grosso do Sul, Mato Grosso, Rondônia, Tocantins and Distrito Federal.

BNDES Loan Agreements

We have entered into loan agreements with the BNDES, our principal creditor. At December 31, 2007, we had outstanding loans to BNDES in the aggregate principal amount of approximately R$2,206.9 million. The interest payable by us on such *real*-denominated debt is based either on the TJLP rate plus a spread (varying from 2.3% to 5.5% per annum, depending on the contract) or on the average annual currency basket rate published by BNDES (*Cesta de Moeda*) plus a spread of 5.5% per annum. The TJLP rate in Brazil as of December 31, 2007 was 6.25% per annum. The currency basket devalued 16.8% against Brazilian *real* throughout 2007. The proceeds from the BNDES loans have been used to finance the expansion and modernization of our network since June 1998, in order to meet the telecommunications service requirements established under our concession agreements.

On August 13, 2004, we entered into a loan agreement with BNDES, in a total amount of R$1.27 billion, guaranteed by our Parent. The loan bears interest (a) at the variable TJLP rate plus 5.5% per annum for 80% of the amount and (b) at the variable *Cesta de Moedas* plus 5.5% per annum for 20% of the amount. The loan has two different maturity dates: (i) February 15, 2011 for the TJLP portion and (ii) April 15, 2011 for the *Cesta de Moedas* portion. The proceeds have been used to finance our investment in wireline network plant and in operational improvements to meet the targets established in the *PGMU* and in the *PGMQ*, during the period of July 2003 to December 2006. On August 26, 2004, we received from BNDES the first tranche of this facility, in the amount of R$400.0 million, of which R$320.0 million bears interest at TJLP plus 5.5% per annum and R$80.0 million bears interest at *Cesta de Moedas* plus 5.5% per annum. On October 26, 2004, we received a second tranche from BNDES, in the amount of R$342.5 million, of which R$282.7 million bears interest at TJLP plus 5.5% per annum and R$59.7 million bears interest at *Cesta de Moedas* plus 5.5% per annum. On July 15, 2005, we received the third tranche from BNDES in the amount of R$252.0 million, of which R$213.7 million bears interest at TJLP plus 5.5% per annum and R$38.3 million bears interest at *Cesta de Moedas* plus 5.5% per annum. On November 8, 2005, we received the fourth and last tranche from BNDES in the amount of R$251.8 million, of which R$216.1 million bears interest at TJLP plus 5.5% per annum and R$35.7 million bears interest at *Cesta de Moedas* plus 5.5% per annum.

On November 1, 2006, we entered into a new loan agreement with BNDES, in a total amount of R$2,104 billion, guaranteed by our Parent. BNDES will finance 62% of the total amount directly. The remaining 38% of the loan will be financed indirectly via a pool of financial institutions. The loan bears interest (a) at the variable TJLP rate plus 4.3% per annum for 95.2% of the amount and (b) at the variable TJLP rate plus 2.3% per annum for 4.8% of the amount. The loan matures on May 5, 2014. The proceeds will be used to finance our investment in wireline network and in operational improvements to meet the targets established by Anatel in the PGMU and in the PGMQ. On November 21, 2006, we received from BNDES the first tranche of the direct portion of this facility, in the amount of R$495.9 million, of which R$465.9 million bears interest at TJLP + 4.3% per annum and R$30.0 million bears interest at TJLP + 2.3% per annum. On November 22, 2006, we received the first tranche of the indirect portion of this facility from the pool of financial institutions, in the amount of R$304.1 million, bearing interest at TJLP + 4.3% per annum. On October 29 and November 27, 2007, we received the second tranche of the direct and indirect portions of this facility, in the amount of R$600.0 million, bearing interest at TJLP + 4.3% per annum. The remaining disbursements of the loan are expected to occur by the end of 2008.

BNDES and other Creditor Debt Instrument Waivers and Amendments

The agreements that govern our debt, including our credit facilities with BNDES, contain a number of significant covenants, the failure of which to comply could adversely impact our business. In particular, the terms of these agreements restrict our ability, and the ability of our subsidiaries, to incur additional debt, grant liens, pledge assets, sell or dispose of assets and make certain acquisitions, mergers and consolidations. Furthermore, in accordance with a number of our debt agreements, including our credit facilities with BNDES, we are required to comply with and maintain certain specified financial ratios. As a general rule, the occurrence of an event of default under an agreement may trigger the acceleration of other agreements representing our indebtedness.

In 2006, as a result of booking provisions in our financial statements for the year ended December 31, 2005, in the amount of R$622 million, we breached financial covenants contained in the credit facilities with BNDES. Although we successfully obtained from BNDES a waiver of our potential failure to comply with the financial covenants in the first half of 2006 on February 3, 2006, BNDES, together with the pool of financial institutions, temporarily retained R$192.2 million of our cash investments during 2006, in accordance with the agreements. On December 8, 2006, we entered into contractual amendments with BNDES and the pool of financial institutions, which altered the structure of financial covenants that must be fulfilled by us, at which time the retained funds were released.

Indenture

On February 17, 2004, we issued US$200.0 million aggregate principal amount of 9.375% Notes due 2014 under an indenture dated February 17, 2004, among us, The Bank of New York, as indenture trustee, registrar, New York paying agent and transfer agent, and The Bank of Tokyo-Mitsubishi Ltd., as principal paying agent. Pursuant to the indenture, the notes are payable in full in a single payment upon maturity unless redeemed earlier or extended pursuant to the terms of the indenture. The notes bear interest at a fixed rate of 9.375% per annum from the date of issuance until all required amounts due in respect thereof have been paid. Interest on the notes is paid semiannually in arrears on February 17 and August 17 of each year, commencing on August 17, 2004, to the noteholders registered as such as of the close of business on a record date being the tenth business day preceding such payment date. Interest for the first interest period accrued from February 17, 2004. Interest on the notes is computed on the basis of a 360-day year of twelve 30-day months.

The indenture describes covenants with which we must comply, including:

- observations of certain interest coverage and leverage ratios when incurring additional indebtedness;
- restrictions with respect to certain mergers, consolidations or similar transactions;
- restrictions with respect to creation of certain liens on our assets; and
- restrictions with respect to certain sale and lease-back transactions.

These covenants are subject to a number of important qualifications and exceptions as described in the indenture.

The indenture contains certain events of default, including the following:

- failure to pay principal when due;
- failure to pay interest and other amounts (i) within 30 calendar days of the due date therefore in the case of payments made in respect of any interest payment dates occurring prior to the expected maturity date, and (ii) when due, in the case of any interest payment date occurring on or after the expected maturity date; and
- breach by us of any covenant or agreement in the indenture or any of the other relevant transaction documents.

JBIC-Guaranteed Loan

On March 24, 2004, we entered into a 21.6 billion Japanese Yen loan facility arranged by SMBC, guaranteed by JBIC and granted by a syndicate of five commercial banks, including SMBC. The loan is unsecured and bears interest at a rate equal to LIBOR Yen plus 1.92% per annum. Interest payments are due on September 24 and March 24 of each year. We borrowed the entire amount available under this facility on April 28, 2004 in the form of a single term loan, which was exchanged into approximately R$576.0 million that we used for 2003 capital expenditures. Overdue amounts bear interest at a rate equal to LIBOR Yen plus 1.92% per annum. The interest payments and arrangement fee and agency fee on this loan are subject to withholding in Brazil at a rate of 12.5%, and we are required to gross-up such interest payments. The principal amount of this loan is repayable in Japanese Yen in ten equal installments due on the interest payment dates referred to above. We may prepay all or a portion of this loan on any payment date subject to certain conditions.

JBIC has guaranteed the repayment of 97.5% of the principal amount of and interest due on this loan. For this guarantee, JBIC receives a fee in the amount of 1.25% per annum of 97.5% of the aggregate principal amount of the loan outstanding from time to time. In order to induce JBIC to guarantee the loan facility, on March 18, 2004 we entered into a Japanese Yen loan facility in an aggregate amount of approximately R$3.0 million with JBIC and the participating financial institutions. The proceeds from such loan were used for the acquisition of Japanese goods.

The loan agreements impose certain restrictions on us, including limitations on liens (subject to customary exceptions), limitations on assets sales and limitations on mergers and similar transactions. Under the loan agreements we are also subject to financial covenants including an interest coverage ratio, debt coverage ratio and leverage ratio. If we fail to comply with these financial covenants, in addition to the other remedies available to the lenders, we may be required to provide to the lenders and JBIC collateral security for the loan, including a guarantee from a bank or Parent. The loan agreements include customary events of default, subject to certain grace periods and customary exceptions.

As discussed above, we expected that the R$622 million in provisions we determined to book on our financial statements for the year ended December 31, 2005, would affect our results and, accordingly, jeopardize our compliance with financial covenants set forth in debt agreements, including our loan agreements entered into with JBIC and SMBC. Therefore, prior to booking the provisions, we initiated negotiations with these creditors to adjust the affected financial covenants, in particular the ratio between EBITDA and the financial expenses. On February 17, 2006, we signed the First Amendment to the Loan Agreement entered into with JBIC, dated March 18, 2004, and the First Amendment to the Loan Agreement entered into with SMBC, dated March 24, 2004. These amendments adjusted the financial covenants in the respective loan agreement relating to EBITDA and adjusted the financial expenses from equal to or higher than 2.25, to equal or higher than 1.5, as of the fourth quarter of 2005 until and including the third quarter of 2006. We complied with all financial covenants contained in each respective loan agreement, as amended, in 2005, 2006 and 2007.

Debentures   Escritura Pública de Emissão

At a meeting of our Board of Directors on June 5, 2006, our Board unanimously approved the 5th issuance, being the 4th public issuance, of simple, nominative, non-convertible debentures. This was the first issuance made under our first Securities Distribution Program of R$2.0 billion, in a total aggregate amount of R$1.08 billion. The debentures were issued on June 1, 2006, are guaranteed by our Parent, and have a term of seven years from the issuance date, maturing on June 1, 2013. Interest payable on the debentures was established in the bookbuilding process at 104.0% of the CDI.

Exchange Controls

There are no restrictions on ownership of the ADSs or the Preferred Shares by individuals or legal entities domiciled outside Brazil.

The right to convert dividend payments and proceeds from the sale of shares into foreign currency and to remit such amounts outside Brazil may be subject to restrictions under foreign investment legislation which generally requires, among other things, that the relevant investments be registered with the Brazilian Central Bank. If any restrictions are imposed on the remittance of foreign capital abroad, they could hinder or prevent Banco Bradesco S.A., as custodian for our Preferred Shares represented by the ADSs, or registered holders who have exchanged ADSs for Preferred Shares, from converting dividends, distributions or the proceeds from any sale of such Preferred Shares, as the case may be, into dollars and remitting the dollars abroad.

Foreign investors may register their investment under Law 4,131/62 or Resolution 2,689. Registration under Resolution 2,689 affords favorable tax treatment to foreign investors who are not resident in a tax haven, as defined by Brazilian tax laws.

Under Resolution 2,689, foreign investors may invest in almost all financial assets and engage in almost all transactions available in the Brazilian financial and capital markets, provided that certain requirements are fulfilled. In accordance with Resolution 2,689, the definition of foreign investor includes individuals, legal entities, mutual funds and other collective investment entities, domiciled or headquartered abroad.

Under Resolution 2,689, a foreign investor must:

- appoint at least one representative in Brazil, with powers to perform actions relating to its investment;
- appoint an authorized custodian in Brazil for its investments;
- register as a foreign investor with the CVM; and
- register its foreign investment with Brazilian Central Bank.

Under Resolution 2,689, securities and other financial assets held by a foreign investor must be registered or maintained in deposit accounts or under the custody of an entity duly licensed by the Brazilian Central Bank or the CVM. In addition, any transfer of securities held under Resolution 2,689 must be carried out in the stock exchanges or through organized over-the-counter markets licensed by the CVM, except for transfers resulting from a corporate reorganization, or occurring upon the death of an investor by operation of law or will or as a consequence of the de-listing of the relevant shares from a Brazilian stock exchange and the cancellation of the registration of the relevant company from the CVM.

Holders of ADSs who have not registered their investment with the Brazilian Central Bank could be adversely affected by delays in, or refusals to grant, any required government approval for conversions of payments made in *reais* and remittances abroad of these converted amounts.

Resolution 1,927 of the CMN, which restated and amended Annex V to Resolution 1,289, provides for the issuance of depositary receipts in foreign markets in respect of shares of Brazilian issuers. We have obtained approval for the ADSs under Annex V to Resolution 1,289, in order to (i) allow the proceeds from the sale by holders of ADSs outside Brazil to be free of Brazilian foreign investment controls, and (ii) allow holders of ADSs who are not resident in a tax haven to be entitled to favorable tax treatment in Brazil.

A certificate of foreign capital registration has been issued in the name of the Depositary with respect to the ADSs and is maintained by Banco Bradesco S.A., as custodian for our Preferred Shares represented by the ADSs, on behalf of the Depositary. Pursuant to such certificate of foreign capital registration, we expect that the Depositary will be able to convert dividends and other distributions with respect to the Preferred Shares represented by ADSs into foreign currency and remit the proceeds outside of Brazil. See Item 9. Offer and listing Offer and listing details and Item 9. Offer and Listing Markets Trading on BOVESPA.

In the event that a holder of ADSs exchanges the ADSs for Preferred Shares, such holder will be entitled to continue to rely on the Depositary s certificate of foreign capital registration for only five business days after such exchange, following which such holder must seek to obtain its own certificate of foreign capital registration with the Brazilian Central Bank. Thereafter, any holder of Preferred Shares may not be able to convert into foreign currency and remit outside Brazil the proceeds from the disposition of, or distributions with respect to, such Preferred Shares, unless such holder qualifies under Resolution 2,689 or obtains its own certificate of foreign capital registration. A holder of Preferred Shares that obtains a certificate of foreign capital registration will be subject to less favorable Brazilian tax treatment than a holder of ADSs. See Taxation Brazilian Tax Considerations.

Taxation

The following summary contains a description of the principal Brazilian and U.S. federal income tax considerations of the acquisition, ownership and disposition of Preferred Shares or ADSs, but it does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase Preferred

Shares or ADSs. The summary is based upon the tax laws of Brazil and regulations thereunder and on the tax laws of the U.S. and regulations thereunder as in effect on the date hereof, all of which authorities are subject to change or differing interpretations, possibly with retroactive effect. Each holder should consult their own tax advisors as to the tax consequences of the acquisition, ownership and disposition of Preferred Shares or ADSs.

Although there is at present no income tax treaty in force between Brazil and the U.S., the tax authorities of the two countries have had discussions that may culminate in such a treaty. No assurance can be given, however, as to whether or when a treaty will enter into force or how it will affect the U.S. holders of Preferred Shares or ADSs. Prospective holders of Preferred Shares or ADSs should consult their own tax advisors as to the tax consequences of the acquisition, ownership and disposition of Preferred Shares or ADSs in their particular circumstances.

Brazilian Tax Considerations

The following discussion summarizes the principal Brazilian tax consequences of the acquisition, ownership and disposition of Preferred Shares or ADSs by a non-Brazilian holder. This discussion does not address all the Brazilian tax considerations that may be applicable to any particular non-Brazilian holder, and each non-Brazilian holder should consult his or her own tax advisor about the Brazilian tax consequences of investing in Preferred Shares or ADSs.

Individuals domiciled in Brazil and Brazilian companies are taxed in Brazil on the basis of their worldwide income which includes earnings of Brazilian companies foreign subsidiaries, branches and affiliates. The earnings of branches of foreign companies and non-Brazilian residents, or nonresidents, in general are taxed in Brazil only on income derived from Brazilian sources.

Taxation of Dividends

Dividends paid by us in cash or in kind from profits of periods beginning on or after January 1, 1996 (i) to the Depositary in respect of Preferred Shares underlying ADSs or (ii) to a non-Brazilian holder in respect of Preferred Shares will not be subject to Brazilian withholding tax.

The only Brazilian tax treaty now in effect that would (if certain conditions are met) reduce the rate of the withholding tax on dividends paid from profits generated before January 1, 1996 is the treaty with Japan, which would reduce the rate to 12.5% under the circumstances set forth in the treaty.

Taxation of Gains

Preferred Shares

According to Law No. 10,833/03, the gains related to disposition or sale of assets located in Brazil, such as our shares, are subject to income tax in Brazil, regardless of whether the sale or the disposition is made by the NonResident Holder to a resident or person domiciled in Brazil or not.

Gains realized as a result of a transaction are the excess of the amount in *reais* realized on the sale or exchange of a security over its acquisition cost measured in *reais* (without correction for inflation).

There are arguments to sustain that the acquisition cost of a security registered as a direct investment with the Brazilian Central Bank is calculated on the basis of the foreign currency amount so registered, translated into *reais* at the Commercial Market rate on the date of such sale or exchange.

For purposes of taxation of gains earned in a sale or disposition of shares, two situations should be considered:

- gains earned by Non-Resident Holders registered under Resolution No. 2,689, other than Tax-Haven Residents, are not subject to income tax (unless the sale takes place outside a Brazilian stock exchange, in which case the gains are subject to a 15% income tax); and

- gains earned by Non-Resident Holders who invest in Brazil through any means other than under Resolution No. 2,689, or Non-Registered Investors, and Tax-Haven Residents whether or not they are registered under Resolution No. 2,689.

In this last situation, gains derived from the sale of our shares on the Brazilian stock exchange by Non-Registered Investors and Tax-Haven Investors are subject to income tax at a rate of 15%. The sale or disposal of common shares will also be subject to withholding income tax at a rate of 0.005% . Furthermore, a sale of common shares outside a Brazilian stock exchange will be subject to income tax at a rate of 15% or, in case of Tax Haven Residents, 25%.

In the case of redemption of securities or capital reduction by a Brazilian corporation, such as ourselves, the positive difference in *reais* between the amount effectively received by the Non-Resident Holder and the corresponding acquisition cost is treated, for tax purposes, as capital gain derived from sale or exchange of shares not carried out on a Brazilian stock exchange market, and is therefore subject to income tax at the rate of 15% or 25% (in case of Tax-Haven Residents).

Any exercise of preemptive rights relating to the common shares will not be subject to Brazilian taxation. Any gain on the sale or assignment of preemptive rights relating to the Preferred shares will be subject to Brazilian income taxation according to the same rules applicable to the sale or disposition of common shares.

ADSs

As a general rule, gains realized on disposition transactions carried out with a Brazilian resident or not, may be subject to taxation in Brazil. Exception is made to gains realized outside Brazil by a Non-Resident Holder to another Non-Resident Holder, which are not subject to Brazilian income tax, so long as the assets involved are not considered located in Brazil. Although we believe that the ADSs do not fall within the definition of assets located in Brazil for the purposes of Law No. 10,833, considering the general and unclear scope of such provisions and the lack of a judicial court ruling in respect thereto, we are unable to predict whether such understanding will ultimately prevail in the courts of Brazil.

The deposit of the Preferred shares in exchange for ADSs may be subject to Brazilian tax on capital gains at the rate of 15%, or 25% in the case of Tax-Haven Residents, if the acquisition cost of the shares is lower than (a) the average price per common share on a Brazilian stock exchange on which the greatest number of such shares were sold on the day of deposit; or (b) if no shares were sold on that day, the average price on the Brazilian stock exchange on which the greatest number of common shares were sold in the 15 trading sessions immediately preceding such deposit. In such case, the difference between the acquisition cost and the average price of the shares calculated as above will be considered to be a capital gain.

Such taxation is not applicable in the case of Non-Resident Holders registered under Resolution No. 2,689 other than Tax-Haven Residents, which are currently not subject to income tax in such transaction.

The withdrawal of ADSs in exchange for Preferred shares is not subject to Brazilian tax if such disposition is made, and the proceeds are remitted abroad, within five business days after cancellation.

Any exercise of preemptive rights relating to the ADSs will not be subject to Brazilian taxation. Any gain on the sale or assignment of preemptive rights relating to the Preferred shares by the Depositary on behalf of holders of ADSs will be subject to Brazilian income taxation according to the same rules applicable to the sale or disposition of common shares.

Distributions of Interest on Capital

Law No. 9,249, dated December 26, 1995, as amended, allows a Brazilian corporation, such as us, to make distributions to shareholders of interest on net equity and treat those payments as a deductible expense for purposes of calculating Brazilian corporate income tax, and, since 1998, social contribution on profits as well, as far as the limits described below are observed. These distributions may be paid in cash. For tax purposes this interest is limited to the daily pro rata variation of the Brazilian long-term interest rate, or TJLP, as determined by the Brazilian Central Bank from time to time, and the amount of the deduction may not exceed the greater of:

- 50% of net income (after social contribution on profits and before the provision for corporate income tax and the amounts attributable to shareholders as net interest on equity) related to the period in respect of which the payment is made; and

- 50% of the sum of retained profits and profit reserves as of the date of the beginning of the period in respect of which the payment is made.

Payment of interest to a Non-Resident Holder is subject to withholding income tax at the rate of 15%, or 25% if the Non-Resident Holder is domiciled in a Tax Haven that is, a country or location that does not impose income tax or where the maximum income tax rate is lower than 20% or where the laws of that country or location impose restrictions on the disclosure of shareholding composition or the ownership of the investment. These payments may be included, at their net value, as part of any Mandatory Dividend. To the extent payment of interest on net equity is so included, the corporation is required to distribute to shareholders an additional amount to ensure that the net amount received by them, after payment of the applicable withholding income tax, is at least equal to the Mandatory Dividend.

Payments of interest on capital are decided by our shareholders, at the annual shareholders meeting, on the basis of recommendations of our board of directors. No assurance can be given that our board of directors will not recommend that future distributions of profits should be made by means of interest on capital instead of by means of dividends.

Amounts paid as interest on capital (net of applicable withholding tax) may be treated as payments in respect of the dividends that we are obligated to distribute to our shareholders in accordance with our By-laws and the Brazilian Corporate Law. Distributions of interest on capital in respect of our Preferred Shares, including distributions to the Depositary in respect of Preferred Shares underlying ADSs, may be converted into dollars and remitted outside of Brazil, subject to applicable exchange controls.

Tax on Financial Transactions

The IOF is a tax on foreign exchange, securities, credit and insurance transactions. The IOF rate may be changed by an Executive Decree (rather than a law). In addition, the IOF rate is not subject to the ex-post-facto principle, which provides that laws increasing the rate of or creating new taxes will only come into effect as of the latter of (i) the first day of the year following their publication, or (ii) ninety days after their publication. A statute increasing the IOF rate will therefore take effect from its publication date.

Regarding foreign exchange transactions, in spite of the maximum rate of IOF being 25%, the inflow and outflow of funds are subject to IOF at a rate of 0.38%, except for the following transactions: (i) foreign exchange transactions related to loans with a minimum average term not exceeding 90 days, which are taxed at a rate of 5.38%; (ii) foreign exchange transactions for the acquisition of goods or services outside Brazil with credit cards, which are taxed at a rate of 2.38%; and (iii) inflow and outflow of funds from portfolio investors located outside Brazil, which are not taxed.

The IOF tax may be also levied on issuances of bonds or securities, including transactions carried out on Brazilian stock, futures or commodities exchanges. The rate of the IOF tax with respect to many securities transactions is currently 0 percent, although certain transactions may be subject to specific rates. The minister of finance, however, has the legal authority to increase the rate to a maximum of 1.5% per day of the amount of the taxed transaction, during the period the investor holds the securities, up to the amount equal to the gain made on the transaction and only from the date of its increase or creation.

IOF is also assessed on transactions with terms of less than 30 days consisting of the sale, assignment, repurchase or renewal of fixed-income investments or the redemption of shares of investment funds or investment pools. The maximum rate of IOF payable in such cases is 1% per day, up to the amount equal to the gain made on the transaction, and decreases with the length of the transaction, reaching zero for transactions with maturities of at least 30 days, except that the rate for the following types of transactions is currently 0%:

- transactions carried out by financial institutions and other institutions chartered by the Brazilian Central Bank as principals;
- transactions carried out by mutual funds or investment pools themselves;
- transactions carried out in the equity markets, including those performed in stock, futures and commodities exchanges and similar entities;
- redemptions of shares in equity funds; and
- transactions carried out by governmental entities, political parties and worker s syndicates.

The IOF tax is levied on insurance transactions at a rate of: (i) zero, in the operations of reinsurance or relating to export credits, the international transport of goods or when the premiums are allocated to the financing of life insurance plans with coverage for survival, among others; (ii) 2.38% of premiums paid in the case of (a) health insurance and (b) life insurance related to personal and labor accidents (this rate will be reduced to zero as of September 1, 2006) and (iii) 7.38% of premiums paid in the case of other types of insurance. Rural insurance is exempt from IOF tax.

Temporary Contribution on Financial Transactions (CPMF Tax)

Until December 31, 2007, any transaction carried out by a holder of securities in Brazil that results in the transfer of *reais* from an account maintained by such holder (or its custodian) with a Brazilian financial institution may be subject to the CPMF tax, at the rate of 0.38% . Currently, the funds transferred for the acquisition of shares on a Brazilian stock exchange are exempt from the CPMF tax.

As of January 1, 2008, this tax has been repealed by the Brazilian Congress (Senate).

FUST Universal Telecommunications Service Fund. The Universal Telecommunications Service Fund, one of two telecommunications taxes based on gross operating revenues, incurring from the provision of telecommunications services, net of certain deductions, was introduced by Law 9,998/00, Oficio Circular 58/04, and Despacho 29/03 (Anatel). FUST was created to raise funds to meet the cost of the universalization of the telecommunications services, which are not recoverable through the efficient exploration of the service. According to the law, one of FUST s forms of income is the contribution by both public and private telecommunications providers, of 1.0% of the gross operating revenue from the rendering of telecommunications services net of PIS, COFINS and ICMS.

In 2003, Anatel rendered a decision in which they determined that FUST should be calculated based on our net revenues, excluding interconnection costs. On December 15, 2005, Anatel reversed its earlier determination, and accordingly, the basis of the FUST calculation is net revenues including amounts paid as interconnection costs. According to CVM s rules, however, it is not possible for a Brazilian corporation to book tax credits under discussion as assets and accordingly, we expensed such amounts in our financial statements for the period ended December 31, 2007.

FUNTTEL Fund for the Technological Development of the Telecommunications. Law 10,052/00 established the Fund for the Technological Development of Telecommunications, one of two telecommunications taxes based on gross operating revenues, incurring from the provision of telecommunications services, net of certain deductions. Pursuant to this regulation, the fund was created to foster technological development, encourage human intellectual capital, encourage employment, promote capital access to small and medium sized business, all in order to enlarge the competitiveness of the Brazilian Telecommunications Industry. This fund received a contribution of 0.5% of the gross operating income, net of PIS, COFINS and ICMS, earned through the exploration of telecommunications services by both public and private companies. A directive board composed of governmental representatives will manage the fund and determine how the funds will be invested.

FISTEL Fund for Control of the Telecommunication. The Fund for Control of the Telecommunication, introduced by Law No. 5,070/66, was created to raise funds to meet the cost of the telecommunication s control and development of new mechanisms and techniques for the practice of such control. There are two taxes composing FISTEL: (i) Installation Control Tax, which is due when the functioning of stations license is issued and fixed by Anatel; (ii) Functioning Control Tax, which is annually due, corresponding to 50% of the Installation Control Tax.

Other Brazilian Taxes

There are no Brazilian inheritance, gift or succession taxes applicable to the ownership, transfer or disposition of Preferred Shares or ADSs by a non-Brazilian holder except for gift and inheritance taxes levied by some states in Brazil on gifts made or inheritances bestowed by individuals or entities not resident or domiciled in Brazil or in the relevant State to individuals or entities that are resident or domiciled within such State in Brazil. There are no Brazilian stamp, issue, registration, or similar taxes or duties payable by holders of Preferred Shares or ADSs.

Registered Capital

Amounts invested in Preferred Shares by a non-Brazilian holder who qualifies under the Resolution 2,689 and obtains registration with the CVM, or by the Depositary representing an ADS holder, are eligible for registration with the Brazilian Central Bank. Such registration allows the remittance outside Brazil of foreign currency, converted at the Commercial Market rate, acquired with the proceeds of distributions on, and amounts realized through dispositions of such Preferred Shares. The Registered Capital per Preferred Share purchased in the form of an ADS, or purchased in Brazil and deposited with the Depositary in exchange for an ADS, will be equal to its purchase price (stated in dollars). The Registered Capital per Preferred Share withdrawn upon cancellation of an ADS will be the dollar equivalent of (i) the average price of a Preferred Share on the Brazilian stock exchange on which the most Preferred Shares were traded on the day of withdrawal or, (ii) if no Preferred Shares were traded on that day, the average price on the Brazilian stock exchange on which the most Preferred Shares were traded in the fifteen trading sessions immediately preceding such withdrawal. The dollar equivalent will be determined on the basis of the average Commercial Market rates quoted by the Brazilian Central Bank on such date or dates.

A non-Brazilian holder of Preferred Shares may experience delays in effecting Brazilian Central Bank registration, which may delay remittances abroad. Such a delay may adversely affect the amount in dollars, received by the non-Brazilian holder.

U.S. Federal Income Tax Considerations

The statements regarding U.S. federal income tax law set forth below are based on the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed Treasury regulations thereunder, published rulings and court decisions, as in force on the date of this annual report, and changes to such law subsequent to the date of this annual report may affect the tax consequences described herein, possibly with retroactive effect. This summary describes the principal tax consequences of the ownership and disposition of Preferred Shares or ADSs, but it does not purport to be a comprehensive description of all of the federal income tax consequences that may be relevant to a decision to own or dispose of Preferred Shares or ADSs. This summary applies only to purchasers of Preferred Shares or ADSs who will hold the Preferred Shares or ADSs as capital assets within the meaning of Section 1221 of the Code (i.e., generally, property held for investment) and does not apply to special classes of holders such as dealers or brokers in securities or currencies, holders whose functional currency is not the US dollar, holders of 10% or more of our shares (by vote or by value, and directly or by attribution), tax-exempt organizations, financial institutions, insurance companies, regulated investment companies, holders liable for the alternative minimum tax, holders who elect to account for their investment in Preferred Shares or ADSs on a mark-to-market basis, and persons holding Preferred Shares or ADSs in a protection transaction or as part of a straddle, conversion or constructive ownership transaction.

Each holder should consult such holder s own tax advisor concerning the overall tax consequences to it, including the consequences under tax laws other than U.S. federal income tax laws, of an investment in the Preferred Shares or ADSs.

As used in this summary, references to ADSs also refer to Preferred Shares and U.S. holder and non-U.S. holder carry significant meanings. This opinion does not consider the tax treatment of partnerships or persons who hold ADSs through a partnership or other pass-through entity or the possible application of U.S. federal gift or estate taxes. Material aspects of U.S. federal income tax relevant to a holder other than a U.S. holder are also described below.

Taxation of Distributions

A U.S. holder will recognize ordinary dividend income for U.S. federal income tax purposes in accordance with the U.S. holder s regular method of accounting for U.S. federal income tax purposes in an amount equal to the amount of any cash and the value of any property that we distribute, to the extent that such distribution is paid out of our current or accumulated earnings and profits, as determined for U.S. federal income tax purposes. Certain dividend income may be eligible for a reduced rate of taxation. Dividend income is taxed at the applicable long-term capital gains rate if the dividend is received by a non-corporate U.S. holder from a qualified foreign corporation and certain conditions are met. A U.S. holder will be eligible for this reduced rate only if certain conditions are met. A foreign corporation will be a qualified foreign corporation with respect to any dividend paid on stock that is readily tradable on an established U.S. securities market. Our ADSs are listed on the NYSE and, therefore, the ADSs will qualify as readily tradable on an established securities market in the United States so long as they are listed. However, no assurances can be given that the ADSs will remain readily tradable. Moreover, a foreign corporation will not be treated as a qualified foreign corporation if it is a Passive Foreign Investment Company (see discussion below) for the year in which the dividend was paid or the preceding year.

Based on existing guidance, it is not entirely clear whether dividends received with respect to the Preferred Shares will be treated as qualified dividends that are eligible for a reduced rate of taxation because the Preferred Shares are not themselves listed on a United States exchange. In addition, the United States Treasury Department has announced its intention to promulgate rules pursuant to which holders of ADSs or Preferred Shares and intermediaries through whom such securities are held will be permitted to rely on certifications from issuers to establish that dividends are treated as qualified dividends. Because such procedures have not yet been issued, we are not certain that we will be able to comply with them. U.S. holders of ADSs and Preferred Shares should consult their own tax advisers regarding the availability of the reduced dividend tax rate in the light of their own particular circumstances.

To the extent that such distribution exceeds our earnings and profits, it will be treated as a nontaxable return of capital, to the extent of the U.S. holder s tax basis in the ADS (or Preferred Shares, as the case may be), and thereafter as capital gain. The amount of any dividend distribution will include the amount of Brazilian tax withheld on the amount distributed and the amount of a distribution paid in *reais* will be includible in the income of a U.S. holder in a US dollar amount calculated by reference to the exchange rate on the day the distribution is received. If the U.S. holder (or the custodian of its shares) does not convert such *reais* into US dollars on the date it receives them, it is possible that the U.S. holder will recognize foreign currency loss or gain, which would generally be U.S. source ordinary loss or gain, when the *reais* are converted into US dollars. Dividends that we have paid will generally not be eligible for the dividends received deduction allowed to corporations under the Code.

Distributions out of earnings and profits with respect to the ADSs generally will be treated as dividend income from sources outside of the U.S. and under the foreign tax credit rules, for dividends paid before January 1, 2007, will, with certain exceptions, generally be passive income. Dividends paid in taxable years beginning after December 31, 2006 are, depending on your circumstances, passive or general income which, in either case, is treated separately from other types of income for purposes of computing the foreign tax credit. Subject to certain significant and complex limitations, Brazilian income tax withheld in connection with any distribution with respect to the ADSs may be claimed as a credit against the U.S. federal income tax liability of a U.S. holder if such U.S. holder elects for that year to credit all foreign income taxes. Such Brazilian withholding tax may be taken as a deduction at the U.S. holder s election, only if the U.S. holder does not claim a credit for any Brazilian or other foreign taxes paid or accrued in that year. U.S. holders should consult their own tax advisors concerning the implications of these rules in light of their particular circumstances.

A non-U.S. holder generally will not be subject to U.S. federal income tax or withholding tax on distributions with respect to ADSs that are treated as dividend income for U.S. federal income tax purposes, and generally will not be subject to U.S. federal income tax or withholding tax on distributions with respect to ADSs that are treated as capital gain for U.S. federal income tax purposes unless such non-U.S. holder would be subject to U.S. federal income tax on gain realized on the sale or other disposition of ADSs, as discussed below in the Taxation of Capital Gains section.

Taxation of Capital Gains

Subject to the description of the Passive Foreign Investment Company rules discussed below, upon the sale, exchange or other disposition of an ADS, a U.S. holder will recognize capital gain or loss in an amount equal to the difference between the U.S. holder s basis in the ADSs, which is usually the cost of these shares, and the amount realized on the disposition. Capital gain from the sale, exchange or other disposition of ADSs held more than one year is long-term capital gain and is eligible for a reduced rate of taxation for non-corporate U.S. holders. In general, gain realized by a U.S. holder on a sale, exchange or other disposition of ADSs generally will be treated as U.S. source income for U.S. foreign tax credit purposes. A loss realized by a U.S. holder on the sale, exchange or other disposition of ADSs is generally allocated to U.S. source income. However, regulations require the loss to be allocated to foreign source income to the extent certain dividends were received by the taxpayer within the 24-month period preceding the date on which the taxpayer recognized the loss. The deductibility of a loss realized on the sale, exchange or other disposition of ADSs is subject to limitations for both corporate and individual U.S. holders.

A U.S. holder that uses the cash method of accounting calculates the US dollar value of the proceeds received from a sale of ADSs as of the date that the sale settles, and will generally have no additional foreign currency gain or loss on the sale, while a U.S. holder that uses the accrual method of accounting is required to calculate the value of the proceeds of the sale as of the trade date and may therefore realize foreign currency gain or loss, unless the U.S. holder has elected to use the settlement date to determine its proceeds of sale for purposes of calculating this foreign currency gain or loss. In addition, a U.S. holder that receives foreign currency upon disposition of the ADSs and converts the foreign currency into US dollars subsequent to receipt will have foreign exchange gain or loss based on any appreciation or depreciation in the value of the foreign currency against the US dollar, which will generally be U.S. source ordinary income or loss.

Except as described in U.S. Backup Withholding and Information Reporting section below, a non-U.S. holder of ADSs will not be subject to U.S. federal income or withholding tax on the proceeds from the disposition of, ADSs, unless:

- the item is effectively connected with the conduct by the non-U.S. holder of a trade or business in the United States and, in the case of a resident of a country which has a tax treaty with the United States, the item is attributable to a permanent establishment or, in the case of an individual, a fixed place of business, in the United States;

- the non-U.S. holder is subject to tax under the provisions of United States tax law applicable to U.S. expatriates; or

- the individual non-U.S. holder is present in the United States for 183 days or more in the taxable year of a sale and certain other conditions are met.

Passive Foreign Investment Company

Special tax rules apply to the timing and character of income received by a U.S. holder of a PFIC. We would constitute a PFIC if either 75% or more of our gross income in a tax year is passive income or the average percentage of our assets (by value) that produce or are held for the production of passive income is at least 50%. We believe that we are not a PFIC for U.S. federal income tax purposes in the current taxable year and do not expect to become a PFIC in future taxable years. However, because the determination of whether the ADSs constitute shares of a PFIC will be based upon the composition of our income and assets on an annual basis, there is no assurance that we will not be considered a PFIC for any subsequent year. If the ADSs are shares of a PFIC for any subsequent tax year, a U.S. holder of the ADSs could be subject to adverse U.S. federal income tax consequences with respect to any gain realized on the sale or other disposition of the ADSs and certain distributions received with respect to the ADSs. While these U.S. tax consequences could be minimized and/or eliminated if the U.S. holder made a qualified electing fund election in connection with our shares, we do not intend to provide information necessary for the qualified electing fund election to be made by U.S. holders in the case that we are deemed a PFIC. Holders and prospective purchasers of the ADSs should consult their own tax advisers regarding the PFIC rules and their effect on holding or purchasing the shares.

U.S. Backup Withholding and Information Reporting

Distributions made in respect of the ADSs, and proceeds from the sale or other disposition of the ADSs, payable to a U.S. holder by a U.S. paying agent or other U.S. intermediary will be subject to information reporting requirements. Backup withholding will apply to any payments made to a U.S. holder if such U.S. holder fails to provide an accurate taxpayer identification number (social security number, individual taxpayer identification number or employer identification number) or certification of exempt status or is such U.S. holder is notified by the IRS that the holder is subject to backup withholding tax as a result of the failure to report all dividends or interest required to be shown on its U.S. federal income tax return. In addition, certain penalties may be imposed by the IRS on a U.S. holder that is required to supply such information but that does not do so.

Information reporting and backup withholding are generally not required with respect to payments made by a U.S. paying agent or other U.S. intermediary to certain exempt U.S. holders (e.g., corporations and tax-exempt organizations) and non-U.S. holders, provided that, in the case of non-U.S. holders, such non-U.S. holders file a timely and properly completed IRS Form W-8, certifying its foreign status or otherwise establishing an exemption, with the U.S. paying agent or intermediary.

Any amount withheld under the backup withholding rulings will be allowed as a refund or credit against a holder s U.S. federal income tax liability provided the required information is furnished to the IRS in a timely manner. Each holder should consult its own tax advisor concerning the effect of the New Regulations on its ownership and disposition of the ADSs.

Documents on Display

Statements contained in this annual report regarding the contents of any contract or other document are complete in all material respects, however, where the contract or other document is an exhibit to this annual report, each of these statements is qualified in all respects by the provisions of the actual contract or other documents.

This annual report may be reviewed without charge at the Public Reference Section of the SEC, 100 F Street, N.E., Washington, D.C. 20549. For further information on the public reference rooms, call the SEC at 1-800-SEC-0330. Our SEC filings are also available to the public on the SEC s website at http://www.sec.gov. The address of the SEC s website is provided for the information of investors and is not an active link.

We are subject to the information requirements of the Exchange Act applicable to a foreign private issuer, and accordingly, we must file or furnish reports, including annual reports on Form 20-F, reports on Form 6-K, and other information, with the SEC. These reports and other information can be inspected at, and subject to the payment of any required fees, copies may be obtained from, the public reference facilities maintained by the SEC as described above. These reports and other information may also be inspected and copied at the offices of the NYSE, 20 Broad Street, New York, New York 10005. As a foreign private issuer, however, we will be exempt from the proxy requirements of Section 14 of the Exchange Act and from the short-swing profit recovery rules of Section 16 of the Exchange Act, although the rules of the NYSE may require that we solicit proxies from our shareholders under some circumstances.

Our website is located at http://www.brasiltelecom.com.br. The information on our website is not part of this annual report.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Quantitative Information About Market Risk

We are exposed to market risk from changes in both foreign currency exchange rates and interest rates. The principal market for our products and services is Brazil and substantially all of our revenues are denominated in *reais*. We have described under Item 4. Information on the Company History and Development of the Company the manner in which the Brazilian government has controlled, and continues to control, the prices we charge.

Exchange Rate Risk

We face foreign exchange risk because a significant portion of our equipment costs, such as costs relating to switching centers and software used for upgrading network capacity, are primarily denominated in dollars. In 2007, approximately 41.0% of our total capital expenditures have been dollar-denominated. Our cost of financing, however, is not materially exposed to exchange rate risk. At December 31, 2007, 16.7% or R$731.6 million, of our indebtedness was exposed to exchange rate risk. At December 31, 2007, we protected approximately 80.6% of our indebtedness affected by exchange rate variation, against significant variations in exchange rates (dollars, Japanese Yen and *Cesta de Moedas*) by using foreign currency swaps, foreign exchange options and foreign currency investments. The aggregate notional principal amount of our swap contracts is approximately US$226.0 million, of which approximately US$67.6 million matures within one year and approximately US$12 7.9 million matures in one to three years. At December 31, 2007, the fair value of the swap contracts amounted to approximately R$397.8 million. The aggregate notional principal amount of the forward exchange options is approximately US$144.0 million, the totality of which matures in 2009.

In 2007, losses on foreign currency and monetary restatement amounted to approximately R$82.8 million, due to the appreciation of the *real* against the dollar. At December 31, 2007, a hypothetical unfavorable 10.0% change in foreign currency exchange rates would result in an increase of approximately R$49.3 million in our total debt obligations considering the net impact between the increase in our debt obligations and the decrease in our swap position.

Interest Rate Risk

At December 31, 2007, we had approximately R$3,985.3 million in loans and financing outstanding, before swap adjustments, of which R$3,563.1 million bore interest at floating rates and R$422.2 million bore interest at fixed rates. We invest our excess liquidity (approximately R$2,377.0 million in 2007) mainly in investment funds created by top Brazilian asset managers exclusively for us. The fund managers are responsible for managing our funds, subject to the direction of our senior management and board of directors. Currently, these funds are comprised mainly of government bonds and other financial instruments linked to the CDI rate. The potential loss to us over one year that would have resulted from a hypothetical, instantaneous and unfavorable change of 100 basis points in the interest rates in 2007 would be approximately R$45.8 million to our financial liabilities, considering both the impact in our debt obligations and swap position, and R$23.8 million to our financial assets. This sensitivity analysis is based on the assumption of an unfavorable 100 basis points movement of the interest rates applicable to each homogeneous category of financial assets and liabilities and sustained over a period of one year. A homogeneous category is defined according to the currency in which financial assets and liabilities are denominated and assumes the same interest rate movement within each homogeneous category (*e.g.*, *reais*). As a result, our interest rate risk sensitivity model may overstate the impact of interest rate fluctuation for such financial instruments, as consistently unfavorable movements of all interest rates are unlikely.

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The table below provides summary information regarding our exposure to interest rate and exchange rate risk before swap adjustments in our total debt portfolio as of December 31, 2007:

	Total Debt Portfolio	
	R$ million	%
Floating rate debt:		
Real denominated	3,295.9	82.7
Foreign currency denominated	267.3	6.7
Fixed rate debt:		
Real denominated	52.5	1.3
Foreign currency denominated	369.7	9.3
Total (before swap adjustments)	3,985.3	100.0
Swap adjustments		
Swap adjustments	398.1	
Total	4,383.4	

As of December 31, 2007, approximately 27.3% of our total debt portfolio before swap adjustments was tied to the CDI rate. As of December 31, 2007, the CDI rate accumulated for the year was 11.82% per annum.

Hedging Policy

We constantly evaluate and consider alternatives with respect to protection against foreign exchange risk and interest rate risk in connection with our indebtedness and have currently entered into foreign exchange risk offsetting structures with respect to payments of our foreign currency debt.

PART II

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS

We were required to pay a non-cumulative Preferred Dividend on our Preferred Shares in an amount equal to 6.0% of the share capital attributable to our Preferred Shares under Brazilian Corporate Law. Law 10,303, dated October 31, 2001, which amended the Brazilian Corporate Law requirement that we pay a non-cumulative Preferred Dividend on our Preferred Shares of at least 3.0% per year of the book value of Shareholders equity divided by our total number of shares. On December 19, 2002 we amended our Bylaws to comply with these new requirements. Preferred Shareholders are now entitled to receive a minimum non-cumulative dividend of Preferred Dividend equal to the greatest of (i) 6.0% per year of the value of our total share capital divided by our total number of shares or (ii) 3.0% per year of the book value of our shareholders equity divided by the total number of our shares.

ITEM 15. CONTROLS AND PROCEDURES

a) Evaluation of Disclosure Controls and Procedures

Our management, under the direction of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act) as of December 31, 2006. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures were effective as of December 31, 2007.

b) Management s Report on Internal Control over Financial Reporting

The management of Brasil Telecom S.A. and subsidiaries (the Company) is responsible for establishing and maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting.

The Company s internal control over financial reporting is a process designed by, or under the supervision of, the Company s Audit Committee, principal executive and principal financial officers, and effected by the Company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The Company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company s assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect material misstatements on a timely basis. Therefore even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management assessed the effectiveness of the Company s internal control over financial reporting as of December 31, 2007, based on the criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations COSO of the Treadway Commission. Based on that assessment, management has concluded that as of December 31, 2007 the Company s internal control over financial reporting is effective.

The Company's independent auditors, Deloitte Touche Tohmatsu Auditores Independentes, have audited the Company s internal control over financial reporting, and the report of the auditors is included in Part II, Item 15 (c).

/s/ Ricardo Knoepfelmacher	/s/ Paulo Narcélio Simões Amaral
Ricardo Knoepfelmacher Chief Executive Officer March 10, 2008	Paulo Narcélio Simões Amaral Chief Financial Officer March 10, 2008

(c) Attestation Report of Independent Registered Public Accounting Firm

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of
Brasil Telecom S.A.

We have audited the internal control over financial reporting of Brasil Telecom S.A. and subsidiaries (the Company) as of December 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company s internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company s internal control over financial reporting is a process designed by, or under the supervision of, the company s principal executive and principal financial officers, or persons performing similar functions, and effected by the company s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, based on the criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2007 of the Company and our report dated March 10, 2008 expressed an unqualified opinion on those financial statements and included explanatory paragraphs regarding differences between accounting practices adopted in Brazil and accounting principles generally accepted in the United States of America, and the presentation of the consolidated statements of cash flows.

/s/ Deloitte Touche Tohmatsu
Auditores Independentes

March 10, 2008
São Paulo, Brazil.
(d) Changes in Internal Control over Financial Reporting

There were no changes in our company s internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act, during the period covered by this annual report that have materially affected, or are reasonably likely to materially affect, our company s internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT

On December 19, 2005 following the Sarbanes Oxley Act exemption we announced that our Fiscal Council would be given expanded powers, authority and responsibilities and would function as an Audit Committee in compliance with Rule 303A.06 of the NYSE Rules. All four members of the Fiscal Council have the required skills to be the audit committee financial expert as such term is defined for the purposes of this Item 16A.

ITEM 16B. CODE OF ETHICS

We have adopted a code of ethics that applies to all officers and employees. A copy of our code of ethicsmay be found on our website at: http://www.brasiltelecom.com.br. A copy of the code of ethics may also be obtained free of charge by contacting our investor relations department at (+55) 61 3415-1140. No waivers, either explicit or implicit, of provisions of the code of ethics were granted in 2006.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Deloitte Touche Tohmatsu Auditores Independentes served as our independent registered public accounting firm for the years ended December 31, 2006 and 2007 appearing in this annual report on Form 20-F.

KPMG Auditores Independentes served as our independent registered public accounting firm for the year ended December 31, 2005 appearing in this annual report on Form 20-F.

The following table presents the aggregate fees for professional services and other services rendered by KPMG Auditores Independentes to us in 2005, and Deloitte Touche Tohmatsu Auditores Independentes in 2006 and 2007, in thousands of *reais*.

	2005	**2006**	**2007**
Audit Fees	2,670	1,812	1,759
Audit-related Fees	190	998	-
Tax Fees	-	167	-
All Other Fees	-	-	24
Total	2,860	2,977	1,783

Audit fees in the above table for fiscal years 2006 and 2007 are the aggregate fees billed by Deloitte Touche Tohmatsu Auditores Independentes in connection with the integrated audit of our annual financial statements and review of our quarterly financial information.

Audit fees are fees agreed upon with KPMG Auditores Independentes for the fiscal year 2005 (including related expenses) for the audit of our annual consolidated financial statements and for the reviews of our quarterly financial statements submitted on Form 6-K, including the reviews of our annual report on Form 20-F.

Audit-related fees in the above table for fiscal year 2006 are fees billed by Deloitte Touche Tohmatsu Auditores Independents in connection with internal controls related services, services relating to the issuance of debentures and due diligence services.

Audit-related fees in 2005 consist of fees billed by KPMG Auditores Independentes for assurance and related services that are reasonably related to the performance of the audit or review of the company s financial statements or that are traditionally performed by the external auditor, and include consultations concerning financial accounting and reporting standards, issuance of comfort letters, internal control reviews, and review of security controls and operational effectiveness of systems

Tax fees in the above table for fiscal year 2006 include fees billed by Deloitte Touche Tohmatsu Auditores independentes related to tax advice relating to a corporate restructuring.

Other fees in 2007 include seminars and training regarding recent changes in fair value accounting pronouncements and its comparison to International Financial Reporting Standards.

Audit committee pre-approval policies and procedures

Our board of directors requires management to obtain the board s approval before engaging independent auditors to provide any audit or permitted non-audit services to us, or our subsidiaries. Pursuant to this policy, our board of directors pre-approves all audit and non-audit services provided by KPMG Auditores Independentes and Deloitte Touche Tohmatsu Auditores Independentes, our principal auditor. Pursuant to the board s pre-approval process, each year, auditors prepare a detailed list of services that it proposes to perform during the coming year. These proposed services are presented to the board of directors, which considers and approves the services. Management is not permitted to engage our independent auditors for any audit or non-audit service that is not on the list of services approved by the board of directors without first returning the board of directors for approval of such additional services. In 2007, all of the services described under Audit-Related Fees, Tax Fees or Others Fees were approved by the audit committee pursuant to paragraph (c)(7)(i) of Rule 2-01 of Regulation S-X.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES

On August 1, 2005, we announced that our Fiscal Council would be given expanded powers, authority and responsibilities and would function as an Audit Committee in compliance with Rule 303A.06 of the NYSE Rules. Accordingly, we are relying on the exemption afforded by Rule 10A-3(c)(3) under the Exchange Act with respect to the independence standards of Rule 10A-3(b)(1)(iv) of the Exchange Act. We do not believe that such reliance will materially adversely affect the ability of our Audit Committee to act independently and to satisfy the other requirements of Rule 10A-3 under the Exchange Act.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS

During 2007 and as of February 28, 2008, there were no shares purchased. The Company does not currently have in effect a purchase plan or program.

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PART III

ITEM 17. FINANCIAL STATEMENTS

We have responded to Item 18 in lieu of responding to this Item.

ITEM 18. FINANCIAL STATEMENTS

Reference is made to pages F-1 through F-101 of our Financial Statements.

ITEM 19. EXHIBITS

The following is a list of all exhibits filed as a part of this annual report on Form 20-F:

Exhibit Number	Exhibit
1.1	Amended and Restated Charter of the Registrant.(1)
1.2	Amended and Restated Charter of the Registrant (English translation).(1)
2.1	Form of Deposit Agreement to be executed among the Registrant, Citibank N.A., as Depositary, and the Holders and Beneficial Owners of American Depositary Shares evidenced by ADRs issued thereunder.(2)
2.2	Indenture dated February 17, 2004, among Brasil Telecom S.A., The Bank of New York, as indenture trustee, registrar, New York paying agent and transfer agent, and The Bank of Tokyo- Mitsubishi Ltd., as principal paying agent.(3)
3.1	Amendment to the Amended and Restated Shareholders Agreement.(4)
3.2	2nd Amendment to the Shareholders Agreement consolidated on August 27, 2002, entered into on April 28, 2005(6)
4.1	Standard Concession Agreement for Local, Switched, Fixed-Line Telephone Service.(2)
4.1.1	2005 Standard Concession Agreement for Local, Switched, Fixed-Line Telephone Service.(2)(5)
4.2	Standard Concession Agreement for Local, Switched, Fixed-Line Telephone Service and Schedule of Omitted Concession contracts (English translation).(2)(5)
4.2.1	2005 Standard Concession Agreement for Local, Switched, Fixed-Line Telephone Service and Schedule of Omitted Concession contracts (English translation). (2)(5)
4.3	Standard Concession Agreement for Domestic Long-Distance, Switched, Fixed-Line Telephone Service.(2)(5)
4.3.1	2005 Standard Concession Agreement for Domestic Long-Distance, Switched, Fixed-Line Telephone Service.(2)(5)
4.4	Standard Concession Agreement for Domestic Long-Distance, Switched, Fixed-Line