

BRASIL TELECOM SA
Form 424B3
November 03, 2004
PROSPECTUS
Dated November 1, 2004

Filed Pursuant to Rule 424(b)(3)
File No. 333-119063

Brasil Telecom S.A.

**Exchange Offer For
US\$200,000,000 9.375% Notes Due 2014**

Brasil Telecom S.A., which we refer to as Brasil Telecom, is offering to exchange up to US\$200,000,000 of its 9.375% Notes due 2014, which we refer to as the new notes, for up to US\$200,000,000 9.375% Notes due 2014, which we refer to as the old notes. The terms of the new notes are identical in all material respects to the terms of the old notes, except that the new notes have been registered under the Securities Act, and the transfer restrictions and registration rights relating to the old notes do not apply to the new notes. We refer to the old notes and the new notes collectively as the notes.

The exchange offer will expire at 5:00 p.m. New York City time on November 30, 2004 unless extended.

To exchange your old notes for new notes:

- you are required to make the representations described on page 98 to Brasil Telecom;
- you must complete and send the letter of transmittal that accompanies this prospectus to the exchange agent, by 5:00 p.m., New York time, on November 30, 2004; and
- you should read the section called "The Exchange Offer" for further information on how to exchange your old notes for new notes.

The old notes are listed, and application will be made to list the new notes, on the Luxembourg Stock Exchange.

See "Risk Factors" beginning on page 22 for a discussion of risk factors that you should consider prior to tendering your old notes in the exchange offer.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of the securities to be issued in the exchange offer or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

November 1, 2004

TABLE OF CONTENTS

<u>Incorporation of Certain Information by Reference</u>	<u>3</u>
<u>Where You Can Find More Information</u>	<u>3</u>
<u>Certain Terms and Conventions</u>	<u>4</u>
<u>Presentation of Financial Information</u>	<u>4</u>
<u>Prospectus Summary</u>	<u>5</u>
<u>Timetable for the Offering</u>	<u>21</u>
<u>Risk Factors</u>	<u>22</u>
<u>Forward-Looking Statements</u>	<u>38</u>
<u>Use of Proceeds</u>	<u>40</u>
<u>Exchange Rates</u>	<u>41</u>
<u>Selected Consolidated Financial Information</u>	<u>43</u>
<u>Description of the Notes</u>	<u>47</u>
<u>Description of the Insurer and the Insurance Policy</u>	<u>76</u>
<u>The Exchange Offer</u>	<u>92</u>
<u>Material Tax Considerations</u>	<u>99</u>
<u>Plan of Distribution</u>	<u>105</u>
<u>Legal Matters</u>	<u>106</u>
<u>Experts</u>	<u>106</u>
<u>Enforceability of Civil Liabilities</u>	<u>106</u>

You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We are not making an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information contained in this prospectus is accurate only as of the date on the front cover of this prospectus. Our business, financial condition, results of operations and prospects may have changed since that date.

INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The Securities and Exchange Commission, or the SEC, allows us to incorporate by reference the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus, and some later information that we file with or furnish to the SEC will automatically be deemed to update and supersede this information. We incorporate by reference the following documents that have been filed with the SEC:

- The Annual Report on Form 20-F of Brasil Telecom for the fiscal year ended December 31, 2003, which we refer to as our Form 20-F.
- The Report on Form 6-K furnished by Brasil Telecom to the SEC on August 6, 2004 relating to our results for the six months ended June 30, 2004.

We also incorporate by reference into this prospectus, any filings made with the SEC under Sections 13(a), 13(c) or 15(d) of the Exchange Act of 1934, as amended, which we refer to as the Exchange Act, and, to the extent designated therein, reports on Form 6-K furnished to the SEC, after the date of this prospectus and prior to the consummation of this offering.

Any statement contained in a document, all or a portion of which is incorporated or deemed to be incorporated by reference herein, shall be deemed to be modified or superseded for purposes of this prospectus to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute part of this prospectus.

We will provide without charge to each person to whom a copy of this prospectus is delivered, upon the written or oral request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated herein by reference, other than exhibits to such documents (unless such exhibits are specifically incorporated by reference in such documents). **To obtain timely delivery, investors must request this information no later than five business days before the date they must make their investment decision.** Requests should be directed to the Investor Relations Department, SIA SUL, ASP, Lote D, Bloco B, 1º andar 71.215-000 Brasília, DF, Brazil (telephone no: (55 61) 415-1052).

WHERE YOU CAN FIND MORE INFORMATION

We have filed with the SEC a registration statement on Form F-4 under the Securities Act of 1933, as amended (the Securities Act), with respect to the new notes. This prospectus, which is part of the registration statement, does not contain all of the information set forth in the registration statement and the exhibits and schedules to the registration statement. For further information pertaining to us we refer you to the registration statement and the exhibits and schedules filed as part of the registration statement. If a document has been filed as an exhibit to the registration statement, we refer you to the copy of the document that has been filed. Each statement in this prospectus relating to a document filed as an exhibit is qualified in all respects by the filed exhibit. The registration statement, including exhibits and schedules thereto, may be inspected without charge at the SEC's Public Reference Rooms at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference rooms. In addition, the SEC maintains an Internet web site at www.sec.gov, from which you can electronically access the registration statement and its exhibits.

CERTAIN TERMS AND CONVENTIONS

As used in this prospectus, except where otherwise specified or the context otherwise requires (i) "we", "us" and "our" refer to Brasil Telecom S.A. (previously Telecomunicações do Paraná S.A., or Telepar), its parent company, Brasil Telecom Participações S.A. or, Brasil Telecom Participações, and its subsidiaries, collectively, and (ii) "Brasil Telecom" and the "issuer" refer to Brasil Telecom S.A. alone.

This prospectus is intended solely for the purpose of soliciting expressions of interest in the exchange offer from qualified investors and does not purport to summarize all of the terms, conditions, covenants and other provisions contained in the indenture, the notes, the insurance policy and other transaction documents. The information provided is not all-inclusive and may not contain all the information you would desire. The information in this prospectus has been obtained by us and the insurer from publicly available sources, including websites such as www.bc.gov.br and www.sec.gov, deemed reliable by the same. The information included in this prospectus concerning the ownership of Techold Participações S.A., which we refer to as Techold, Timepart Participações Ltda., which we refer to as Timepart, and Telecom Intalia International N.V., which we refer to as TII, through Solpart Participações S.A., which we refer to as Solpart, has been included herein to the extent publicly available. We have assumed such information to be correct and have not independently verified such information.

The Overseas Private Investment Corporation, which we refer to as OPIC, does not express any opinion regarding, and has not passed upon the merits of an investment in the notes or the accuracy of the disclosure contained in this prospectus. None of the government of the United States, OPIC or any other agency thereof is or shall be deemed to be a sponsor of the offering described in this prospectus or to have passed on the merits hereof. None of OPIC, its officers or any of its employees makes any representation or warranty, expressed or implied, as to, nor will any of them have any responsibility for, the accuracy or completeness of the information contained in this prospectus, other than the information under the headings "Background" and "Claim Paying History" in section headed "Description of the Insurer and the Insurance Policy Overseas Private Investment Corporation."

Certain other terms are defined the first time that they are used in this prospectus.

Any discrepancies in tables between totals and sums of the amounts listed are due to rounding.

PRESENTATION OF FINANCIAL INFORMATION

Our audited consolidated financial statements were prepared in conformity with generally accepted accounting principles in Brazil, which we refer to as Brazilian GAAP, which are similar to the Brazilian Corporation Law No. 6404/76, as amended by Law No. 10.330/02, which we refer to as Brazilian Corporation Law, except for the effects of the recognition of inflationary effects from January 1, 1996 to December 31, 2000, and are consistent with the rules and regulations of the Brazilian Securities and Exchange Commission (*Comissão de Valores Mobiliários*, or CVM), and the accounting standards issued by the Brazilian Institute of Independent Auditors (*Instituto dos Auditores Independentes do Brasil* or IBRACON). Investors should note that financial statements prepared in accordance with Brazilian GAAP differ from financial statements prepared in accordance with Brazilian Corporation Law in the methodology used for the recognition of inflation, among others. See Notes 2a and 2b to our audited consolidated financial statements in our Form 20-F for (i) a summary of the principal differences between Brazilian GAAP and Brazilian Corporation Law as they relate to us and (ii) a reconciliation from Brazilian Corporation Law to Brazilian GAAP of shareholders' equity as of December 31, 2001, 2002 and 2003 and net income (loss) for each of the years ended December 31, 2001, 2002 and 2003. Brazilian GAAP when applied to us differs in certain important respects from generally accepted accounting principles in the United States, which we refer to as U.S. GAAP. See Note 31 to our audited consolidated financial statements in our Form 20-F for (i) a summary of the principal differences between Brazilian GAAP and U.S. GAAP as they relate to us and (ii) a reconciliation to U.S. GAAP of shareholders' equity as of December 31, 2002 and 2003 and net income (loss) for each of the years ended December 31, 2001, 2002 and 2003. We also refer to the audited consolidated financial statements herein as the Financial Statements.

PROSPECTUS SUMMARY

This summary highlights some of the information in this prospectus. Since this is a summary, it does not contain all of the information that may be important to you. For a more complete understanding of the exchange offer, you should carefully read the entire prospectus, including the Financial Statements and the notes thereto and the documents we have referred to you. You should pay special attention to the "Risk Factors" section beginning on page 22 of this prospectus.

Overview

General

We are one of the fixed-line telecommunications companies that resulted from the breakup and privatization of Telecomunicações Brasileiras S.A., which we refer to as Telebrás, by the Brazilian Federal Government in 1998. We are an amalgamation of the following operating companies formerly controlled by Telebrás: Telecomunicações de Santa Catarina S.A., which we refer to as Telesc, Telecomunicações de Goiás S.A., which we refer to as Telegoiás, Telecomunicações de Brasília S.A., which we refer to as Telebrasil, Telecomunicações do Mato Grosso S.A., which we refer to as Telemat, Telecomunicações do Mato Grosso do Sul S.A., which we refer to as Telems, Telecomunicações de Rondônia S.A., which we refer to as Teleron, Telecomunicações do Acre S.A., which we refer to as Teleacre, Companhia Telefônica Melhoramento e Resistência, which we refer to as CTMR, our predecessor, Telecomunicações do Paraná S.A., which we refer to as Telepar, and Companhia Riograndense de Telecomunicações, which we refer to as CRT, a company formerly controlled by Telefônica S.A., which we refer to as Telefônica, and acquired by us in July 2000.

The Brazilian government divided the fixed-line telecommunications network into three regions upon privatization in 1998. Region I consists of sixteen states located in the northern, north-eastern and south-eastern regions of Brazil. Region II, our region, consists of nine states in the western, central and southern regions of Brazil (Rio Grande do Sul, Santa Catarina, Paraná, Mato Grosso, Mato Grosso do Sul, Goiás, Tocantins, Acre, Rondônia) and the Distrito Federal (Brasília). Region III is the state of São Paulo.

We provide fixed-line telecommunications services in Brazil under concessions which we assumed from each of our constituent companies for each of the states in Region II. These concessions, which allow us to provide local and intrastate fixed-line telecommunications services, were granted by the Brazilian government to us and to each of these companies prior to our merger with them. Our business, including the service we provide and the rates we charge, is subject to comprehensive regulation by *Agência Nacional de Telecomunicações*, which we refer to as Anatel, an independent regulatory agency, under the General Telecommunications Law and various administrative enactments thereunder. In November 2002, we also acquired authorizations to provide wireless services in Region II.

The concessions under which we operate our fixed-line services imposed certain universalization, expansion and modernization targets on us. On January 19, 2004, Anatel certified our accomplishment of these targets and we are now permitted, and have begun offering, local and intraregional long distance services in Region I and III, interregional and international long-distance services and corporate data services throughout Brazil. We were also allowed to, and have now begun offering wireless services in our region using the Global System for Mobile Communication or GSM technology platform through our existing brand name.

The states in our region cover an area of approximately 2.85 million square kilometers, representing approximately 33.4% of the country's total area and generating approximately 25% of Brazil's Gross Domestic Product in 2003. At December 31, 2003, the estimated population of our region was approximately 42 million, representing approximately 24% of the total population of Brazil. Our region includes the metropolitan areas of Brasília, the capital of Brazil, Porto Alegre, Curitiba and Goiânia, each with populations in excess of one million inhabitants.

We are the leading provider of local fixed-line telecommunications services and intrastate fixed-line telecommunications services in our region with an estimated 96.5% market share based on outside consultants'

Edgar Filing: BRASIL TELECOM SA - Form 424B3

statistical estimates using the volume in minutes of outgoing and incoming local calls of our competitors that interconnect through our network. As of December 31, 2003, we had approximately 9.85 million fixed-lines in service. The other local fixed-line telecommunications service providers in our region are Global Village Telecom Ltda., which we refer to as Global Village Telecom, Tele Norte Leste Participações S.A., which we refer to as Telemar and Telefônica.

For intrastate and interstate long-distance telecommunications services, Intelig Telecomunicações Ltda., which we refer to as Intelig and Embratel Participações S.A, which we refer to as Embratel, are the other significant telecommunication companies that are authorized to provide long-distance services in our region.

Our Operations

The telecommunications services that we offer to our customers consist of (i) local services, including all calls that originate and terminate within a single local area in our region, as well as, installation, monthly subscription, measured services, 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, leasing of facilities and fixed-to-mobile services, (v) data transmission services, (vi) wireless mobile services and (vii) other services. We do not sell, rent or otherwise provide telephone equipment such as handsets or switchboards. On January 19, 2004, Anatel certified our compliance with universalization targets which enabled us to provide mobile services in our region and local, intraregional, interregional and international long-distance services, as well as data transmission services, in all regions.

Local Services

Local services include all calls that originate and terminate within a single local area in our region, as well as installation, monthly subscription, public telephones and supplemental local services. We are the leading provider of local telecommunications services in our region with an estimated 96.5% market share. This estimate is based on outside consultants' statistical estimates using the volume in minutes of outgoing and incoming local calls of our competitors that interconnect through our network. We also own and operate public telephones throughout our region and at December 31, 2003, we had approximately 296,300 public telephones. We provide a variety of other supplemental services to our local service clients, including voice mail, call waiting, call forwarding, conferencing, speed dialing and caller ID. Our leading position in the local fixed-line telecommunications market is due, among other things, to the lack of competition in this market until the entry of our first competitor in November 2000. Since then, we have been able to maintain a high market share in our region due to our extensive network and the features, prices and services we offer.

Intraregional (Intrastate and Interstate) Long-Distance Service

Calls from one local area in a region to another local area in a 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). We are the leading provider of intrastate fixed-line telecommunication services in our region with an estimated 89.9% intrastate market share and an estimated 75.1% interstate market share at December 31, 2003. These estimates are based on the volume in minutes of outgoing and incoming long-distance calls that are made using our carrier selection code, "14."

As of July 1999, Embratel and Intelig, received authorization to provide intrastate long-distance services within the states in our region, and we received authorization to provide interstate long-distance services between the states in our region. Since that time, we have been providing interstate fixed-line telecommunications services in our region and expanding our interstate long-distance service network. To date, Telefônica and Telemar, among others, have been authorized to provide intraregional long-distance services in our region.

Interregional and International Long Distance Services

Historically, under Anatel rules, regional fixed-line companies, such as Brasil Telecom, generally were not permitted to offer interregional or international long distance services until after December 31, 2003 (the date designed to correspond with certification of our universalization targets by Anatel). Having received certification by Anatel of our compliance with universalization targets on January 19, 2004, we have begun offering interregional long distance and international long distance services. Interregional long distance services consist of calls between a location within Region II and a location within another region (Region I or Region III). International long distance services consist of calls between a location within Brazil and a location outside of Brazil. In order to provide these services, we have entered into interconnection agreements with Telemar and Telefônica and we will also make use of the submarine cable network we acquired in June 2003, which we refer to as GlobeNet, (linking Brazil with the United States, Bermuda and Venezuela) and the local fiber optic network we acquired as part of our acquisition of MetroRED Telecomunicações Ltda. in May 2004, which we refer to as MetroRED (providing network facilities in São Paulo, Rio de Janeiro and Belo Horizonte).

Network Services

Our network services consist of interconnection, lease of facilities and fixed-to-mobile services.

Interconnection services

Interconnection services consist of the use of our network by other telecommunication 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 and Intelig, and certain operators of trunking services. We also provide interconnection services to the mobile service providers that were spun off from each of Telepar, Telesc, Telegoiás, Telebrasil, Telemat, Telems, Teleron, Teleacre and CTMR, as well as all Band B mobile service providers in our region. Use of our interconnection services has grown substantially since they were introduced in April 1998, as a result of the spin-off of such cellular telecommunications businesses, the breakup of Telebrás and the advent of competition in the telecommunications sector in Brazil.

Lease of Facilities

Other telecommunications service providers, particularly mobile service providers, lease trunk lines used for bulk transmission of voice and data messages from our company for use within their stand-alone networks. Large corporate customers lease lines from us for use in private networks connecting different corporate sites. Pursuant to Anatel requirements, we also lease our telecommunications facilities to Embratel and Intelig in order to provide them with access to our network.

Fixed-to-Mobile Services

Fixed-to-mobile services consist of calls that originate in a fixed-line telephone and terminate on a mobile or cellular device. The use of our fixed-to-mobile services has grown significantly in the last five years as the penetration rate of mobile services in Region II has increased.

Data Transmission Services

We provide 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, image and text transmission services, mainly for corporate networks and internet access. The primary data service that we offer to both residential and corporate clients is asymmetric digital subscriber line, or ADSL, which we launched in 2001. ADSL is a technology that allows normal telephone services, as well as delivery of high speed data transmission to virtual private networks or to public internet networks over existing copper lines. ADSL is an important service because it acts as a primary access or last mile for other services which we offer such as, BrTurbo, our broadband internet access provider for residential clients and corporations, and frame relay, our data transmission service for

corporations. In addition to ADSL, we offer various data transmission services that are designed specifically for corporate clients such as: DialNet, a remote dial up internet access service for corporations, internet service providers and residential customers; asynchronous transfer mode, which we refer to as ATM, and frame relay a broadband switching service and data transmission service for corporations; dedicated internet protocol, which we refer to as Dedicated IP a leased line which functions as a dedicated gate for access to internet backbone typically used by internet service providers; digital dedicated line service, which we refer to as SLDD a newly introduced leased dedicated line service which offers wider band width than Dedicated IP; and virtual private networks based on internet protocol a new product which we market to corporate clients under the "Vetor" brand name. The virtual private network offered by Vetor allows companies to consolidate and organize their data communications services and improve the quality of such services through a virtual private network, which we create for each client using our data transmission infrastructure.

We intend to continue to invest in data networks in order to serve the expected increase in demand for this type of service, particularly in the Internet access market through our ADSL service. In the year ended December 31, 2003, we installed 120,933 new ADSL ports, resulting in a total of 346,233 ADSL installed ports in 323 cities. The number of ADSL access lines in service reached 281,900 representing a growth of 100.4% compared to 140,690 at December 31, 2002. ATM, frame relay, and Dedicated IP, expanded by 24.5% in 2003 compared to 2002. As of December 31, 2003, we had installed 10,245 ATM, Frame Relay or Dedicated IP ports, in 87 cities. The DialNet service increased from 89,020 ports installed at the end of 2002, to 150,174 ports installed in 180 cities at the end of 2003, representing an increase of 68.7%.

Wireless Services

We have begun offering wireless telephony services pursuant to authorizations acquired by us in November 2002. We operate our wireless services on the Global System for Mobile Communications, or GSM, technology platform throughout Region II and expect to generate revenues through usage fees, subscription charges, recurring fees, interconnection fees and handset sales. We are offering our wireless services using a relatively low amount of capital expenditure compared to that of some of our competitors while providing our customers with a comparable level of service to that of our competitors. We have budgeted U.S.\$300 million in capital expenditures through December 31, 2005, of which we anticipate 85% will be spent in 2004 principally for building out our network infrastructure and information technology systems. We are targeting our existing fixed-line customers, thus providing them with a complete range of telephony services.

Organizational Structure

We are structured as a consolidated operational company, in which we conduct substantially all of our operations, and currently have four wholly-owned subsidiaries, BrT Serviços de Internet S.A., or BrTSi, 14 Brasil Telecom Celular S.A., Vant Telecomunicações S.A., or Vant, and MTH Ventures do Brasil Ltda., or MetroRED. At the Brasil Telecom S.A. level, we are subdivided into eleven operational branches, Tocantins, Goiás, Acre, Rondônia, Mato Grosso, Mato Grosso do Sul, Paraná, Santa Catarina, Rio Grande do Sul, Pelotas and the Federal District. The following chart sets forth a summary of our organizational structure, including the percentage of voting capital held in each of our significant subsidiaries as of March 31, 2004.

BrT Serviços de Internet S.A.

We formed BrTSi in October 2001. Through BrTSi, we provide broadband internet services based on ADSL (Asymmetric Digital Subscriber Line) technology through our internet service provider ("ISP") BrTurbo. BrTSi is also the parent company of the subsidiaries that operate our submarine fiber optic cable system which we refer to as GlobeNet, and iBest, our free internet service provider.

iBest

In February 2002, BrTSi acquired 15.5% of iBest Holding Corporation for approximately U.S.\$10.0 million. iBest Holding Corporation controls iBest S.A. ("iBest"), a free internet service provider and important brand name. On June 26, 2003, we acquired through our wholly owned subsidiary, BrTSi, the remaining capital of iBest Holding Corporation for U.S.\$36.0 million, consolidating our 100% ownership of iBest.

GlobeNet (Submarine Fiber-Optic Cable System)

On June 11, 2003, we acquired, through BrTSi, the entire submarine fiber-optic cable system of 360 Networks Americas do Brasil Ltda. which we refer to as GlobeNet, for U.S.\$46.8 million. A total of U.S.\$27.6 million was paid on June 11, 2003, with the remaining U.S.\$19.2 million payable within 18 months of the first installment. As part of this acquisition, BrTSi formed five operating subsidiaries: Brasil Telecom Cabos Submarinos (Holding) Ltda., Brasil Telecom Cabos Submarinos Ltda., Brasil Telecom of America, Inc., Brasil Telecom Subsea Cable System (Bermuda) Ltd. and Brasil Telecom de Venezuela, S.A. These companies own and operate the GlobeNet fiber optic cable system that connects the United States, Bermudas, Brazil and Venezuela.

Edgar Filing: BRASIL TELECOM SA - Form 424B3

Brasil Telecom of America, Inc. is headquartered in Boca Raton, Florida, and coordinates all GlobeNet's activities and supports the commercial activities of the group in the international market.

14 Brasil Telecom Celular S.A.

Brasil Telecom Celular S.A., or, BT Celular, provides wireless telecommunications services, which we have recently begun offering. BT Celular currently has over 18,400 active subscribers.

Vant Telecomunicações S.A.

On May 13, 2004, we exercised our option to purchase for R\$15.6 million the remaining 80.1%, giving us 100%, of the capital of Vant. This purchase was made possible once we received certification by Anatel of our compliance with our 2003 universalization targets. Vant offers internet protocol as well as other products to the corporate market throughout Brazil.

MetroRED Telecomunicações Ltda.

On May 13, 2004, we exercised our option to purchase for U.S.\$51.0 million the remaining 80.1% giving us 100% of the capital of MTH. This purchase was made possible once we received certification by Anatel of our compliance with our 2003 universalization targets. MetroRED is a leading local fiber optic network provider, with 331 kilometers of local area network in São Paulo, Rio de Janeiro and Belo Horizonte, and a 1,485 kilometer long-distance network linking these three metropolitan areas as well as an internet solutions data center in São Paulo which will provide internet support to our customers. As part of the acquisition, we also acquired a management team with expertise in these markets.

Concessions and Authorizations

The concessions and authorizations for supplying telecommunications services in Brazil are granted under the public and private regimes. Services under the public regime are supplied through concessions while services under the private regime are supplied through authorizations granted by Anatel. Each public regime company, such as ours, operates under concessions that expire in 2005 but are renewable for an additional 20-year period, subject to the meeting of certain obligations. Every second year during the 20-year renewal period, public regime companies will be required to pay renewal fees equal to 2% of the annual net revenues from the provision of telecommunications services (excluding taxes and social contributions) during the immediately preceding year, beginning as of April 30, 2007, based on the net revenues for 2006. On June 20, 2003, Anatel approved a form of extension to the concession agreements under which all fixed-line telecommunications incumbents such as ourselves will operate as of January 1, 2006. In June 2003, we notified Anatel of our intention to extend our current concession. While we expect to formally enter into a new concession agreement with Anatel by the end of 2005, we cannot provide assurances that this will occur as planned.

Our Strategy

Our goal is to become a leading provider of integrated telecommunications services in Brazil and South America by maintaining our strong position in the local and intraregional long distance markets while at the same time enhancing our existing services and developing new services which complement our existing products and services. We intend to achieve this goal by implementing the following key strategies:

Offer interregional and international long-distance services

We intend to increase our market share in our principal business of providing intraregional long-distance service in Region II. Since January 22, 2004 we have begun offering interregional and international long distance services and started competing directly with other regional operators which currently provide such services. By offering interregional and international long-distance services, we expect to be able to offer our existing corporate and residential clients more competitive and integrated plans and capture market share. We intend to leverage the strength of the "Brasil Telecom" brand in Region II and to solidify Brasil Telecom as the carrier of choice through

advertising campaigns that promote the use of our carrier selection code "14", and the synergies across our growing portfolio of integrated services, including wireless, data and long-distance services nationwide.

Develop our wireless telecommunications services

As we have received Anatel's certification that our 2003 universalization targets have been met, we have recently begun offering wireless telecommunications services using Global System for Mobile Communications ("GSM"), technology through our subsidiary, 14 Brasil Telecom Celular S.A., and under the brand name "Brasil Telecom GSM". With the introduction of wireless services, we are the only company in Region II to offer both wireline and wireless services and we expect to leverage this to increase our brand awareness and overall market share. We are able to offer competitive wireless service plans due, among other things, to the attractive prices paid for our licenses and the favorable terms available to us from our equipment vendors. We also intend to realize the synergies between our wireline and wireless operations by marketing to our existing client database, using our existing wireline sales channels, providing integrated packages and sharing infrastructure and operational systems. We also intend to develop new mobile products and services for the corporate market.

Continue to integrate and acquire high technology network infrastructure in order to position ourselves as a market leader in the Brazilian corporate market

Our acquisition in June 2003 of GlobeNet, our submarine fiber optic cable system, and our acquisition in May 13, 2004 of MetroRED, our local fiber-optic network, provided us with a state-of-the-art broadband infrastructure as well as local network capacity. These networks consist of a 22,000 kilometer submarine fiber optic system connecting us to most of Latin America and the United States, as well as 331 kilometers of local and 1,485 kilometers of long-distance fiber-optic lines in Brasil, allowing us to expand geographically to three principal corporate markets outside our region - São Paulo, Rio de Janeiro and Belo Horizonte. In addition, through MetroRED we obtained an internet center in São Paulo that will host various internet services. We intend to integrate these networks and this center into our existing network and business and to use this capacity to meet the growing demands for our network and data transmission services in order to become the market leader in both residential and corporate network and data transmission services.

Develop integrated voice, data and multimedia services for residential and corporate clients

We intend to offer voice, data and multimedia products and services through our existing distribution channels as well as through new mobile phone stores, which we expect to open this year. Our strategy is to provide a one-stop shopping environment for both residential and corporate clients, satisfying all of their local, long distance, mobile, network and data transmission service needs. We intend to maximize synergies and increase client loyalty by providing value-added services and to attract new clients and maintain existing clients by offering competitively priced products. We also intend to provide integrated customer service which will allow us to improve our service quality as well as increase our sales.

Evaluation of possible participation in consolidation of Brazilian telecommunications industry

The Brazilian telecommunications industry has experienced and may continue to experience consolidation. We continue to evaluate potential consolidation opportunities in Brazil, which may include acquisitions or other methods of participation designed to increase our market share or to improve our efficiency.

We are engaged in on-going discussions with Intelig's shareholders, France Telecom, Sprint Corp. and National Grid Group PLC, with respect to a possible acquisition of Intelig. Intelig started operations in 2000, and provides national and international long distance services on a nationwide basis and competes directly with Embratel. Intelig has built out an extensive fixed-line telecommunications network throughout the country. The terms of any acquisition have not been determined and accordingly, it is not possible to predict the outcome of this process.

Edgar Filing: BRASIL TELECOM SA - Form 424B3

We are also in discussions with respect to the acquisition of iG, a free internet services provider. This acquisition would consolidate our already leading position in the Brazilian ISP market by giving us more than three million active internet users.

Competition

General

The implementation of the Brazilian Telecommunications Regulations brought dramatic changes in the marketplace for Brazilian telecommunications services as of 1999. In general, the increasingly competitive marketplace has resulted in decreasing prices for telecommunications services, driven by increasing competition, implementation of new technology and regulatory oversight.

Fixed-Line Services

We compete primarily on the basis of features, pricing and customer service. Currently, we are the leading local fixed-line telecommunication services provider in our region. Global Village Telecom is our sole competitor in providing local fixed-line telecommunications services in our region and began operating in November 2000. In the short-term, we could lose market share in the provision of local fixed-line telecommunications services as additional competitors are allowed to enter the fixed-line market in our region. Also, to date, Telesp, Telemar, Embratel and Intelig, among others, have been granted authorization by Anatel to provide local fixed-line telecommunications services in our region.

Global Village Telecom, Intelig and Embratel are our competitors in providing intrastate and interstate long-distance telecommunication services in our region. The authorization awarded to Global Village Telecom, Intelig and Embratel are not subject to the same service quality and network expansion and modernization obligations that we are subject to under our concessions. In the short-term, we expect to lose market share in the provision of intraregional long-distance telecommunications services as additional competitors are allowed to enter the market. To date, Telesp, Albra Telecomunicações Ltda., which we refer to as Albra, Portale Rio Norte S.A., which we refer to as Portale Rio Norte, a subsidiary of Telecom Italia Mobile, which we refer to as TIM Brasil, Global Village Telecom and TNL PCS S.A. (Telemar's wireless provider), among others, have been granted permission by Anatel to provide intraregional, interregional and international telecommunications services in our region.

Our fixed-line services are also subject to competition from wireless service providers. The competition from wireless service providers is increasing but it is still limited by the fact that tariffs for wireless calls are currently much higher than tariffs for calls on our fixed-line network. We also face competition from wireless service providers in the low end of the market through the offer of prepaid plans by such wireless providers.

The certification of our, and other service providers' compliance with universalization and expansion targets, allows other service providers to operate in our region, and us to operate in their regions. We may now have to compete in our region against competitors from outside of our region that offer a more extensive array of fixed-line, mobile, local and/or long-distance telecommunications services throughout Brazil.

Wireless Services

We have recently commenced offering our wireless services. Wireless services are equally competitive and we face competition in Region II from (i) a joint venture between Telefônica and Portugal Telecom (marketing under the brand name Vivo), (ii) Telmex, which competes against us in our region through América Móviles (marketing under the brand name Claro) and (iii) TIM. In addition, wireless services compete directly against local services.

Effects of Competition

The deregulation that started in 2002 and includes our recent certification and authorization to provide additional services inside and outside our region is expected to increase competition in our businesses. 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 the entry of additional competitors into the market for local, long distance and wireless services in Region II as well as significant industry consolidation may adversely affect our related revenues. We anticipate, however, that growth in the Brazilian market will generate higher revenues, especially now that we are able to offer long distance and data services on a nationwide basis and wireless 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 new business areas will provide us with new growth opportunities.

The impact of these competitive pressures will depend on a variety of factors that cannot currently be assessed at this time, some of which are beyond our control. Among such factors are the technical and financial resources available to our competitors, the business strategies and capabilities of our competitors, prevailing market conditions, the regulations applicable to new entrants and us, and the effectiveness of our efforts to prepare for increased competition and consolidation.

Ratio of Earnings to Fixed Charges

The following table sets forth our ratio of earnings to fixed charges for the periods indicated:

	Year ended December 31,					Six months ended June 30,
	1999	2000	2001	2002	2003	2004
Ratio of Earnings to Fixed Charges Brazilian GAAP(1)	1.46	1.93	0.22	0.97	0.44	0.91

(1) To calculate the ratio of earnings to fixed charges, we calculate earnings by adding income (loss) before taxes and minority interests, fixed charges and amortization of capitalized interest, less interest capitalized. Fixed charges represent the total of financial expenses, capitalized interest and the preferred stock guaranteed dividend.

Our headquarters are located at SIA Sul, Área de Serviços Públicos, Lote D, Bloco B, Brasília, D.F., 71.215-000, Brazil and our telephone number is +(55 61) 415-1140.

THE EXCHANGE OFFER

Securities Offered

Brasil Telecom is offering up to \$200,000,000 aggregate principal amount of its 9.375% Notes due 2014, which we refer to as the new notes, which have been registered under the Securities Act.

The Exchange Offer

Brasil Telecom is offering to issue the new notes in exchange for a like principal amount of your 9.375% Notes due 2014, which we refer to as the old notes. Brasil Telecom is offering to issue the new notes to satisfy its obligations contained in the registration rights agreement entered into when the old notes were sold in transactions permitted by Rule 144A and Regulation S under the Securities Act and therefore not registered with the SEC. For procedures for tendering, see "The Exchange Offer."

Tenders, Expiration Date, Withdrawal

The exchange offer will expire at 5:00 p.m. New York City time on November 30, 2004, 2004 unless it is extended. If you decide to exchange your old notes for new notes, you must acknowledge that you are not engaging in, and do not intend to engage in, a distribution of the new notes. If you decide to tender your old notes in the exchange offer, you may withdraw them at any time prior to November 30, 2004. If Brasil Telecom decides for any reason not to accept any old notes for exchange, your old notes will be returned to you without expense to you promptly after the exchange offer expires.

U.S. Federal Income Tax Consequences

Your exchange of old notes for new notes in the exchange offer will not result in any income, gain or loss to you for Federal income tax purposes. See "Material Tax Considerations Certain Tax Consequences of the Exchange Offer" on page 99 of this prospectus.

Use of Proceeds

Brasil Telecom will not receive any proceeds from the issuance of the new notes in the exchange offer.

Exchange Agent

The Bank of New York is the exchange agent for the exchange offer.

Failure Tender Your Old Notes

to If you fail to tender your old notes in the exchange offer, you will not have any further rights under the registration rights agreement, including any right to require Brasil Telecom to register your old notes or to pay you additional interest.

You will be able to resell the new notes without registering them with the SEC if you meet the requirements described below.

Based on interpretations by the SEC's staff in no-action letters issued to third parties, Brasil Telecom believes that new notes issued in exchange for old notes in the exchange offer may be offered for resale, resold or otherwise transferred by you without registering the new notes under the Securities Act or delivering a prospectus, unless you are a broker-dealer receiving securities for your own account, so long as:

- you are not one of Brasil Telecom's "affiliates," which is defined in Rule 405 of the Securities Act;
- you acquire the new notes in the ordinary course of your business;
- you do not have any arrangement or understanding with any person to participate in the distribution of the new notes; and

Edgar Filing: BRASIL TELECOM SA - Form 424B3

- you are not engaged in, and do not intend to engage in, a distribution of the new notes.

If you are an affiliate of Brasil Telecom, or you are engaged in, intend to engage in or have any arrangement or understanding with respect to, the distribution of new notes acquired in the exchange offer, you

- should not rely on our interpretations of the position of the SEC's staff; and
- must comply with the registration and prospectus delivery requirements of the Securities Act in connection with any resale transaction.

If you are a broker-dealer and receive new notes for your own account in the exchange offer:

- you must represent that you do not have any arrangement with Brasil Telecom, or any of their affiliates to distribute the new notes;
- you must acknowledge that you will deliver a prospectus in connection with any resale of the new notes you receive from Brasil Telecom in the exchange offer; the letter of transmittal states that by so acknowledging and by delivering a prospectus, you will not be deemed to admit that you are an "underwriter" within the meaning of the Securities Act; and
- you may use this prospectus, as it may be amended or supplemented from time to time, in connection with the resale of new notes received in exchange for old notes acquired by you as a result of market-making or other trading activities.

For a period of 180 days after the expiration of the exchange offer, we will make this prospectus available to any broker-dealer for use in connection with any resale described above.

THE NEW NOTES

The terms of the new notes and the old notes are identical in all material respects, except that the new notes have been registered under the Securities Act, and accordingly are not subject to several restrictions on transfers applicable to the old notes. The following summary contains basic information about the new notes and the old notes, which we collectively refer to as the notes. It is not intended to be complete. It does not contain all the information that is important to you. For a more complete understanding of the notes, please refer to the section of this document entitled "Description of the Notes."

Issuer	Brasil Telecom S.A.
New notes	U.S.\$200,000,000 aggregate principal amount of 9.375% notes due February 18, 2014. The new notes and the old notes will be considered to be a single class for all purposes of the indenture, including waivers, amendments, redemptions and offers to purchase. The new notes will be entitled to the benefits of the indenture, under which the old notes were issued.
Maturity date	February 18, 2014, unless extended for a period of up to eighteen calendar-months from the expected maturity date as a result of the existence on the expected maturity date of a Currency Inconvertibility Event (as defined in "The Insurer and the Insurance Policy"). See "Description of the Notes Extension of the Expected Maturity Date."
Indenture	The new notes will be issued under the indenture between Brasil Telecom, as issuer, and The Bank of New York, as indenture trustee, registrar, paying agent and transfer agent, and The Bank of Tokyo-Mitsubishi Ltd., as principal paying agent.
Interest payment dates	February 17 and August 17 of each year.
Interest	The notes will bear interest at the annual rate of 9.375%, payable semiannually in arrears on each interest payment date, subject to the applicable grace period. See "Description of the Notes Payments of Principal and Interest" and "Description of the Notes Events of Default."
Ranking	The notes constitute our general unsecured and unsubordinated obligations which will at all times rank <i>pari passu</i> among themselves and with all our other unsecured obligations that are not by their terms expressly subordinated in right of payment to the notes. As of December 31, 2003, R\$1,995.5 million of our consolidated debt was secured and R\$2,640.4 million of our consolidated debt was unsecured.
Listing	The old notes are listed on the Luxembourg Stock Exchange in accordance with its rules. Brasil Telecom will apply to list the new notes on the Luxembourg Stock Exchange in accordance with its rules. In March 2003, the European Commission published a proposal for a Directive of the European Parliament and of the Council on the harmonization of transparency requirements with regard to information about issuers whose securities are admitted to trading on a regulated market in the European Union ((2003/0045(COD)) (the "Transparency Directive"). If the

The Required Amount

Transparency Directive enters into force in a form which would require us to publish financial information either more regularly than we otherwise would be required to, or according to accounting principles which are materially different from the accounting principles which we would otherwise use to prepare our published financial information under the rules of the U.S. Securities Exchange Commission, we may seek an alternative admission to listing, trading and/or quotation for the notes by another listing authority, stock exchange and/or quotation system outside the European Union, including, but not limited to, the New York Stock Exchange, Inc.

The indenture trustee will have access to certain reserves for the benefit of the noteholders in an amount (the "Required Amount") equal, on the closing date, to U.S.\$13,011,445.31, which amount shall be equal to the sum of (i) six months of interest on the notes at the initial note rate; (ii) prior to us satisfying our obligations under the registration rights agreement, an amount equal to eighteen months interest on the notes at the additional 0.5% payable as described under "Exchange Offer; Registration Rights"; (iii) 90 days of interest (calculated at the initial note rate) on the amount of interest payable under the notes on a single interest payment date (calculated, until we satisfy our obligations under the registration rights agreement, at a rate equal to the sum of the initial note rate plus 0.5% per annum); (iv) an amount representing indenture trustee fees (but not costs and expenses) due and payable by us to the indenture trustee during any eighteen month period; (v) an amount representing insurance trustee fees (but not costs and expenses) due and payable by us to the insurance trustee during any eighteen-month period; (vi) an amount equal to 10% of an amount equal to twelve months of interest on the notes at the initial note rate (which amount, when added to amounts payable under the insurance policy, will equal 100% of interest on the notes at the initial note rate for the twelve months of interest covered under the insurance policy) and (vii) any additional amounts as may be required as a result of the involuntary cancellation or termination of the insurance policy. This Required Amount will be maintained in specified qualifying instruments ("Qualifying Instruments") in the form of (i) one or more irrevocable standby letters of credit issued in the name of the indenture trustee on behalf of the noteholders by financial institutions meeting specified criteria; (ii) cash deposited in a reserve account established and maintained by the indenture trustee on behalf of the noteholders; or (iii) any combination thereof. The indenture trustee shall be entitled to draw on any Qualifying Instrument in the event of the occurrence and continuation of a Currency Inconvertibility Event. The indenture trustee shall also be entitled to draw on one or more letters of credit (i) in the event that the financial institution issuing any such letter of credit has its rating downgraded by Moody's below "Prime-1" or "A+" by Fitch (if rated by Fitch); or (ii) if the financial institution which issued any such letter of credit has notified the indenture trustee that it will not renew or replace such letter of credit and we have not presented the indenture trustee with a replacement letter of credit. Brasil Telecom has arranged for a letter of credit issued by Credit Suisse First Boston, acting through its Cayman Islands Branch in respect of the Required Amount.

All funds paid by a letter of credit as a result of a drawing thereunder shall be initially deposited in the reserve account for application in accordance with the terms of the indenture.

The amounts available in Qualifying Instruments may also be increased or reduced under certain limited circumstances. See "Description of the Notes Additional Support The Required Amount."

The insurance

The noteholders will have the benefit of a political risk insurance policy provided by the Overseas Private Investment Corporation or OPIC, an agency of the United States Government, which will be backed by the full faith and credit of the United States. In order to give effect to the political risk insurance provided by OPIC, or the insurance policy, and satisfy applicable legal requirement to which OPIC is subject, the insurance or the insurance policy is issued to a newly created trust established by us under New York law and The Bank of New York, as insurance trustee, for the benefit of the noteholders in their capacity as beneficiaries of the insurance trust. The insurance trustee will hold the insurance as credit support for the notes to the extent of the coverage set forth in the insurance. The insurance will cover the inability of Brasil Telecom or the insurance trustee to convert *reais* into U.S. dollars, and/or transfer from Brazil to the United States, U.S. dollars, in satisfaction of amounts to be paid by us under the indenture or the notes, as the case may be. OPIC's obligation to pay claims under the insurance is limited to 90% of an amount equal to twelve months of interest on the notes at the initial note rate and is subject to certain conditions, limitations and exclusions that may affect the ability of the noteholders to receive payments on the notes, including eligibility standards with respect to each noteholder and the expiration of a waiting period of approximately 180 calendar days. This amount of insurance, together with an amount equal to 10% of twelve months of interest on the notes at the initial note rate available under a letter of credit, will provide for payment to the noteholders of twelve months of interest on the notes at the initial note rate upon the occurrence of a Currency Inconvertibility Event and shall be in addition to the six months of interest covered under a letter of credit or in the reserve account in Qualifying Instruments.

To facilitate issuance of the insurance (and in order to comply with certain legal requirements applicable to the insurer), the insurance is issued to the insurance trust and the noteholders are deemed to have assigned to the insurance trust the right to the two interest periods, or twelve months, of interest that are insured by the insurer under the insurance policy. In addition, consistent with the foregoing, the noteholders are deemed to have agreed to certain restrictions on transfer of the notes and certain eligibility standards as a condition to payment by OPIC of amounts under the insurance policy. See "Description of the Insurer and the Insurance".

In certain circumstances related to the credit rating of the notes, we may direct the insurance trustee to cancel the insurance after the third anniversary of the closing date. In the case of an involuntary cancellation or withdrawal of the insurance, an event of default will occur unless we arrange for an increase in the amount of Qualifying

Instruments, which increase in shall be equal to the aggregate amount available under the insurance immediately prior to its cancellation. See "Description of the Insurer and the Insurance Policy Insurance Trust", "Description of the Insurer and the Insurance Policy Description of the Insurance Policy" and "Description of the Notes Additional Support The Required Amount."

Early redemption at the option of Brasil Telecom

The notes will be redeemable by us or an affiliate, in whole but not in part, at any time on or after February 17, 2009 at the applicable redemption prices specified in "Description of the Notes Redemption Early Redemption at the Option of Brasil Telecom." In addition, the notes will be redeemable in whole, but not in part, at their principal amount, plus accrued and unpaid interest, if any, to the date of redemption, at our option at any time in the event of certain changes affecting taxation.

Covenants

The terms of the indenture require us, among other things, to:

- pay all amounts owed by us under the indenture and the notes when such amounts are due;
- perform all obligations specified under the transaction documents;
- comply with all applicable laws;
- maintain our properties and corporate existence;
- maintain all necessary government approvals;
- comply with applicable laws and pay all taxes;
- maintain an office or agency in New York for the purpose of service of process;
- give notice to the indenture trustee of any default or event of default under the indenture and certain currency exchange control events;
- when Incurring additional Indebtedness (in each case, as defined below), observe certain interest coverage and leverage ratios;
- prevent its subsidiaries from being subject to any restrictions on the payment of dividends; and
- take actions to maintain the rights of the indenture trustee, the insurance trustee and/or the noteholders under the relevant transaction documents.

In addition, the terms of the indenture restricts our ability and the ability of our subsidiaries, among other things, to:

- undertake certain mergers, consolidations or similar transactions;
- create certain liens on our assets; and
- undertake certain sale and lease-back transactions. These covenants are subject to a number of important qualifications and exceptions. See "Description of the Notes Certain Covenants."

Events of default

The notes and the indenture contain certain events of default, consisting of, among others, the following:

- failure to pay principal when due;
- failure to pay interest and other amounts (i) within 30 calendar days of the due date therefor 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;
- breach by us of any covenant or agreement in the indenture or any of the other relevant transaction documents;
- acceleration of our Indebtedness or of any of our material subsidiaries or a failure to pay amounts due in respect of Indebtedness when due that, in aggregate, equals or exceeds U.S.\$50 million;
- certain judgments against us, or any of our material subsidiaries that equals or exceeds U.S.\$50 million;
- certain events of bankruptcy, liquidation or insolvency of Brasil Telecom or any of our material subsidiaries;
- certain events relating to the unenforceability of any of the relevant transaction documents against us or the insurer;
- expropriation of all or substantially all of our or any of our material subsidiaries' assets;
- the failure to maintain Qualifying Instruments in an aggregate amount equal to the Required Amount; and
- the cancellation of the insurance policy (other than as allowed under the indenture), the unenforceability of the insurance policy or the failure of the insurer to make a payment thereunder.

Withholding taxes additional amounts

Any and all payments in respect of the notes will be made free and clear of, and without withholding or deduction for, any Taxes or other governmental charges of any nature imposed by Brazil, Japan (to the extent that any paying agent is organized in Japan),

Edgar Filing: BRASIL TELECOM SA - Form 424B3

Luxembourg or by the jurisdictions in which any paying agents appointed by us are organized or the location where payment is made, or any political subdivision or taxing authority or agency therefor therein, unless such withholding or deduction is required by law, in which case we shall pay such additional amounts necessary to ensure that the noteholders receive the same amount as the noteholders would have received without such withholding or deduction, subject to certain exceptions. In certain circumstances during the occurrence of a Currency Inconvertibility Event, the payment of additional amounts owed by us to noteholders will be deferred. See "Description of the Notes Additional Amounts."

Governing law

The indenture, the notes, the insurance and related documents, the registration rights agreement and other transaction documents are governed by, and construed in accordance with, the laws of the State of New York.

Form and denomination

The form and denomination of the new notes will be the same as the form and denomination of the notes for which they are exchanged.

Clearance and settlement

The notes will be issued in book-entry form through the facilities of DTC for the accounts of its participants, including Euroclear Bank S.A./N.V. as the operator of the Euroclear System ("Euroclear"), and Clearstream Banking, *société anonyme* ("Clearstream"), and will trade in DTC's Same-Day Funds Settlement System. Beneficial interests in notes held in book-entry form will not be entitled to receive physical delivery of certificated notes except in certain limited circumstances. For a description of certain factors relating to clearance and settlement, see "Description of the Notes."

TIMETABLE FOR THE OFFERING

Commencement of the exchange offer	November 1, 2004
Expiration of the exchange offer	November 30, 2004
Brasil Telecom may, at its sole discretion, extend the period of time for which the exchange offer is open.	

RISK FACTORS

You should carefully consider the risks described below, as well as the other information contained in this prospectus and the information presented in Brasil Telecom's 2003 Form 20-F, before making a decision to tender your old notes in exchange for new notes. In particular, you should consider the special features applicable to an investment in Brazil and applicable to an investment in Brasil Telecom. In general, investing in the securities of issuers in emerging market countries, such as Brazil, involves a higher degree of risk than investing in the securities of issuers in the United States. We have included information in these risk factors concerning Brazil to the extent that information is publicly available to us.

For purposes of this section, when we state that a risk, uncertainty or problem may, could or would have an "adverse effect" on us, we mean that the risk, uncertainty or problem may, could or would have an adverse effect on our business, financial condition, liquidity, results of our operations or prospects, except as otherwise indicated or as the context may otherwise require. You should view similar expressions in this section as having a similar meaning.

Risks Relating to Transfer Restrictions on the Old Notes

If you do not participate in the exchange offer, you will continue to be subject to transfer restrictions.

If you do not exchange your old notes for new notes pursuant to the exchange offer, you will continue to be subject to the restrictions on transfer of your old notes. Brasil Telecom does not intend to register the old notes under the Securities Act. To the extent old notes are tendered and accepted in the exchange offer, the trading market, if any, for the old notes would be adversely affected. See "The Exchange Offer."

Risks Relating to Our Company

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

We operate under concessions and authorizations from the Brazilian Government that allow us to provide local fixed-line and long-distance telecommunications services within Brazil, and require us to comply with certain obligations related to rates, quality of service, network expansion and modernization, and interconnection of our network. Our failure to comply with the terms of the concessions and authorizations may result in the imposition of fines or other government actions, including the termination of our concessions and authorizations. Any partial or total revocation of our concessions or authorizations would have an adverse effect on our business.

Our business, including the services that we provide and the rates that we charge, is subject to comprehensive regulation under Brazilian law. Brazil's telecommunications regulatory framework is continuously evolving. The interpretation and enforcement of regulations, the assessment of compliance with regulations and the flexibility of regulatory authorities are all marked by uncertainty. Our ability to retain our concessions and authorizations is a precondition to our success, but in light of the regulatory framework, we cannot assure you that Anatel will not modify the terms of our concessions or authorizations in an adverse manner.

Under Brazilian law, public regime companies, like us, must have the rates that they charge for products and services approved by Anatel. On June 20, 2003, Anatel enacted Resolution 341, which provides for new types of Anatel concession contracts, effective from January 1, 2006 until 2025. The Form of New Concession Contract provides for changes in the way in which rates are set, for example under the current proposals, the General Price Index - Internal Availability, (*Índice Geral de Preços Disponibilidade Interna*, or IGP-DI), will no longer be used to determine the annual inflation-based adjustments to rates. Private regime companies that compete with us, like Global Village Telecom, or Intelig, do not require Anatel approval when setting their rates and may unilaterally determine the prices that they charge for their services. As a result, adverse changes in Brazilian telecommunications regulations and non-approval or even delays in the approval of rate changes by Anatel, could adversely impact our operations and competitive position.

Edgar Filing: BRASIL TELECOM SA - Form 424B3

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 by the Brazilian telephone concessionaires, including Brasil Telecom, for fixed line services. The bill is still subject to the approval of other Committees within the House of Representatives, the House of Representatives itself, the Senate and the President's signature. We cannot predict the impact that this bill, if approved, would have on our operations and rate structure and accordingly, cannot assure you that our operations and competitive position will not be adversely impacted by this bill.

We may need additional third party financing which may not be available in the future or on terms acceptable to us.

In addition to amounts we have already borrowed in 2004, we may require additional third party financing for potential strategic acquisitions and to commence new operations. During 2003, our net debt decreased from approximately R\$3,659.0 million at December 31, 2002 to approximately R\$3,170.0 million at December 31, 2003. During 2004, approximately R\$1,840.0 million of our debt will mature and we may decide to refinance other existing debt in order to reduce costs or extend debt maturities. We do not anticipate being able to finance all of our funding requirements from cash flow from operations and will need to rely on third party financing in the future. We cannot assure you that such third party financing will be available on terms acceptable to us or at all.

Certain beneficial shareholders control a large percentage of our voting shares and their interests may conflict with your interests as a noteholder.

We are controlled by Brasil Telecom Participações S.A., which is in turn controlled by Solpart, the capital of which is held by Timepart, Techold and TII. The shareholders of Solpart entered into a shareholders agreement dated July 19, 1998 and last amended as of August 27, 2002, which we refer to as the Solpart Agreement. As our controlling shareholder Solpart has the power to modify our business plan, modify our dividend plan and sell our material assets, among others. At December 31, 2003, to the best of our knowledge, Timepart and Techold hold 20.9% and 47.5% respectively of the voting capital of Solpart. We cannot assure you that any of the Solpart' shareholders will not take any actions that are inconsistent with your interests.

TII is a company controlled by Telecom Italia S.p.A., which we refer to as Telecom Italia. Telecom Italia prevented us from entering in the first auction of personal communication service, or PCS, licenses that took place on 2001 and acquired for itself, through various subsidiaries now consolidated into TIM Celular S.A., or TIM, licenses to deploy PCS in the whole country, including Region II, where we provide fixed-line services. As a matter of Brazilian law, TII and we were deemed to be affiliates and therefore TIM could not initiate to exploit the PCS authorizations before January 1, 2004 unless either Telecom Italia ceased to be affiliated with us or we anticipated our 2003 universalization targets. In order to allow TIM to explore immediately its PCS licenses TII, Techold and Timepart agreed to amend the Solpart Agreement on August 27, 2002 by means of which TII had certain rights suspended subject to subsequent restoration upon the fulfillment of certain conditions and a certain number of common shares in the Solpart were sold by TII to Techold and Timepart so as to reduce TII's indirect ownership in Solpart and consequently in us to below the affiliate level, subject to corresponding "call" and "put" rights. Since TII's departure from our control group, the following events have occurred (i) TIM acquired authorizations to render national and international long-distance telecommunications services, in the full knowledge that we already had since 1998 an option to provide such services aiming at transforming ourselves from a regional to a national and international carrier; (ii) we, through a wholly owned subsidiary, 14 Brasil Telecom Celular S.A., acquired authorization to render PCS in Region II; and (iii) we exercised our pre-existing right aiming at providing the long distance national and international services. Therefore we and Telecom Italia now have overlapping rights to provide PCS (in Region II) and long distance national and international services (Regions I, II and III). Article 68 of the General Telecommunication Law prevents the exploitation by the same juridical person, whether directly or indirectly, of the same services in the same Region. Notwithstanding, TII is now requesting to repurchase its voting stock and return to our control group which is against our best interests as we and TIM would then be considered affiliates and therefore prevented from offering the same services in the same regions.

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

We are controlled by Brasil Telecom Participações S.A., which is in turn controlled by Solpart. Shareholders of Solpart have entered into the Solpart Agreement. There have been disputes among the shareholders of Solpart including in respect to the ownership structure of Solpart and further disputes may arise again in the future. Such disputes may arise between and among members of our control group with respect to the interpretation, application, performance and exercise of rights under the Solpart Agreement. Any such disputes could consume significant management time and resources which could have a material adverse effect on our financial condition and results of operations.

Currently, TII is involved in a dispute with Techold and Timepart relating to TII's attempt to return to our control group. As discussed above, TII is attempting to return to our control group. On December 19, 2003, Techold and Timepart submitted to the ICC a request for arbitration to resolve the dispute for Solpart's control aiming at avoiding that TII exercise control for the benefit of Telecom Italia in an attempt to prevent us, in our own and in the public interest, from reaching our full potential as a national and international provider of telecommunications services. On January 16, 2004 Anatel consented that during an 18 month period TII may return to our control group so long as TII does not participate or vote in any matters related to the overlapping services. After the 18 month period if we and Telecom Italia do not reach an agreement Anatel reserved the right to impose sanctions. In January 2004, TII notified us of its intention to regain its voting stock in Solpart and to restore the suspended control rights in Solpart as a result of our attainment of the universalization targets. TII filed lawsuits against Solpart, Timepart, Techold and us to force its return to our control group. To date, TII's requests have not been adjudicated. In the meantime, the Brazilian Association of Investors of Capital Markets, or ANIMEC, filed an injunction before Brazil's Antitrust Authority (*Conselho Administrativo de Defesa Econômica*, or CADE), to prevent TII from returning to the control group. On March 17, 2004, the injunction was granted by unanimous decision and TII appealed from CADE's decision. On June 30, 2004, CADE authorized TII to return to our control group in accordance with the following terms: (i) TII is authorized to appoint members to our board of directors, however, such members shall be prevented from voting on matters relating to our wireless services and our fixed-line national and international long distance services as well as participating in meetings where such matters have been referred to our board of directors for approval, and (ii) TII is prevented from appointing any member to our senior management and to the senior management of Solpart, Brasil Telecom Participações and BT Celular.

We depend on sophisticated information and processing systems to operate our company, the failure of which could affect our financial condition and results of operations.

Sophisticated information and processing systems are vital to our growth and our ability to monitor our costs, bill customers, detect fraud, provide customer service, achieve operating efficiencies and meet our service targets, particularly in light of the increasing competition in our region. We routinely evaluate, upgrade and modernize our systems as needed. Our billing and information systems are continuously being upgraded and modernized by both in-house technicians and outside service providers. However, the failure of these technicians and service providers to successfully integrate and upgrade our systems as necessary or the failure in the future of any of those systems to operate properly, could have a material adverse effect on our financial condition and results of operations.

We may be liable for labor liabilities, including those related to the companies that we merged with, which could have an adverse effect on our results of operations.

As of December 31, 2003, we were involved in approximately 18,578 labor proceedings, which include pre-existing labor proceedings of the companies we merged with. As of December 31, 2003, contingent liabilities for labor proceedings in which the risk of loss was considered "probable" amounted to approximately R\$424.0 million and contingent liabilities for which the risk was considered "possible" amounted to approximately R\$625.1 million. The estimated total amount involved in these proceedings is approximately R\$1,177.0 million. In particular, we acquired CRT, the leading fixed-line services provider in the state of Rio Grande do Sul in 2000 and, as a result of such acquisition, we inherited a number of labor proceedings, as well as other tax and civil proceedings. As a result of recent court decisions, we now regard a portion of our loss relating to these proceedings

Edgar Filing: BRASIL TELECOM SA - Form 424B3

as "probable" and accordingly, in 2003, we provisioned R\$281.5 million of contingent liabilities with respect to such proceedings.

Contingencies classified as having a probable risk of loss are recorded under liabilities. Under Brazilian labor law, a change of control, corporate structure or ownership does not affect the enforceability of pre-existing employment contracts of an entity. Brazilian labor courts have taken the position that any entity that acquires the control of a manufacturing or commercial establishment becomes liable for the labor liabilities of its target even when such liabilities originated prior to the date of the acquisition. Although we believe that we have no other material pre-existing labor liabilities, there can be no assurance that additional material labor proceedings for actions undertaken by the companies we merged with prior to our merger with them, or any other labor liabilities, will not be brought in the future, or if they are, that an adverse judgment regarding the same would not have a material adverse effect on our results of operations or financial condition.

We may be held liable for engaging in certain activities without an environmental license, which may subject us to fines of up to R\$10.0 million, total or partial suspension of activities in certain states, and/or civil and criminal sanctions. This could have an adverse effect on our results of operations.

In Brazil, environmental licensing is regulated mainly by Resolution No. 237 of 1997 enacted by the Environmental National Council (*Conselho Nacional do Meio Ambiente*, or CONAMA). This resolution lists the activities that require environmental licensing and provides that any activity that has the potential to cause a significant impact on the environment must be licensed.

In Brazil, the federal, state and local levels of government have concurrent jurisdiction to independently determine whether an activity has the potential to cause a significant impact on the environment, and to require and grant environmental permits for that activity. As part of our normal operations, we install and maintain ducts, wires, cables and towers for transmission antennae in the states in our region. The installation and maintenance of ducts, wires, cables and towers for transmission antennae are not listed in the CONAMA Resolution No. 237 of 1997 as activities that require compulsory licensing. However, there is no guarantee that a jurisdiction will not view this installation and maintenance as activities with the potential to cause a significant impact on the environment, and thereby require an environmental permit to conduct such an activity. In any jurisdiction, to the extent that we are required to obtain an environmental permit and have not obtained such a permit, we may be subject to fines of up to R\$10.0 million, total or partial suspension of activities, and/or civil and criminal sanctions. Although we have never been charged with having conducted our installation and maintenance activities without a proper environmental permit, there can be no assurances that some state or local authority will not retroactively determine that we have failed to obtain the appropriate state or local environmental permit, as the case may be, prior to conducting such activities. This could have a material adverse effect on our results of operations.

It may be difficult to effect service of process upon, or to enforce foreign judgements 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 you to effect service of process within the United States or other jurisdictions outside of Brazil upon our company or such persons, or to enforce against them judgments of courts in the United States, predicated upon the civil liability provisions of the federal securities or other laws of the United States.

Risks Relating to the Brazilian Telecommunications Industry

We face increasing competition in the Brazilian telecommunications industry. 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. For example, in local fixed-line telecommunications services in our region, we currently face competition from Global

Edgar Filing: BRASIL TELECOM SA - Form 424B3

Village Telecom. To date, *Telecomunicações de São Paulo S.A.*, which we refer to as Telesp, Telemar, Embratel and Intelig, have been granted authorizations by Anatel to provide local fixed-line telecommunications services in our region. In intraregional long distance services in our region we currently face competition from Global Village Telecom, Intelig and Embratel. To date, Albra., Portale Rio Norte and Global Village Telecom have been granted authorizations by Anatel to provide intraregional long distance services in our region.

In addition, the Brazilian telecommunications industry is consolidating which results in larger competitors. The controlling interest in Embratel has been purchased by Telefonos de Mexico S.A. de C.V., which we refer to as Telmex, subject to certain conditions precedent. Embratel also provides local and broadband services in Region I and III through its subsidiaries Vésper S.A. and Vésper São Paulo S.A., to which we collectively refer as Vesper. Telmex has also acquired the assets of AT&T do Brasil, now Telmex do Brasil Ltda., which we refer to as Telmex do Brasil and owns the mobile operator Claro, through its subsidiary América Móviles. Telesp is majority owned and controlled by Telefônica. Telesp has been granted authorization to operate in our local fixed line and long distance markets. We also compete with Telesp in the data services market outside of our region and in the wireless market against "Vivo", Telefônica's joint venture with Portugal Telecom S.A., which we refer to as Portugal Telecom, in our region.

Our ability 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. Currently, we compete primarily on the basis of features, pricing and customer service. However, we cannot predict exactly which factors in the future will be important in maintaining our competitive position, such as the increasing need to offer promotions, discounts and other marketing initiatives, or what expenditures will be required to develop and provide the necessary technologies, products and services to remain competitive. This may adversely affect our market share and our margins.

In addition, we may also face increased competition due to unbundling regulations. On May 13, 2004, Anatel issued Order (*Despacho*) no. 172, which establishes rules for partial 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 partial unbundling to R\$15.42 per 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 legislation is expected 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. These regulations are recent and we cannot guarantee whether we can compete effectively in this environment.

The expected increases in consolidation of telecommunications operators in Brazil and the increase in competition in our region due to unbundling or otherwise, may have a material adverse effect on our market share, margins, results of operations and financial condition.

The telecommunications industry may not continue to grow or may grow at a slower rate.

We derive most of our revenue from our fixed-line telecommunications services and have recently commenced offering wireless services. As a result, we depend on the continuing development and growth of the market for telecommunications services in Brazil. Our ability to increase our business depends partially on continuing economic development in Brazil. Any economic, technological or other developments resulting in a slowdown in growth or a reduction in demand for our fixed-line or other services may harm our business and revenues. To remain competitive we must also diversify our services and there can be no assurance that we will be successful in doing so.

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

In order to receive or send calls from or to customers of other fixed-line and wireless 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 network operator to the other for the use of each other's network are currently regulated by Anatel. However, interconnection rates for wireless operators will be freely negotiated upon specific regulation which we expect to be issued by Anatel by the end of 2004. If we are not able to negotiate favorable interconnection agreements in the future, subject to potential intervention by Anatel under its legal power to establish the terms of agreements between telecommunications companies that cannot agree on interconnection rates and terms, our operating and financial results may be adversely affected.

The failure to develop and implement the technology necessary to quantify 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. We have not yet been able to fully implement our "on-line" fraud management system or to implement a fraud detection system related to billing.

In addition, we rely on other long-distance carriers for interconnection, some of whom do not have anti-fraud technology in their network. Although we have implemented certain controls, these procedures are still below the level of accuracy and effectiveness desired and expected for fraud control. Should we not be able to develop and implement the technology necessary to quantify and combat fraud on our network, our results of operations could be adversely affected.

The failure of other operators to effect bill collection may have an adverse effect on our long-distance services revenues generated through other providers, on our provision for doubtful accounts, and on the productivity ratio of our call centers.

Anatel Resolution 343, dated July 17, 2003, requires all telecommunications services providers to provide billing and collection services to other telecommunications services providers with whom they have line or access sharing agreements. As part of our entrance into new long-distance services markets, we entered into agreements with several mobile telephone operators and fixed-line operators to include our long-distance services in their telephone bills and provide collection and collection-related services to us and vice-versa. If other operators experience difficulties with bill collection or collection-related activities, our long-distance services revenues generated from the lines or accesses of other telecommunications operators, our provision for doubtful accounts, and the productivity ratio of our call centers may be adversely affected.

The failure to develop and implement the technology necessary to extract, analyze, monitor and take actions upon revenue leakage present in our revenue stream could adversely affect our results of operations in a competitive environment.

Revenue leakage occurs at different stages of the billing process, from ordering the new service to the provider making network switch changes and establishing accurate billing records reflecting the change. Service providers may lose a significant portion of their annual services revenue due to services that were never billed. We continue to face challenges in finding and preventing revenue leakage, including the gathering of data from multiple sources within our complex network/IT platforms and the reconciliation of such data in order to identify the root cause(s) of leakage. This identification, prevention, and correction process typically involves multiple operational functions throughout the organization. If we are not able to develop and implement the technology necessary to detect, quantify, and prevent revenue leakage in 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 further 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, we cannot assure you that our network will not be challenged by competition from new or improved 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. This would have a material adverse effect on our financial condition and results of operations.

In the event of a natural disaster, war, significant public disturbance or for economic reasons, the Brazilian government could temporarily seize or permanently expropriate our assets, which could have a material adverse effect on our financial condition and results of operations.

The Brazilian government has the authority to temporarily seize all assets related to telecommunications concession in the event of natural disaster, war, significant public disturbance, threats to internal peace or for economic reasons, and for other reasons related to national security. In addition, the Brazilian government has the statutory right to permanently expropriate any telecommunications concession and claim any related assets for reasons of public interest. Brazilian law provides for compensation in connection with losses and damages related to temporary seizure or expropriation. However, in the event of a temporary seizure or expropriation of any of our assets we cannot assure you that the actual compensation paid would be adequate or that such payment would be timely. This would have a material adverse effect on our financial condition and results of operations.

Risks Relating to Brazil

Brazilian political and economic conditions have a direct impact on our business and the market price of our notes.

Substantially all of our operations and customers are located in Brazil. Accordingly, our financial condition and results of operations are substantially dependent on Brazil's economy, which has been characterized by frequent and occasionally drastic intervention by the Brazilian government and volatile economic cycles in the past. In 2003 the *real* appreciated in value by 22.3% in relation to the U.S. dollar, from 3.5333 *reais* per U.S. dollar at December 31, 2002 to 2.8892 *reais* per U.S. dollar at December 31, 2003. In 2003, the Central Bank raised Brazil's base interest rate by a total of 10.0 percentage points in an effort to stabilize the currency and decrease inflationary pressures. In the past, the Brazilian government has 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 government 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 notes 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;
- inflation; and
- other political, diplomatic, social and economic developments within and outside Brazil that affect the country.

On January 1, 2003, Luiz Inácio Lula da Silva, from the Labor Party, took office as the new President of Brazil. Until now, the economic policies of former President Cardoso have been continued by the current

administration of the Brazilian government. Although the new government has not departed significantly from previous policies, and the *Real* appreciated 22.3% against the U.S. dollar during 2003, concerns remain about the policies of the future of the Brazilian government. While the current administration's policies have to date not been adverse to the telecommunications industry, the uncertainty over what policies the current Brazilian government may propose or adopt in the future may have an impact on our business and may contribute to economic uncertainty in Brazil and to heightened volatility in the Brazilian international securities markets and thus have an impact on our business.

If Brazil experiences substantial inflation in the future, it may have an adverse effect on our revenues and the market price of the notes.

Brazil has in the past experienced extremely high rates of inflation, with annual rates of inflation reaching as high as 2,489.1% in 1993 (according to the Brazilian National Consumer Price Index, or *Índice Nacional de Preços ao Consumidor*, published by the IBGE). Inflation itself and governmental measures to combat inflation have in the past had significant negative effects on the Brazilian economy. Inflation, 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.

Inflationary pressures may also curtail our ability to access foreign financial markets and may lead to further government intervention in the economy, including the introduction of government policies that may adversely affect the overall performance of the Brazilian economy and thus reduce our revenues.

Adverse changes in Brazilian economic conditions could cause an increase in bad debt provisions for doubtful accounts, which could materially reduce our earnings.

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

- the level of economic activity;
- devaluation of the real;
- inflation; 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. Losses from accounts receivable reached R\$298.0 million in 2003, against R\$263.5 million in 2002, almost flat in percentage of gross revenues terms. However, should economic conditions worsen in Brazil and bad debts increase, this could materially reduce our earnings and have a material adverse effect on us.

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.

The Central Bank has periodically devalued the Brazilian currency during the last four decades. The exchange rate between the real and the U.S. dollar has varied significantly in recent years. For example, the real/U.S. dollar exchange rate fell from R\$1.9554 per U.S. dollar at December 31, 2000 to R\$3.5333 at December 31, 2002. In 2003, the real has strengthened against the U.S. dollar. At December 31, 2003 the real/U.S. dollar exchange rate was R\$2.8892 per U.S. dollar.

A significant amount of our financial assets and liabilities are denominated in or indexed to foreign currencies, primarily U.S. dollars. When the Brazilian currency is devalued, we incur losses on our liabilities

denominated in or indexed to foreign currencies, such as our U.S. 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 a devaluation occurs when the value of such liabilities significantly exceeds the value of such assets, including any financial instruments entered into for hedging purposes, we could incur significant reduction in our revenues, even if their value has not changed in their original currency. This could adversely affect our ability to meet certain of our payment obligations.

The ongoing tax reform in Brazil may increase our tax burden

On December 19, 2003, the Brazilian congress enacted a constitutional amendment aimed at a broad tax reform, which became effective on January 1, 2004. The amendment is mainly designed to simplify the complex Brazilian fiscal system and reduce tax evasion and the public deficit. Other proposed changes to the Brazilian tax legislation are still pending approval and voting of such changes in Congress is expected to take place in 2004.

The effects of changes already approved and many other changes that could be enacted under the tax reform cannot be quantified at this moment. These changes may adversely impact our results of operations, increase our costs, limit our profitability or heighten our tax burden.

The proposed changes in Brazilian labor law may affect labor relations.

In April 2003, the Lower House reopened the discussions regarding the changes in the Brazilian Labor Law (*Consolidação das Leis do Trabalho*, or CLT). According to the system currently in force, labor relations are strongly regulated. Although still protecting fundamental labor rights, the committee in charge of the preparation of a new bill has proposed to include more flexibility in the rules regulating labor relations in Brazil, allowing for employers and employees to more freely negotiate certain aspects of their employment relations. A revision of union relations in Brazil may also be discussed. It is not clear whether the proposed changes, if approved by the Congress, would be well accepted by employees of Brazilian companies, including us, and their respective unions. These changes, if implemented, may adversely impact our business in the future.

Controls and restrictions on foreign currency remittance could impede our ability to make payments under the notes

Brazilian law provides that whenever there is a serious imbalance in Brazil's balance of payments or reasons to foresee a serious imbalance, the Brazilian government may impose temporary restrictions on the remittance to foreign investors of the proceeds of their investments in Brazil. For example, for approximately six months in 1989 and early 1990 the Brazilian government froze all dividend and capital repatriations that were owed to foreign equity investors and held by the Central Bank in order to conserve Brazil's foreign currency reserves. These amounts were subsequently released in accordance with Brazilian government directives. Similar measures could be taken by the Brazilian government in the future.

As a result, the Brazilian government may in the future (i) restrict companies such as Brasil Telecom from converting reais and paying amounts denominated in foreign currencies (such as the notes) or (ii) require that any such payments be made in reais. The likelihood that the Brazilian government would impose such restrictions may be affected by the extent of Brazil's foreign currency reserves, the availability of foreign currency in the foreign exchange markets on the date a payment is due, the size of Brazil's debt service burden relative to the economy as a whole, Brazil's policy toward the International Monetary Fund, and other factors. We cannot assure you that the Central Bank will not modify its policies or that the Brazilian government will not institute restrictions or delays on payments of external debt. A restrictive exchange control policy could prevent or restrict our access to U.S. dollars to meet our U.S. dollars obligations and also could have a material adverse impact on our business, financial condition and results of operations.

Risks Relating to the Notes

The relative volatility and illiquidity of the Brazilian securities markets may substantially limit your ability to sell the notes at the price and time you desire.

Investing in securities in emerging markets, such as Brazil, involves greater risk than investing in securities of issuers from more developed countries and such investments are generally considered speculative in nature.

Brazilian investments, such as investments in our securities, are subject to economic and political risks, involving, among others:

- changes in the regulatory, tax, economic and political environment that may affect the ability of investors to receive payment, in whole or in part, in respect of their investments; 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 these markets. The relatively small market capitalization and illiquidity of the Brazilian securities markets may substantially limit your ability to sell the notes at the price and time you desire.

Developments in other countries may affect the market price of Brazilian securities.

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, including the recent economic crisis in Argentina, Venezuela, Uruguay and Paraguay have also experienced a significant economic downturn. 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 U.S. 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 Brasil Telecom, or that prevailing interest rates in these markets will be advantageous to us and our ability 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.

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

According to Law 10,833, enacted on December 29, 2003, the disposition of assets located in Brazil by non-residents of Brazil, whether to other non-residents of Brazil or Brazilian residents and whether made within or outside Brazil is subject to taxation in Brazil. Although we believe that the notes do not fall within the definition of assets located in Brazil for the purposes of Law 10,833, considering the general and unclear scope of Law 10,833 and the absence of judicial guidance in respect thereof, we are unable to predict how the scope of Law 10,833 would be interpreted in the courts of Brazil.

We may not be able to make payments in U.S. dollars.

In the past, the Brazilian economy has experienced balance of payment deficits and shortages in foreign exchange reserves. The Brazilian government has responded by restricting the ability of Brazilian or foreign persons or entities to convert *reais* into foreign currencies generally and U.S. dollars in particular. The Brazilian government may institute a restrictive exchange control policy in the future. A restrictive exchange control policy could prevent or restrict our access to U.S. dollars to meet our U.S. dollar obligations and also could have a material adverse effect on our business, financial condition and results of operations. We cannot predict the impact of any such measures on the Brazilian economy.

The expected maturity of the notes may be extended.

Under the terms of the notes and the indenture, if, on the expected maturity date for the notes, the insurance policy is in effect or certain funds are available in Qualifying Instruments and a Currency Inconvertibility Event has occurred and is continuing, the date for the repayment of the notes will automatically be extended until the earlier to occur of (i) eighteen calendar months from the expected maturity date; (ii) the latest date for which funds are available in the reserve account or under the letter of credit and under the insurance policy to pay interest on the notes; or (iii) the thirtieth day after any such Currency Inconvertibility Event has ended. Accordingly, you should not rely, in making your investment decision, on receiving repayment in full of the notes on the initial expected maturity date. See "Description of the Notes Extension of the Expected Maturity Date."

Any such extension of the expected maturity date could, depending on changes in our financial condition between the initial expected maturity date and the extended maturity date, ultimately affect the ability of the noteholders to receive all amounts due to them under the notes and the indenture.

Judgments of Brazilian courts enforcing our obligations under the notes or the indenture would be payable only in reais.

If proceedings were brought in Brazil seeking to enforce our obligations under the notes or the indenture, we would not be required to discharge our obligations in a currency other than *reais*. Under the Brazilian exchange control limitations, an obligation to pay amounts denominated in a currency other than *reais*, which is payable in Brazil, may only be satisfied in *reais* at the rate of exchange, as determined by the Central Bank, in effect on the date of payment. Accordingly, in case a declaration of bankruptcy is made against us, all credits denominated in foreign currencies shall be converted into *reais* at the prevailing rate on the date of such declaration. Special authorization by the Central Bank shall be required for the conversion of such *reais*-denominated amounts into U.S. dollars and for its remittance abroad.

A portion of our existing debt obligations are secured, which may limit your ability to recover amounts due under the notes in the event of our bankruptcy.

As of December 31, 2003, R\$1,995.5 million of our consolidated indebtedness was secured and R\$2,640.4 million of our consolidated indebtedness was unsecured. In the event that we are the subject of liquidation, dissolution or other winding up prior to or on the maturity date of the notes, whether voluntary or involuntary and whether or not involving insolvency, receivership or bankruptcy or otherwise subject to claims of creditors, noteholders will not have the benefit of a security interest in the reserve account to establish noteholders' priority over our other secured creditors and noteholders' claims for any payments under the notes from the reserve account will rank *pari passu* as to right of payment with the holders of all of our other unsecured creditors. Our secured creditors will have priority over you as to the proceeds of any amounts refunded to us by the insurer or otherwise available to us from the insurer or either of the trustees.

You may be unable to attach certain of our assets to secure a judgment.

Brazilian courts will not enforce any attachment with respect to property located in Brazil and determined by the court to be dedicated to the provision of essential public services and subject to reversion in favor of the Brazilian federal government. A substantial portion of our assets is considered to be dedicated to the provision of an essential public service. If a Brazilian court makes such a determination with respect to certain of our assets, those assets would not be subject to attachment, execution or other legal process and our creditors may not be able to realize a judgment against those assets.

The absence of a public market for the notes may affect the ability of noteholders to sell the notes in the future and may affect the price they would receive if such sale were to occur

The old notes are listed, and application will be made to list the new notes, on the Luxembourg Stock Exchange. The new notes are new securities for which there is currently no established market, and there is no assurance that one will develop. The initial purchaser is not obligated to make a market in the new notes, or, in the

case of non-tendering holders of old notes, the trading market for the old notes following the exchange offer. In addition, such market-making activity may be limited during the pendency of the exchange offer or the effectiveness of a shelf registration statement.

The liquidity of and trading market for the notes also may be adversely affected by a general decline in the market for similar securities. Such a decline may adversely affect our liquidity and trading markets independent of our prospects of financial performance.

Book-entry registration

Because transfers and pledges of global notes can be effected only through book entries at DTC, the liquidity of any secondary market for global notes may be reduced to the extent that some investors are unwilling to hold notes in book-entry form in the name of a DTC participant. The ability to pledge global notes may be limited due to the lack of a physical certificate. Beneficial owners of global notes may, in certain cases, experience delay in the receipt of payments of principal and interest since such payments will be forwarded by the paying agent to DTC who will then forward payment to the respective DTC participants, who will thereafter forward payment directly, or indirectly through Euroclear or Clearstream, to beneficial owners of the global notes. In the event of the insolvency of DTC or of a DTC participant in whose name global notes are recorded, the ability of beneficial owners to obtain timely payment and (if the limits of applicable insurance coverage by the Securities Investor Protection Corporation are exceeded, or if such coverage is otherwise unavailable) ultimate payment of principal and interest on global notes may be impaired.

The notes will be subordinated to certain statutory liabilities.

Under Brazilian law, our obligations under the notes and the indenture are subordinated to certain statutory preferences. In the event of our bankruptcy, such statutory preferences, such as claims for salaries, wages, social security and other taxes, court fees and expenses, will have preference over any other claims, including claims by any investor under the notes.

The rating of the notes may be lowered or withdrawn depending on some factors, including the rating agency's assessment of our financial strength, the insurer's financial strength and Brazilian sovereign risk.

The notes are rated "Baa3" by Moody's and "BBB-" by Fitch. The rating addresses the likelihood of payment of principal on February 18, 2014, unless the maturity of the notes is extended as a result of a Currency Inconvertibility Event being in effect on that date, in which case the maturity of the notes will be no later than August 18, 2015. The rating also addresses the timely payment of interest on each payment date. The rating of the notes is not a recommendation to purchase, hold or sell the notes, and the rating does not comment on market price or suitability for a particular investor. We cannot assure you that the rating of the notes will remain for any given period of time or that the rating will not be lowered or withdrawn. A downgrade in the rating of the notes will not be an event of default under the indenture. The assigned rating may be raised or lowered depending, among other factors, on the rating agency's assessment of our financial strength and the insurer's financial strength, as well as its assessment of Brazilian sovereign risk generally, including the suitability of the length of coverage afforded by the insurer.

Possible voluntary cancellation of the insurance and the letter of credit and refunding of amounts on deposit in the reserve account.

Subject to certain conditions precedent relating to the rating of the notes and subject to the terms of the insurance, Brasil Telecom may request the insurance trustee to cancel the insurance policy after the third anniversary of the issue date, and the indenture trustee shall apply any amounts payable under any Qualifying Instrument held by it as provided herein or the next interest payment date to pay amounts due under the notes and the indenture on such payment date. Any such cancellation and withdrawal may significantly affect the ability of noteholders to receive payments under the notes during a currency exchange control event occurring after any such cancellation, withdrawal and refund. See "Description of the Notes Additional Support" and "Description of the Insurer and the Insurance Policy Description of the Insurance Policy Exclusions from Payment Under the Insurance."

Risks Relating to the Insurance

This prospectus contains only limited information concerning the insurer.

The rating of the notes is based, in part, on the availability of the insurance that covers certain risks related to inconvertibility or non-transferability of amounts which may be paid by us under the notes and the indenture in the event that the Brazilian government imposes limitations on the conversion of *reais* to U.S. dollars. OPIC is an agency of the United States government whose obligations are backed by the full faith and credit of the U.S. government. As a result, only limited information concerning the insurer is included in this prospectus. Additional information concerning the insurer can be found in the insurer's website at www.opic.gov. See "Description of the Insurer and the Insurance Policy Overseas Private Investment Company."

The coverage under the insurance is limited.

The insurance is not a guarantee of payment on the notes. The insurance covers the risk of inconvertibility of *reais* into U.S. dollars and the risk of non-transferability of U.S. dollars from Brazil to the United States. It does not cover the risk of devaluation of *reais*.

The insurance covers scheduled payments of interest on the notes, but only if a Currency Inconvertibility Event (as defined under "Description of the Insurer and the Insurance Policy Description of the Insurance Policy") has occurred and is continuing and then only in accordance with the terms and conditions of the insurance policy. The insurance is limited to U.S.\$16,875,000, which corresponds to 90% of the amount of two scheduled interest payments due on the notes over a twelve-month period at the initial note rate. The amount of coverage under the insurance, combined with the amounts available under the letter of credit or on deposit on the reserve account as Qualifying Instruments, should be sufficient to cover the payment of interest due on the notes for up to three interest payment periods at the initial note rate. See "Description of the Notes The Required Amount." If for any reason any Currency Inconvertibility Event were to continue for a period longer than eighteen months (three consecutive interest payment periods) an event of default may occur under the indenture.

In the event of an acceleration of the notes, the insurance would not be payable on the full accelerated amount at the time of acceleration, but rather as it otherwise would have become due on the scheduled interest payment dates, assuming that a Currency Inconvertibility Event had occurred and was continuing on the relevant scheduled interest payment date, that we have made all payments due to the applicable deposit account or other prior delivery obligations and all other requirements of the insurance (including noteholders eligibility standards) had been satisfied.

As a result of these limitations, during the continuance of a Currency Inconvertibility Event, noteholders may not receive all amounts they would otherwise be entitled to under the notes.

Special provisions necessary to obtain insurance impose significant requirements on noteholders.

As an agency of the United States Government, OPIC operates pursuant to a series of laws, rules and regulations that limit its ability to issue insurance to U.S. persons or entities. Consistent with OPIC's policies (and in order to permit the insurance policy to extend to non-U.S. persons or entities), the insurance policy will be issued to a newly-established grantor trust (the "insurance trust") established by us with The Bank of New York (which is the indenture trustee acting as such in connection with the notes) acting as insurance trustee. The beneficiaries of this insurance trust will be the holders of the notes and this interest will be part of the note and will not be severable or tradeable separate and apart from the note.

This insurance trust is deemed under OPIC policies to be a permissible insured so long as at the time of issuance of the old notes, no less than 65% of the aggregate principal amount of the old notes are acquired by or on behalf of qualified institutional buyers under Rule 144A and 75% by U.S. persons (including qualified institutional buyers). As a result, as described herein, each qualified institutional buyer that acquires an interest in the Rule 144A global note (and indirectly the interest in this insurance trust) was required to agree that no sales will be made by it during the forty calendar days following the initial issuance of the notes except to another qualified institutional

buyer. OPIC does not require any certification or other action to effect the same, although it reserves the right, before any claims are made under the insurance policy, to investigate whether the foregoing requirement has been complied with and to refuse to maintain the insurance if it determines this has not been the case.

In addition, in order to facilitate the issuance of the insurance, the noteholders, by acceptance of their notes, will be deemed to have assigned to the insurance trust their rights to receive interest due under the notes in an amount equal to U.S.\$18,750,000, which amount is approximately equal to the amount of interest due under the notes in respect of two interest periods as a basis for OPIC issuing the insurance to the grantor trust on behalf of the noteholders. If, during the term of the notes, no Currency Inconvertibility Event occurs, we will pay to the paying agent for the notes, the amount of interest that, as a result of the foregoing assignment, it otherwise would have been required to pay over to the insurance trust for subsequent redistribution to the holders of the notes in their capacity as beneficiaries of the insurance trust. This is designed to provide for a more speedy payment of this amount of interest to the noteholders. If, on the other hand, a Currency Inconvertibility Event occurs, the insurance trustee will file and prosecute a claim under the insurance policy and direct OPIC to make any payment under the policy to the paying agent for the notes also on behalf of the holders of the notes as beneficiaries of the insurance trust. The amount of insurance will equal 90% of an amount equal to twelve months of interest on the notes at the initial note rate. This amount of insurance, together with an amount equal to 10% of an amount equal to twelve months of interest at the initial note rate available under a letter of credit, will provide for payment to the noteholders of twelve months of interest on the notes at the initial note rate upon the occurrence of a Currency Inconvertibility Event.

OPIC eligibility standards also impose requirements on noteholders that may limit coverage.

In the event that any noteholder, by its purchase and acquisition of an old note, has made misrepresentations with respect to certain matters, then OPIC may reduce any compensation payable under the insurance policy with respect to a completed application by the portion of such compensation which corresponds to the aggregate principal amount of notes held by such holder, or recover compensation previously paid with respect to the aggregate principal amount of interests in the notes held by such holder as provided in the insurance policy.

OPIC reserves the right to investigate matters in connection with any payment of a claim necessary to determine compliance with the foregoing, including requesting information from DTC or any common depository and/or requiring that the notes be removed from trading from DTC or any common depository necessary for it to ensure compliance with its requirements. If this were to happen, it is possible that holders of the notes and the grantor trust interest might receive less than 100% of their pro rata interest in claims under the insurance policy and/or receive their claims on a delayed basis and/or the tradability of the notes could be adversely affected by actions taken at the direction of OPIC.

Payment of insurance requires compliance by us with certain requirements and coverage may be cancellable if we do not so comply.

The insurance is payable only upon satisfaction of the conditions set forth under "Description of the Insurer and the Insurance Policy Description of the Insurance Policy" herein. Among these conditions is (i) the filing by the grantor trustee, as the insured under the insurance policy, of a claim with OPIC, (ii) the provision of certain information by the grantor trustee and us to OPIC within the time periods proscribed in the insurance policy and (iii) our compliance with certain terms of the company support agreement that relates to the insurance. Following a Currency Inconvertibility Event, the insurance would be payable at the time of a scheduled interest payment date only to the extent that, at OPIC's option, we have made all *reais* or U.S. dollar (as the case may be) payments or delivery obligations corresponding to the relevant scheduled interest payment date pursuant to the insurance policy and the company support agreement. Our failure to comply with this or certain other conditions set forth in the company support agreement, including the environmental, foreign corrupt business practices or workers' rights provisions thereof would entitle OPIC to terminate the insurance policy or to delay or withhold any insurance payment otherwise payable by OPIC under the insurance policy. See "Description of the Insurer and the Insurance Policy Description of the Company Support Agreement" herein. The loss of the insurance could result in a reduction of the ratings of the notes. Any termination of the insurance policy or cessation of the insurance policy to be in full force and effect for any reason attributable to our acts or omissions will be an event of default under the notes. See "Description of the Notes Events of Default."

There are significant additional exclusions and limitations with respect to the insurance that may limit coverage.

The insurance policy provides that the insurance is not payable despite the occurrence and continuance of a Currency Inconvertibility Event if any of the exclusions described under "Description of the Insurer and the Insurance Policy Description of the Insurance Policy Exclusions from Payment Under the Insurance" herein are applicable. Among these exclusions are provisions that no compensation for inconvertibility shall be payable if (i) a legal restriction on the conversion of *reais* into U.S. dollars or the transfer of U.S. dollars from Brazil to the United States by us or the grantor trustee existed on the date of the insurance policy and the grantor trustee, or a lender or trustee or lender situated similarly to the grantor trustee, or Brasil Telecom or a company situated similarly to us, should have known about such restriction, (ii) the grantor trustee has not made all reasonable efforts to convert or cause us to convert *reais* into U.S. dollars or to transfer or cause us to transfer converted U.S. dollars to the United States and (iii) the preponderant cause of the loss is unreasonable action attributable to the grantor trustee, us or any of our affiliates.

Further, payments made by OPIC under the Insurance policy are limited by, and may be reduced as a result of, the limitations set forth under "Description of the Insurer and the Insurance Policy Description of the Insurance Policy Limitations on Compensation Under the Insurance" herein. These limitations include (i) the maximum coverage limits of the insurance for each scheduled interest payment date and over the life of the notes, (ii) the exclusion from payment under the Insurance policy of penalty interest, penalty fees and all other charges for late payment (other than Default PRI Interest (as defined under "Description of the Insurer and the Insurance Policy Claim Procedure Following a Currency Inconvertibility Event Rate of Compensation")) and of any amounts representing default interest and additional amounts payable on the notes, (iii) reductions in amounts paid to an investor in the notes resulting from such investor's failure to meet the eligibility requirements of the insurance as discussed below and (iv) certain expropriation actions taken by the Brazilian government against us which are excluded from the definition of "Currency Inconvertibility Event." The occurrence of any event which qualifies as an exclusion from or limitation on the insurance would result in a noteholder failing to receive all or any part of the interest owed on the notes on a scheduled interest payment date despite the fact that a Currency Inconvertibility Event has occurred and is continuing.

There are limitations on timing of payments under the insurance.

An acceleration of a payment under the indenture shall not give rise to a corresponding acceleration of the insurer's obligation to pay compensation under the insurance.

In certain circumstances sufficient amounts may not be available under the Qualifying Instruments to pay interest on the notes during a Currency Inconvertibility Event.

Under the terms of the insurance policy, the insurer will only be required to pay in respect of any claim where the Currency Inconvertibility Event that gave rise to such pending claim lasts, uninterrupted, for the entire length of a waiting period of approximately 180 calendar days. In the case where (i) the indenture trustee makes a drawing under the Qualifying Instruments as a result of a Currency Inconvertibility Event, (ii) the Currency Inconvertibility Event that gave rise to the drawing under the Qualifying Instruments ceases prior to the end of the waiting period, (iii) we are unable to provide for additional amounts of Qualifying Instruments after the cessation of such Currency Inconvertibility Event, and (iv) a further Currency Inconvertibility Event occurs, sufficient funds will not be available to pay interest on the notes during the second waiting period prescribed under the terms of the insurance policy.

The insurer has a right to subrogation and reimbursement that could affect amounts noteholders receive on the notes.

In the event that the insurer pays a claim under the insurance policy to the insurance trustee, the insurer shall receive an assignment from the insurance trustee of the inconvertible *reais* or non-transferable U.S. dollars, and shall be subrogated to the noteholders' receipt of the scheduled interest payments due on the notes in accordance with the indenture.

If at any time the insurance trustee or the insurer shall obtain recoveries in respect of a loss paid under the insurance policy or the indenture trustee receives any payment from Brasil Telecom under the indenture after the payment of a claim by the insurer under the insurance policy, the amounts of any such recoveries or payments will be applied, prior to any payment on the notes, but with respect to any payments received by the indenture trustee, after any required payments to the indenture trustee under the indenture in respect of fees, expenses or indemnification,

- first, to the full repayment of compensation paid by the insurer to the insurance trustee;
- second, to the full payment of any undisputed, documented loss adjustment expenses incurred by the insurer and associated with the loss;
- third, to the payment of interest on the foregoing amounts equal to the interest rate on the notes;
- fourth, to the extent any loss adjustment expenses incurred by the insurer are disputed by the issuer, to the payment of such amounts to the insurance trustee to be held in trust pending resolution of the dispute; and
- fifth, to payment to the insurance trustee of uninsured loss suffered by the insurance trustee.

The insurer shall be entitled to be so reimbursed in respect of such claim until such time as the insurer has received payment in full of all such amounts due to them. Accordingly, the insurer will receive such amounts prior to the noteholders receiving payments due under the notes. See "The Insurer and the Insurance Policy The Insurance Policy."

FORWARD-LOOKING STATEMENTS

We make forward-looking statements in this prospectus that are subject to risks and uncertainties. These statements are based on the beliefs and assumptions of our management, and on information currently available to us. Forward-looking statements include statements regarding the intent, belief or current expectations of Brasil Telecom or its directors or executive officers with respect to, but not limited to:

- our regional marketing strategy;
- our ability to meet our network expansion, service quality and modernization obligations;
- our market share;
- our compliance with International Commission for Non-Ionizing Radiation Protection, or ICNIRP, 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 Telebras (as defined below) prior to the effective date of the breakup of Telebras;
- the retroactive application of state value-added taxes to certain services, including installation services, rendered during the five years preceding June 30, 1998;
- the growth in demand for cable television services in our region;
- our projected capital expenditures;
- our projected subsidies and the cost and availability of financings; and
- our liquidity.

Forward-looking statements also include information concerning possible or assumed future results of operations of Brasil Telecom set forth under "Summary" and "Risk Factors", as well as statements preceded by, followed by, or that include the words "believes," "may," "will," "continues," "expects," "anticipates," "intends," "plans," "estimates" or similar expressions.

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. Investors are cautioned not to put undue reliance on any forward-looking statements. We do not undertake any obligation to release publicly any revisions to forward-looking statements contained in this prospectus to reflect later events or circumstances or to reflect the occurrence of unanticipated events.

Investors should understand that the following important factors, in addition to those discussed in this prospectus, could affect our future results and could cause results to differ materially from those expressed in such forward-looking statements:

- 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 our region in particular;
- the receipt of additional, and/or the revocation of our existing, governmental approvals and licenses;
- the availability of the necessary equipment to maintain, operate and improve our network;
- the existence of difficulties in the operation of our equipment and/or the provision of our services;
- the cost and availability of financing;
- the availability of qualified personnel;
- the business abilities and judgment of our personnel;
- the emergence of new technologies and the response of our customer base to those technologies;
- acquisitions by us of other companies; and
- other factors discussed under "Risk Factors."

USE OF PROCEEDS

Brasil Telecom will not receive any cash proceeds from the issuance of the new notes. The new notes will be exchanged for old notes as described in this prospectus upon our receipt of old notes. Brasil Telecom will cancel all of the old notes surrendered in exchange for the new notes.

The net proceeds from the sale of the old notes were approximately \$196.4 million, after deducting commission and expenses of the offering. We will use proceeds from this financing for our 2004 and 2005 investment program. The investment program comprises the expansion and modernization of our telecommunication network. Specifically, this plan calls for an approximate 10.0% increase in fixed-lines in service over the next two years, leading to higher penetration of telecommunications services in Region II. The proceeds will also be used for expanding current data transmission capacity by increasing the offering of broadband services to residential customers.

EXCHANGE RATES

There are two principal foreign exchange markets in Brazil: the commercial rate exchange market (the "Commercial Market") and the floating rate exchange market (the "Floating Market"). Most foreign trade and financial foreign currency exchange transactions are carried out on the Commercial Market. Purchases of foreign exchange in the Commercial Market may be carried out only through a financial institution authorized to buy and sell currency in that market. The Floating Market rate generally applies to transactions to which the Commercial Market rate does not apply. Prior to February 1, 1999, the exchange rate in each market was established independently, resulting in different rates during some periods. Since February 1, 1999, the Central Bank authorized the unification of the exchange positions of the Brazilian financial institutions in the Commercial Market and Floating Market, which led to a convergence in the pricing and liquidity of both markets. However, each market continues to have a specific regulation. Most trade and financial transactions are carried out on the Commercial Market. The foreign currencies may only be purchased through a Brazilian financial institution authorized to operate in these markets. In both markets, rates are freely negotiated but may be strongly influenced by Central Bank intervention.

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

From its introduction in 1994 through March 1995, the *real* appreciated against the U.S. dollar. On March 6, 1995, in an effort to address concerns about the overvaluation of the *real* relative to the U.S. dollar, the Brazilian Central Bank introduced new exchange rate policies that established a band within which the *real*/U.S. dollar exchange rate could fluctuate. The Brazilian Central Bank initially set the exchange rate band with a floor of R\$0.86 per U.S.\$1.00 and a ceiling of R\$0.90 per U.S.\$1.00 and provided that, after March 10, 1995, the exchange rate band would be between R\$0.88 and R\$0.93 per U.S.\$1.00. Thereafter, the Brazilian Central Bank periodically adjusted the exchange rate band to permit the gradual devaluation of the *real* against the U.S. dollar. On January 13, 1999, the Brazilian Central Bank widened the exchange rate fluctuation band in which the *real* was allowed to trade from between R\$1.12 and R\$1.22 per U.S.\$1.00 to a new band of between R\$1.20 and R\$1.32 per U.S.\$1.00. This resulted in an immediate devaluation of the *real* to R\$1.32 per U.S.\$1.00.

Since January 15, 1999 the *real* has been allowed to float freely. The *real* devalued to a low of R\$2.165 per U.S.\$1.00 on March 3, 1999, but subsequently appreciated to R\$1.789 per U.S.\$1.00 on December 31, 1999, representing a net devaluation against the U.S. dollar of 32.4% during 1999. In 2000, the *real* devalued by a further 8.5% against the U.S. dollar.

Further deterioration in the political and economic environment in 2001, in addition to the Brazilian energy crisis, resulted in the *real* devaluing by 15.7% against the U.S. dollar in the year. In the final quarter of 2001, however, the *real* appreciated by 15.1% from R\$2.671 per U.S. \$1.00 at September 30, 2001 to R\$2.3204 per U.S.\$1.00 at December 31, 2001.

In 2002, as a reaction to political and economic uncertainties, the global economic downturn, the crisis in Argentina and the Brazilian presidential elections, the U.S. dollar appreciated by 34.3% against the *real* to R\$3.5333 per U.S.\$1.00 at December 31, 2002. The *real* recovered in 2003, appreciating by 18.3% to R\$2.8892 per U.S.\$1.00, at December 31, 2003. During the first five months of 2004, the *real* has depreciated approximately 8.3% against the U.S. dollar. We cannot assure you that the *real* will not substantially devalue again in the future. See "Risk Factors Risks Relating to Brazil."

As of October 27, 2004, the Commercial Market selling rate published by the Brazilian Central Bank was R\$ 2.8585 per U.S.\$1.00.

Edgar Filing: BRASIL TELECOM SA - Form 424B3

The following table sets forth the reported high and low Commercial Market selling rates for U.S. dollars for the months indicated.

	High	Low
April 2004	R\$ 2.9630	R\$ 2.8755
May 2004	3.2051	2.9569
June 2004	3.1651	3.1030
July 2004	3.0747	2.9939
August 2004	3.0637	2.9338
September 2004	R\$ 2.9961	R\$ 2.8586

Source: Brazilian Central Bank

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

For the Year Ended December 31,	High	Low	Average	Period End
1999	R\$2.165	R\$1.208	R\$1.816	R\$1.789
2000	1.985	1.723	1.835	1.955
2001	2.801	1.936	2.352	2.320
2002	3.955	2.271	2.915	3.533
2003	R\$3.662	R\$2.822	R\$3.060	R\$2.889

Source: Brazilian Central Bank

Brazilian law provides that, whenever there is a serious imbalance in Brazil's balance of payments or reliable information to foresee such an imbalance, temporary restrictions may be imposed on remittances of foreign capital abroad. We cannot assure you that these types of measures will not be taken by the Brazilian government in the future. See "Risk Factors Risks Relating to Brazil."

SELECTED CONSOLIDATED FINANCIAL INFORMATION

The selected financial information presented herein should be read in conjunction with our Financial Statements and the notes thereto, which appear elsewhere in this prospectus. Our selected financial information is presented on a combined consolidated basis for the years 1999 and 2000 and on a consolidated basis for the years 2001, 2002 and 2003 as if our merger with Telesc, Telegoiás, Telebrasília, Telemat, Telems, Teleron, Teleacre and CTMR (each as defined below) had occurred as of January 1, 1996 and the merger of CRT with and into our company had occurred on July 31, 2000.

The following paragraphs discuss some important features of the presentation of the selected financial information and our Financial Statements. These features should be considered when evaluating the selected financial information.

Brazilian GAAP and U.S. GAAP

Our Financial Statements are prepared in accordance with Brazilian GAAP, which differ in certain significant respects from U.S. GAAP. See Note 31 to our Financial Statements for (i) a summary of the principal differences between Brazilian GAAP and U.S. GAAP as they relate to us, and (ii) a reconciliation to U.S. GAAP of shareholders' equity as of December 31, 2002 and 2003 and net income (loss) for each of the years ended December 31, 2001, 2002 and 2003.

Effects of Inflation

Our financial statements until the year 2000, and unless otherwise specified, all financial information included in this prospectus until the year 2000, recognize certain effects of inflation and are restated in constant *reais* of December 31, 2000, all in accordance with Brazilian GAAP. We used the General Market Price Index, *Índice Geral de Preços de Mercado*, or, IGP-M, published by *Fundação Getúlio Vargas* for purposes of restating our Financial Statements. Inflationary gains or losses on monetary assets and liabilities were allocated to their corresponding income or expense caption in our combined statements of income until the year 2000. However, pursuant to Brazilian GAAP, our audited financial statements as of and for the years ended December 31, 2001, 2002 and 2003, no longer recognize the effects of inflation after January 1, 2001 and are not restated in constant reais.

Change in Accounting Methodology

Depreciation

During our fiscal year 1999, we shortened our depreciation schedule for our automatic switching and transmission equipment from thirteen years and ten years, respectively, to five years in order to better reflect the estimated useful life of this equipment in light of rapidly changing technology and industry practices.

Accounting Consequences of the Breakup of Telebrás

Our financial statements for the fiscal years prior to 2000 are not necessarily indicative of what our financial condition or results of operations would have been if we had merged with Telesc, Telegoiás, Telebrasília, Telemat, Telems, Teleron, Teleacre and CTMR before February 2000.

Difference from Financial Statements Published in Brazil

Our statutory financial statements prepared in accordance with the Brazilian Corporation Law, which we refer to as the Statutory Financial Statements are the basis for dividend and tax determinations. Our audited consolidated financial statements for the year 2000 include the effects of inflation through December 31, 2000, while our Statutory Financial Statements include the effects of inflation only through December 31, 1995. See Notes 2a and 2b to our audited consolidated financial statements for (i) a summary of the principal differences between Brazilian GAAP and Brazilian Corporation Law as they relate to us and (ii) a reconciliation from Brazilian

Edgar Filing: BRASIL TELECOM SA - Form 424B3

Corporation Law to Brazilian GAAP of shareholders' equity as of December 31, 2001, 2002 and 2003 and net income (loss) for each of the years ended December 31, 2001, 2002 and 2003. Our Statutory Financial Statements also differ from our consolidated financial statements in respect of certain reclassifications, presentation of comparative information and consolidation procedures.

Income Statement Data:	Year ended December 31,				
	1999 ⁽¹⁾	2000 ⁽¹⁾	2001 ⁽²⁾	2002 ⁽²⁾	2003 ⁽²⁾
	(thousands of <i>reais</i> , except per share data)				
Brazilian GAAP:					
Net operating revenue	3,591,723	4,652,184	6,158,408	7,071,368	7,915,194
Cost of services	2,698,465	3,774,109	4,798,434	5,163,861	5,472,142
Gross profit	893,258	878,075	1,359,974	1,907,507	2,443,052
Operating expenses:					
Selling expenses	347,207	381,371	724,570	763,375	821,656
General and administrative expenses	548,084	509,993	604,890	661,060	847,074
Other net operating expenses (income)	(31,282)	(56,964)	56,769	(118,496)	214,953
Operating income (loss) before net financial expenses	29,249	43,675	(26,255)	601,568	559,369
Net financial expenses	4,919	5,577	236,357	618,899	844,802
Operating income (loss)	24,330	38,098	(262,612)	17,331	(285,433)
Net non-operating expenses (income)	57,510	(3,970)	93,071	64,497	541,691
Employee's profit share	18,869	18,516	50,834	41,387	1,076
Income (loss) before taxes and minority interests	(52,049)	23,552	(406,517)	(123,215)	(828,200)
Income and social contribution tax benefits	7,744	16,218	199,039	111,596	320,751
Income (loss) before minority interests	(44,305)	39,770	(207,478)	(11,619)	(507,449)
Minority interests	---	77,605	---	---	14
Net income (loss)	(44,305)	117,375	(207,478)	(11,619)	(507,435)
Number of Common Shares (millions) ⁽³⁾	---	237,165	237,165	243,564	249,597
Number of Preferred Shares (millions) ⁽³⁾	---	292,260	293,218	292,020	289,850
Operating Income (loss) per thousand Common Shares (<i>reais</i>) ⁽³⁾	---	0.16	(1.10)	0.07	(1.14)
Net income (loss) per thousand Common Shares (<i>reais</i>) ⁽³⁾	---	0.49	(0.87)	(0.05)	(2.03)
Dividends per thousand Common Shares (<i>reais</i>) ⁽³⁾	---	0.33	0.37	0.51	0.39
Dividends per thousand Common Shares (U.S.dollars) ⁽³⁾⁽⁴⁾	---	0.17	0.16	0.14	0.14
Dividends per thousand Preferred Shares(<i>reais</i>) ⁽³⁾	---	0.33	0.37	0.51	0.39
Dividends per thousand Preferred Shares(U.S. dollars) ⁽³⁾⁽⁴⁾	---	0.17	0.16	0.14	0.14

(1) Presented in constant *reais* of December 31, 2000.

Edgar Filing: BRASIL TELECOM SA - Form 424B3

- (2) Pursuant to Brazilian GAAP, our audited consolidated financial statements for the years ended December 31, 2001, 2002 and 2003 no longer recognize the effects of inflation after January 1, 2001 and are not restated in constant *reais*.
- (3) Since our present capital structure was not in place for the year ended December 31, 1999, earnings and dividends per share were not presented for those periods. See Note 3r to our consolidated financial statements.

- (4) Dividends per thousand shares were converted into dollars at the Commercial Market selling rate of R\$1.955 per U.S. dollar on December 31, 2000, of R\$2.32 per U.S. dollar on December 31, 2001, of R\$3.5333 per U.S. dollar on December 31, 2002 and of R\$2.8892 per U.S. dollar on December 31, 2003, respectively.

Selected Financial Information (continued)

Income Statement Data (continued)	Year ended December 31,				
	1999 ⁽¹⁾	2000 ⁽¹⁾	2001 ⁽²⁾	2002 ⁽²⁾	2003 ⁽²⁾
	(thousands of <i>reais</i> , except per share data)				
U.S. GAAP:					
Net income (loss)	(458,003)	7,096	(169,716)	317,280	(287,739)
Net income (loss) per thousand shares (<i>reais</i>) ⁽⁵⁾ :					
Common Shares Basic	(1.02)	0.01	(0.32)	0.59	(0.54)
Common Shares Diluted	(0.91)	0.01	(0.32)	0.59	(0.54)
Preferred Shares Basic	(1.02)	0.01	(0.32)	0.59	(0.54)
Preferred Shares Diluted	(0.91)	0.01	(0.32)	0.59	(0.54)

- (5) In accordance with Statement of Financial Accounting Standards ("SFAS") No. 128 "Earnings Per Share," basic and diluted earnings per share have been calculated, for U.S. GAAP purposes, using the "two class method." See Note 31e to our consolidated financial statements.

		At December 31,				
		1999 ⁽¹⁾	2000 ⁽¹⁾	2001 ⁽²⁾	2002 ⁽²⁾	2003 ⁽²⁾
		(thousands of reais)				
Balance Sheet Data:						
Brazilian GAAP:						
	Intangibles ⁽³⁾		472,680	372,537	470,544	531,556
	Property, plant and equipment, net ⁽⁴⁾	8,522,126	11,498,689	12,240,270	11,260,625	9,567,243
Total assets		10,823,447	14,992,076	15,772,551	16,432,198	15,622,803
	Loans and financing current portion	801,410	1,253,861	530,661	683,276	1,990,274
	Loans and financing non-current portion	208,647	1,959,207	3,504,489	4,398,532	2,645,563
Total liabilities (including funds for capitalization and minority interests)		3,080,942	6,243,687	7,796,249	8,808,409	8,781,841
Shareholders' equity		7,742,505	8,748,389	7,976,302	7,623,789	6,840,962
U.S. GAAP:						
	Intangibles ⁽⁵⁾	740,869	1,178,789	873,559	830,328	978,414
	Property, plant and equipment, net	7,033,417	11,292,820	12,139,658	11,670,826	10,035,667
Total assets		9,948,904	15,807,758	16,546,508	17,202,182	16,538,085
	Loans and financing current portion	799,245	1,120,475	525,137	480,666	1,737,494
	Loans and financing non-current portion	208,647	1,959,281	3,504,489	4,252,221	2,455,897
Total liabilities (including funds for capitalization and minority interests)		3,474,959	7,590,763	8,711,767	9,390,158	9,281,644
Shareholders' equity		6,473,945	8,216,995	7,834,741	7,812,024	7,256,440

(1) Presented in constant *reais* of December 31, 2000.

(2) Pursuant to Brazilian GAAP, our audited consolidated financial statements at December 31, 2001, 2002, and 2003 no longer recognize the effects of inflation after January 1, 2001 and are not restated in constant *reais*.

(3) Includes the goodwill from our acquisition of a controlling stake in CRT, which was calculated based on book value.

(4) Stated at indexed cost up to December 31, 2000, less accumulated depreciation. See Note 3g to our consolidated financial statements.

(5) Intangibles under U.S. GAAP at December 31, 1999, include the step-up goodwill paid by Solpart Participações S.A. ("Solpart") as a consequence of the exchange of shares between companies under our common control pursuant to our merger with Telesc, Telegoiás, Telebrasilá, Telemat, Telems, Teleron, Teleacre and CTMR. Intangibles under U.S. GAAP at December 31, 2000, 2001, 2002 and 2003 also include the goodwill from our merger with Telesc, Telegoiás, Telebrasilá, Telemat, Telems, Teleron, Teleacre and CTMR and our merger with CRT but do not include amounts relating to our PCS licenses. See Note 31o to our consolidated financial statements.

DESCRIPTION OF THE NOTES

The following summary describes certain provisions of the notes and the indenture. This summary does not purport to be complete and is subject to, and qualified in its entirety by reference to, the provisions of the indenture and the notes. Capitalized terms used in the following summary and not otherwise defined herein shall have the meanings ascribed to them in the indenture. You may obtain copies of the indenture and specimen notes upon request to the indenture trustee or the paying agent in Luxembourg at the addresses set forth under "Where you can find more information."

The new notes will be identical in all material respects to the old notes, except that we will register the new notes under the Securities Act and they will therefore not bear legends restricting their transfer. The new notes and the old notes will be considered to be a single class for all purposes of the indenture, including waivers, amendments, redemptions and offers to purchase. We refer to the new notes and the old notes collectively as the notes.

General

The old notes have been and the new notes will be issued under the indenture dated as of February 17, 2004, among Brasil Telecom, 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.

The notes will have the following basic terms:

- The notes will be in an aggregate principal amount of U.S.\$200,000,000. The principal amount of the notes will be payable in full in a single payment upon maturity unless redeemed earlier or extended pursuant to the terms of the indenture.
- The notes will 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 will be paid semiannually in arrears on February 17 and August 17 of each year 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 on the notes will be computed on the basis of a 360-day year of twelve 30-day months.
- As credit support for certain obligations of Brasil Telecom under the notes and the indenture in the event of a Currency Inconvertibility Event, the indenture trustee initially will have access to reserves comprised of Qualifying Instruments (as defined below) in the form of (i) one or more irrevocable standby letters of credit issued by financial institutions meeting specified criteria or (ii) a deposit into a segregated non-interest bearing reserve account with the indenture trustee in the indenture trustee's name and under its sole dominion and control for the benefit of the noteholders, (iii) any combination of (i) and (ii) above, in each case in an aggregate amount equal to U.S.\$13,011,445.31 which represents the Required Amount (as defined below), essentially six months of interest on the notes plus certain other limited amounts. Brasil Telecom has arranged for a letter of credit to be issued by Credit Suisse First Boston, acting through its Cayman Islands Branch, in respect of the Required Amount. Any letter of credit may be replaced by amounts deposited into the reserve account and the letter of credit may be allowed to lapse under certain circumstances. To the extent that the amounts available under the Qualifying Instruments exceed the Required Amount on any payment date and all, or a portion, of such excess is on deposit in the reserve account, the indenture trustee shall withdraw any such excess from the amount on deposit in the reserve account and apply such excess to pay amounts then due under the notes and the indenture. See " The Required Amount."
- In addition, as additional credit support, the noteholders will be the beneficiary of the insurance policy issued to an insurance trust established (in order to comply with certain legal requirements applicable to the insurer) with the indenture trustee in its capacity as insurance trustee for the

benefit of the holders of the notes as beneficiaries of the insurance trust. Pursuant to the insurance policy, the insurer will be obligated to pay, subject to certain conditions and limitations, an amount in U.S. dollars equal to 90% of an amount equal to twelve months of interest on the notes at the initial note rate upon the occurrence and continuation of a Currency Inconvertibility Event (described under "The Insurer and the Insurance Policy The Insurance Policy"). This amount of insurance, together with an amount equal to 10% of an amount equal to twelve months of interest at the initial note rate available under a letter of credit included in the Required Amount, will provide for payment to the noteholders of twelve months of interest on the notes at the initial note rate upon the occurrence of a Currency Inconvertibility Event. The insurance policy may be cancelled at the request of Brasil Telecom after the third anniversary of the closing date in the event that Moody's and Fitch confirms that the credit rating of the notes after giving effect to such cancellation is at least "Baa3" and "BBB-", respectively. For information on the insurance policy, the insurer and special requirements applicable to the noteholders, see "The Insurer and the Insurance Policy."

Extension of the Expected Maturity Date

The notes will mature on February 18, 2014, but this expected maturity date can be extended by up to eighteen months if on or before the business day prior to the expected maturity date Brasil Telecom delivers a certificate to the indenture trustee stating that (i) either (a) the insurance policy is in effect and the amount of all Qualifying Instruments is at least equal to the Required Amount (as defined in " The Required Amount" below) or (b) the insurance policy is not in effect and the amount of all Qualifying Instruments is at least equal to the Required Amount and (ii) a Currency Inconvertibility Event is continuing. If the circumstances described in (i) and (ii) above have occurred and are continuing on the expected maturity date, the expected maturity date will be extended to a final maturity date, which shall be the earliest to occur of (i) August 18, 2015 (a date which is eighteen calendar months after the expected maturity date), (ii) the latest date for which funds are available in all Qualifying Instruments and under the insurance policy to pay scheduled interest on the notes in full, and (iii) 30 calendar days after the date on which such events have ended. In the case of any extension of the expected maturity date as described above, the expected maturity date shall be considered a payment date under the terms of the indenture, and interest at the note rate shall be due on the notes on such expected maturity date and on each payment date occurring thereafter until the final maturity date. Upon the occurrence of any such extension of the expected maturity date, notice will promptly be given to the noteholders and to the Luxembourg Stock Exchange. The extension of the expected maturity date shall not have any effect on the rights of the noteholders, including any right upon the occurrence of any event of default under the notes and the indenture.

Ranking

The notes will be general unsecured and unsubordinated obligations of Brasil Telecom and will rank *pari passu* amongst themselves and equal in right of payment with all other unsecured and unsubordinated obligations of Brasil Telecom that are not, by their terms, expressly subordinated in right of payment to the notes. As of December 31, 2003, R\$1,995.5 million of Brasil Telecom's consolidated debt was secured and R\$2,640.4 million of Brasil Telecom's consolidated debt was unsecured.

Listing

Brasil Telecom has applied to have the new notes listed on the Luxembourg Stock Exchange in accordance with its rules. In March 2003, the European Commission published a proposal for a Directive of the European Parliament and of the Council on the harmonization of transparency requirements with regard to information about issuers whose securities are admitted to trading on a regulated market in the European Union ((2003/0045(COD)) (the "Transparency Directive"). If the Transparency Directive enters into force in a form which would require Brasil Telecom to publish financial information either more regularly than it otherwise would be required to, or according to accounting principles which are materially different from the accounting principles which it would otherwise use to prepare its published financial information under the rules of the U.S. Securities Exchange Commission, Brasil Telecom may seek an alternative admission to listing, trading and/or quotation for the notes by another listing authority, stock exchange and/or quotation system outside the European Union, including, but not limited to, the New York Stock Exchange, Inc.

Further Issuances

The indenture by its terms does not limit the aggregate principal amount of notes that may be issued thereunder and permits the issuance, from time to time, of additional notes of the same series as is being offered hereby, provided that among other requirements (i) no default or event of default under the indenture shall have occurred and then be continuing or shall occur as a result of such additional issuance, (ii) such additional notes rank *pari passu* and have equivalent terms and benefits as the notes offered hereby, (iii) to the extent that the insurance policy has not been cancelled as permitted by the terms of the indenture (as described below under "The Insurer and the Insurance Policy"), the amount of coverage provided under the insurance policy and the aggregate amount available in all Qualifying Instruments equal to the Required Amount each have been increased proportionately to the amount of additional notes to be issued under the indenture, (iv) if the insurance policy is no longer in effect and has not been voluntarily cancelled pursuant to the indenture, the aggregate amount then available in all Qualifying Instruments has been increased proportionately to the amount of additional notes to be issued under the indenture, and (v) each of Moody's and Fitch has confirmed to the indenture trustee in writing, prior to the issuance of such additional notes, that the issuance of such additional notes will not result in a lowering or a withdrawal of the then existing rating of the notes. Any additional notes will be part of the same series as the notes that Brasil Telecom is currently offering and will vote on all matters with the notes as a single class.

Payments of Principal and Interest

Payment of the principal of the notes, together with accrued and unpaid interest thereon at the note rate, or payment upon redemption prior to maturity, will be made only:

- following the surrender of the notes at the office of the indenture trustee or any paying agent; and
- to the person in whose name the note is registered as of the close of business, New York City time, on the due date for such payment.

Payments of interest on a note, other than the last payment of principal and interest or payment in connection with a redemption of the notes prior to maturity, will be made on each payment date to the person in whose name the note is registered at the close of business, New York City time, on the record date immediately preceding each such payment date, which shall be the date ten business days prior to such payment date.

Payments of principal and interest shall be made by depositing immediately available funds in U.S. dollars into an account maintained by, or on behalf of, the indenture trustee, acting on behalf of the noteholders.

The notes will initially be represented by one or more global notes, as described herein. See " Form, Denomination and Registration." Payments of principal and interest on the global notes will be made to DTC or its nominee, as the case may be, as registered holder thereof. It is expected that such registered holder of global notes will receive the funds for distribution to the holders of beneficial interests in the global notes. Neither Brasil Telecom nor the indenture trustee shall have any responsibility or liability for any of the records of, or payments made by, DTC or its nominee or Euroclear or Clearstream. See " Form, Denomination and Registration."

If any date for a payment of principal or interest or redemption is not a business day in the city in which the relevant paying agent is located, Brasil Telecom will make the payment on the next business day in the respective city. No interest on the notes will accrue as a result of this delay in payment.

Brasil Telecom has appointed the principal paying agent to receive payment of the principal amount of and interest on the notes. Brasil Telecom will be required to make all payments of principal of and interest and other amounts on the notes to the principal paying agent by 10:00 a.m. (New York City time) on the business day prior to the applicable payment date and otherwise in accordance with the terms of the indenture.

The receipt by the principal paying agent from Brasil Telecom of each payment of principal, interest and/or other amounts due in respect of the notes in the manner specified in the indenture and on the date on which such amount of principal, interest and/or other amounts are then due shall satisfy the obligations of Brasil Telecom under

the indenture and the notes to make such payment to the noteholders on the due date thereof. Brasil Telecom has agreed to indemnify the noteholders against failure on the part of the principal paying agent or any paying agent to pay any sum due in respect of the notes.

Payments in respect of the notes will be made in the coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debt.

The insurance trustee shall instruct the insurer to pay any compensation due under the insurance policy to the principal paying agent on behalf of the indenture trustee. To the extent that funds are received in excess of those required to satisfy Brasil Telecom's obligations under the notes and the indenture then due and payable, the principal paying agent shall deposit such excess amounts in a segregated account of the indenture trustee until the next payment date when such funds shall be used by the indenture trustee to satisfy Brasil Telecom's obligations under the notes.

To the extent at any time, the indenture trustee has insufficient funds to make payments in full on the notes, Brasil Telecom shall be obligated to deposit such additional amounts with the indenture trustee, or as the indenture trustee directs, as may be necessary to make such payments. Any such payment shall be in addition to any other amounts due and owing to the noteholders on any such date.

In the case of amounts not paid by Brasil Telecom under the notes (after giving effect to any applicable grace period therefor), interest will continue to accrue on such amounts (except as provided below) at a rate equal to the default rate (i.e. 1% in excess of the note rate), from and including the date when such amounts were due (after giving effect to any applicable grace period therefor), and through but excluding the date of payment by Brasil Telecom, as the case may be; *provided, however*, that interest on the notes shall accrue at the note rate and not the default rate during the continuance of any suspension of Brasil Telecom's obligation to make payments under the indenture and the notes where the noteholders are otherwise receiving payments of interest at the note rate from the insurer under the insurance policy, or otherwise and; *provided further* that, to the extent that Brasil Telecom does not pay interest on any payment date, interest shall accrue (during the interest grace period and so long as no event of default has occurred and is continuing) on the amount of interest due on such payment date at a rate equal to the interest rate payable on the notes on the closing date.

Subject to applicable law, the indenture trustee and the paying agents will pay to Brasil Telecom upon request any monies held by them for the payment of principal or interest that remains unclaimed for two years. Thereafter, noteholders entitled to these monies must seek payment from Brasil Telecom.

Additional Support

The notes will benefit from certain limited support provided by the Qualifying Instruments and the insurance policy. See "The Insurer and the Insurance Policy The Insurance Policy" and " The Required Amount" below.

The Required Amount

Brasil Telecom has provided to the indenture trustee certain reserves for the benefit of noteholders consisting of specified qualifying instruments ("Qualifying Instruments") in the form of (i) one or more irrevocable standby letters of credit meeting the requirements set forth below or (ii) a deposit in a segregated non-interest bearing reserve account with the indenture trustee in the indenture trustee's name and under its sole dominion and control for the benefit of the noteholders, or (iii) any combination of (i) and (ii), in each case in an aggregate amount equal to U.S.\$13,011,445.31 (which represents the Required Amount on the closing date). Brasil Telecom has arranged for a letter of credit to be issued by Credit Suisse First Boston, acting through its Cayman Islands Branch, in respect of the Required Amount. Brasil Telecom will not grant a security interest in the reserve account, or any investments or deposits therein, to the indenture trustee in connection with the issuance of the notes. The indenture trustee has agreed to hold all funds from time to time on deposit in the foregoing reserve account for the sole and exclusive benefit of the noteholders and Brasil Telecom has agreed that it shall have no interest in any of the Qualifying Instruments (including such reserve account or the proceeds thereof). To the extent that the amounts

available under the Qualifying Instruments exceed the Required Amount on any payment date and all, or a portion, of such excess is on deposit in the reserve account, the indenture trustee shall withdraw any such excess from amounts on deposit in the reserve account and apply such excess to pay amounts then due on the notes and the indenture. Additionally, on the expected maturity date, to the extent that no Currency Inconvertibility Event shall have occurred and be continuing, the indenture trustee shall apply the full amount of any cash on deposit in the reserve account to pay amounts due on the notes on the expected maturity date.

Brasil Telecom shall also be required to ensure that the amount available under the Qualifying Instruments is equal to the Required Amount, which shall equal the sum of the following items:

- (i) six months interest on the notes at the initial note rate;
- (ii) prior to Brasil Telecom satisfying its obligations under the registration rights agreement, an amount equal to eighteen calendar-months interest on the notes at the additional rate of 0.50%; (iii) 90 days of interest (calculated at the initial note rate) on the amount of interest payable under the notes on a single interest payment date (calculated, until Brasil Telecom satisfies its obligations under the registration rights agreement, at a rate equal to the sum of the initial note rate plus 0.5% per annum);
- (iv) an amount representing indenture trustee fees due and payable by Brasil Telecom to the indenture trustee during any eighteen-month period, but not representing any costs or expenses potentially due in any such period;
- (v) an amount representing fees due and payable to the insurance trustee (as defined under "Description of the Insurer and the Insurance Policy Insurance Trust") by Brasil Telecom to the insurance trustee during an eighteen month period, but not representing or including any costs or expenses potentially due in any such period;
- (vi) an amount equal to 10% of an amount equal to twelve months of interest on the notes at the initial note rate (which when added to amounts payable under the insurance policy will equal 100% of interest on the notes at the initial note rate for the twelve months of interest covered under the insurance policy); and
- (vii) any additional amounts as may be required as a result of the involuntary cancellation or termination of the insurance policy or certain other related events as contemplated herein and in clause (m) under " Events of Default."

At issuance, any letter of credit shall (i) be issued or confirmed by a commercial bank rated not less than "Prime-1" by Moody's or "A+" by Fitch (if rated by Fitch), (ii) name the indenture trustee as the sole beneficiary thereof, and (iii) be unconditionally drawable (subject to the delivery of certain customary certification documents) by the indenture trustee at any time for payment directly into the reserve account in the event where a specified Currency Inconvertibility Event described under "The Insurer and the Insurance Policy The Insurance Policy" has occurred which results in Brasil Telecom's inability to satisfy its obligations to make payment under the indenture and the notes.

The indenture trustee will be required to draw on the Qualifying Instruments in the case where a specified Currency Inconvertibility Event results in Brasil Telecom's inability to satisfy its obligations to make payments under the indenture and the notes. The indenture trustee shall also be entitled to draw on any letter of credit (i) in the event that the financial institution issuing or confirming any such letter of credit has its rating downgraded by Moody's below "Prime-1" or "A+" by Fitch (if rated by Fitch) or (ii) if the financial institution which issued any such letter of credit has notified the indenture trustee that it will not renew or replace such letter of credit and Brasil Telecom has not presented the indenture trustee with an acceptable replacement letter of credit.

Initially, one or more letters of credit has been issued by Credit Suisse First Boston, acting through its Cayman Islands Branch. Each letter of credit may be replaced by or on behalf of Brasil Telecom with one or more

letters of credit meeting the criteria for letters of credit set forth above provided that (i) no default or event of default under the indenture shall have occurred and be continuing or will occur as a result of the replacement of the letter of credit, (ii) Moody's and Fitch reconfirms that the then current rating of the notes both before and after the replacement of the letter of credit is and will be not less than "Baa3" and "BBB-", respectively and (iii) Brasil Telecom shall submit a draft of any such replacement letter of credit to the indenture trustee not less than five business days prior to the proposed delivery thereof, the indenture trustee shall have approved of the form of any such replacement letter of credit, and such replacement letter of credit is delivered in the form supplied to and approved by the indenture trustee.

So long as no event of default under the indenture shall have occurred and be continuing, the amounts on deposit in the reserve account may be invested in permitted investments (as defined herein) at the direction of Brasil Telecom. If (i) an event of default shall have occurred and be continuing or (ii) the indenture trustee shall not have received any direction as to the permitted investments to be purchased, all amounts on deposit in the reserve account will be invested by the indenture trustee in investments of the type described in clause (vi) of the definition of permitted investments. All interest earned on the permitted investments deposited in the reserve account shall be retained in the reserve account and shall be available to the indenture trustee to make any payment of principal, interests and other amounts due under the notes and the indenture. For purposes hereof, "permitted investments" shall consist of:

- (i) direct or indirect obligations of the United States of America, or of any agency or instrumentality of the United States of America, the timely payment of which is unconditionally guaranteed as a full faith and credit obligation of the United States of America which are not callable or redeemable at the option of the issuer thereof at a price less than what was paid;
- (ii) demand and time deposit certificates of deposit of, banker's acceptances issued by, or Federal funds sold by, any depository institution or trust company incorporated under the laws of the United States of America or any state thereof and subject to supervision and examination by U.S. federal and/or state authorities so long as at the time of such investment or contractual commitment providing for such investment the commercial paper or other short-term debt obligations of such depository institution or trust company have a short-term credit rating of at least "P-1" by Moody's, "A-1" by S&P and "F-1" by Fitch (if rated by Fitch);
- (iii) repurchase obligations with respect to (A) any security described in clause (i) above or (B) any other security issued and/or guaranteed by an agency or instrumentality of the United States of America, in either case entered into with a depository institution or trust company (acting as principal) described in clause (ii) above;
- (iv) commercial paper which has at the time of such investment a rating of at least "P-1" by Moody's, a rating of at least "A-1" by S&P and a rating of at least "F-1" by Fitch (if rated by Fitch); *provided, however*, that permitted investments shall not include any debt obligations (or other securities) issued by Brasil Telecom or any affiliate thereof;
- (v) any money market funds rated not less than "Aaa" by Moody's, "AAA" by S&P and "AAA" by Fitch (if rated by Fitch) investing in any of the foregoing permitted investments; and
- (vi) The Bank of New York Cash Reserve, any successor to The Bank of New York Cash Reserve so long as in each case such Cash Reserve maintains a rating of not less than "Aaa" by Moody's, "AAA" by S&P and "AAA" by Fitch (if rated by Fitch) or any equivalent money market mutual fund rated not less than "Aaa" by Moody's, "AAA" by S&P and "AAA" by Fitch (if rated by Fitch).

So long as the notes shall be outstanding, the indenture trustee will be entitled to draw upon the reserve account described above if any Currency Inconvertibility Event results in an inability of Brasil Telecom to satisfy its payment obligations under the indenture or the notes. Brasil Telecom shall be required to arrange for an increase in the amounts available under the letter of credit or deposit funds in the reserve account within five business days of the cessation of any Currency Inconvertibility Event so that the aggregate amount then available under the letter of

credit, together with all amounts on deposit in the reserve account, shall equal the Required Amount, less any amounts in respect of additional interest that Brasil Telecom shall have the right to request be returned to it in the event it shall have satisfied its obligations under the registration rights agreement.

So long as the notes shall be outstanding, the indenture trustee will be entitled to draw on the Qualifying Instruments if any specified Currency Inconvertibility Event results in an inability of Brasil Telecom to satisfy its payment obligations under the indenture and/or the notes. Brasil Telecom shall be required to arrange for an increase in the amounts available under the Qualifying Instruments within five business days of the cessation of any such Currency Inconvertibility Event so that the aggregate amount then available under the Qualifying Instruments shall equal the Required Amount.

The amounts available under the Qualifying Instruments must also be increased if at any time the insurance policy is no longer in effect, other than due to a voluntary cancellation or withdrawal of the insurance policy as permitted under the indenture as a result of the notes meeting certain specified ratings. The amount of such increase shall be equal in amount to the amount of coverage under the insurance policy immediately prior to its cancellation or withdrawal. See "The Insurer and the Insurance Policy."

In the event that the insurance policy is cancelled at the request of Brasil Telecom as the result of a ratings event as described in "The Insurer and the Insurance Policy The Insurance Policy" the indenture trustee shall allow the letter of credit to be cancelled. Any amounts on deposit in the reserve account shall be applied by the indenture trustee on the next interest payment date and any succeeding payment date, to the extent that funds are available thereunder, to pay all amounts due under the notes and the indenture on such payment date.

The Insurance Policy

The noteholders also initially indirectly have the benefit of the insurance policy provided by the insurer. The insurance policy provides limited insurance against the inability of Brasil Telecom to convert reais into U.S. dollars or transfer U.S. dollars outside of Brazil to the indenture trustee in satisfaction of amounts to be paid by it under the indenture and the notes, as the case may be. The amount of the insurance equals 90% of an amount equal to twelve months of interest on the notes at the initial note rate. This amount of insurance, together with an amount equal to 10% of an amount equal to twelve months of interest at the initial note rate available under a letter of credit, provide for payment to the noteholders of twelve months of interest on the notes at the initial note rate upon the occurrence of a Currency Inconvertibility Event. See "The Insurer and the Insurance Policy The Insurance Policy."

The insurer's obligation to pay claims under the insurance policy is subject to certain conditions, limitations and exclusions that may affect the ability of the noteholders to receive payments on the notes, including a waiting period of approximately 180 calendar days and the holders of the notes being in compliance with certain representations and warranties deemed to have been made by them upon acquisition of the notes (and an interest in the insurance trust that will hold the insurance policy), as described below. See "The Insurer and the Insurance Policy".

As described below under "The insurer and the Insurance Policy," at any time on or after the third or any subsequent anniversary of the closing date, Brasil Telecom may direct the insurance trustee to cancel the insurance policy upon 90 days prior written notice provided that Moody's and Fitch confirm that the ratings for the notes after giving effect to such cancellation is at least "Baa3" and "BBB ", respectively and certain other conditions precedent have been satisfied. Any such cancellation shall be effective as of such anniversary provided that certain conditions precedent to the cancellation of the insurance policy have been satisfied. See "The Insurer and the Insurance Policy The Insurance Policy."

In the event of an involuntary cancellation of the insurance policy by the insurer or any non-payment thereunder, an event of default will occur unless Brasil Telecom arranges for additional amounts to be available under the Qualifying Instruments. See " The Required Amount" and " Events of Default."

Additional Amounts

Except as provided below, Brasil Telecom will make all payments of principal and interest on the notes without withholding or deduction for or on account of any present or future taxes, duties, assessments, fees, levies or other governmental charges of any nature (and any fines, penalties, or interest related thereto) (collectively, "Taxes") imposed by Brazil, Japan (to the extent that any paying agent is organized in Japan), Luxembourg or by the jurisdictions in which any paying agents appointed by Brasil Telecom are organized or the location where payment is made, or any political subdivision or taxing authority or agency thereof or therein (any of the aforementioned being a "Taxing Jurisdiction"). If Brasil Telecom is required by law to withhold or deduct any such Taxes, except as provided below, Brasil Telecom will (i) use its reasonable efforts to obtain an exemption from the payment of (or otherwise avoid the obligation to pay) the Taxes which have resulted in the requirement that it pay additional amounts and (ii) in any event pay the noteholders any additional amounts necessary to ensure that they receive the same amount as they would have received without such withholding or deduction.

Brasil Telecom will not, however, pay any additional amounts in connection with any Tax that is imposed due to any of the following:

- the noteholder or beneficial owner has some connection (present or former) with the Taxing Jurisdiction other than merely holding the notes or receiving principal or interest payments on the notes (such as citizenship, nationality, residence, domicile, or existence of a business, a permanent establishment, a dependent agent, a place of business or a place of management present or deemed present within the Taxing Jurisdiction);
- any Tax imposed on, or measured by, overall net income;
- the noteholder or beneficial owner fails to comply with any certification, identification or other reporting requirements concerning its nationality, residence, identity or connection with the Taxing Jurisdiction, if (i) such compliance is required by applicable law, regulation, administrative practice or treaty as a precondition to exemption from all or a part of the tax, duty, assessment or other governmental charge, (ii) the noteholder or beneficial owner is able to comply with such requirements without undue hardship and (iii) at least 30 calendar days prior to the first payment date with respect to which such requirements under the applicable law, regulation, administrative practice or treaty shall apply, Brasil Telecom or the indenture trustee has notified all noteholders that they will be required to comply with such requirements;
- the noteholder fails to present (where presentation is required) its note within 30 calendar days after Brasil Telecom has made available to the noteholder a payment of principal or interest, provided that Brasil Telecom will pay additional amounts which such noteholder would have been entitled to had the note owned by such noteholder been presented on any day (including the last day) within such 30 calendar-day period;
- any estate, inheritance, gift, value added, use or sales taxes or any similar taxes, assessments or other governmental charges.

Brasil Telecom will also (i) make such withholding or deduction and (ii) remit the full amount withheld or deducted to the relevant taxing authority in accordance with applicable law. Upon the written request from the indenture trustee, Brasil Telecom will furnish to the indenture trustee, within five business days after the delivery of such written request, certified copies of tax receipts or, if such receipts are not obtainable, documentation reasonably satisfactory to the indenture trustee evidencing such payment by Brasil Telecom. Upon the written request of the noteholders to the indenture trustee, copies of such receipts or other documentation, as the case may be, will be made available to the noteholders. At least 10 business days prior to each date on which any payment under or with respect to the notes is due and payable, if Brasil Telecom is obligated to pay additional amounts with respect to such payment, Brasil Telecom, as applicable, will deliver to the indenture trustee an officer's certificate stating that additional amounts will be payable, the amounts so payable and setting forth such other information as the indenture trustee shall reasonably require for tax purposes.

Edgar Filing: BRASIL TELECOM SA - Form 424B3

Brasil Telecom will, upon the written request of any noteholder, indemnify and hold harmless and reimburse such noteholder for the amount of any Taxes imposed by a Taxing Jurisdiction (other than any such Taxes for which the noteholder would not have been entitled to receive additional amounts pursuant to any of the conditions described in the second paragraph of this section) so imposed on, and paid by, such noteholder as a result of any payment of principal or interest on the notes, so that the net amount received by such noteholder after such reimbursement would not be less than the net amount the noteholder would have received if such Taxes would not have been imposed or levied and so paid.

Brasil Telecom will pay any stamp, administrative, court, documentary, excise or property taxes arising in any Taxing Jurisdiction in connection with the notes and will indemnify the noteholders for any such taxes paid by noteholders.

Brasil Telecom has also agreed, if the conclusions of the ECOFIN Council meeting of November 26-27, 2000 are implemented, to maintain a paying agent in an European Union member state that will not be obligated to withhold or deduct tax under the applicable directive.

If (i) Brasil Telecom shall be required to pay additional amounts under the terms of the notes and the indenture during the continuance of a Currency Inconvertibility Event in a currency other than reais, (ii) Brasil Telecom certifies to the indenture trustee in writing that it is unable to pay such additional amounts in U.S. dollars and that such additional amounts can not be satisfied by Brasil Telecom's payment of such amounts in reais directly to an authority in such Taxing Jurisdiction, and (iii) the noteholders are otherwise receiving payments of interest at the note rate from the insurer under the insurance policy, or otherwise, then Brasil Telecom's obligation to pay such amounts will be deferred until the earlier to occur of (x) 5 business days after the end of such Currency Inconvertibility Event and (y) the date on which noteholders are not otherwise receiving payments of interest at the note rate from the insurer under the insurance policy, or otherwise.

All references to principal, interest, or other amounts payable on the notes shall be deemed to include any additional amounts payable by Brasil Telecom under the notes or the indenture. The foregoing obligations shall survive any termination, defeasance or discharge of the notes and the indenture.

If Brasil Telecom shall at any time be required to pay additional amounts to noteholders pursuant to the terms of the notes and the indenture, Brasil Telecom will use its reasonable endeavors to obtain an exemption from the payment of (or otherwise avoid the obligation to pay) the tax, assessment or other governmental charge which has resulted in the requirement that it pay such additional amounts.

Certain Covenants

For so long as any of the notes are outstanding and Brasil Telecom has obligations under the indenture and the notes, Brasil Telecom will, and will cause each of its subsidiaries to, comply with the terms of the covenants, among others, set forth below:

Performance obligations under the notes and the indenture

Brasil Telecom shall duly and punctually pay all amounts owed by it, and comply with all its other obligations, under the terms of the notes and the indenture.

Performance obligations under specified transaction documents

Brasil Telecom will agree to duly and punctually perform, comply with and observe all obligations and agreements to be performed by it set forth in the insurance policy, the company support agreement, the insurance trust agreement, the insurance policy application, the registration rights agreement, each letter of credit, the application for listing the notes with the Luxembourg Stock Exchange and the DTC letter of representations completed by Brasil Telecom in connection with the notes (which documents together with the indenture and the notes are collectively referred to as the "transaction documents").

Maintenance of corporate existence

Brasil Telecom will, and will cause each of its subsidiaries to, maintain in effect its corporate existence and all registrations necessary therefor and take all actions to maintain all rights, privileges, titles to property, franchises and the like necessary or desirable in the normal conduct of its business, activities or operations provided that this covenant shall not require Brasil Telecom or any of its subsidiaries to maintain any such right, privilege, title to property, franchise or the like or require Brasil Telecom to preserve the corporate existence of any subsidiary, if the failure to do so would not have a material adverse effect on Brasil Telecom and its subsidiaries taken as a whole or have a material adverse effect on the rights of the noteholders.

Maintenance of properties

Brasil Telecom will, and will cause each of its subsidiaries to, keep all its property used or useful in the conduct of its business in good working order and condition, ordinary wear and tear excepted, provided that this covenant shall not require Brasil Telecom or any of its subsidiaries to maintain any such property if the failure to do so does not, and will not, have a material adverse effect on Brasil Telecom and its subsidiaries taken as a whole or have a material adverse effect on the rights of the noteholders.

Compliance with laws

Brasil Telecom will comply, and will cause its subsidiaries to comply, at all times with all applicable laws, rules, regulations, orders and directives of any government or government agency or authority having jurisdiction over Brasil Telecom, Brasil Telecom's business or any of the transactions contemplated herein, except where the failure by Brasil Telecom to comply would not have a material adverse effect on Brasil Telecom and its subsidiaries taken as a whole or have a material adverse effect on the rights of the noteholders.

Maintenance of government authorizations

Brasil Telecom will, and will cause its subsidiaries to, duly obtain and maintain in full force and effect all consents, concessions, authorizations, approvals or licenses of any government or governmental agency or authority under the laws of Brazil or any other jurisdiction having jurisdiction over Brasil Telecom or its subsidiaries, as the case may be, necessary in all cases for Brasil Telecom or its subsidiaries, as the case may be, (i) to operate the business of offering telecommunications services in Brazil, including without limitation any concession (each a "Concession") and any authorization or approval (each an "Authorization") granted by the Brazilian government to offer telecommunications services in Brazil, and (ii) to perform its obligations under the transaction documents, including, without limitation, any authorization required to obtain and transfer U.S. dollars or any other currency which at that time is legal tender in the United States out of Brazil in connection with the notes and the indenture, except (x) the foregoing shall not apply to any such authorization during any Currency Inconvertibility Event and (y) in the case of both (i) and (ii) above, where the failure to do so would not have a material adverse effect on Brasil Telecom and its subsidiaries taken as a whole or have a material adverse effect on the rights of the noteholders.

Payments of taxes and other claims

Brasil Telecom will, and will cause each of its subsidiaries to, pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (i) all taxes, assessments and governmental charges levied or imposed upon Brasil Telecom or such subsidiary, as the case may be, and (ii) all lawful claims for labor, materials and supplies which, if unpaid, might by law become a lien upon the property of Brasil Telecom or such subsidiary, as the case may be; provided, however, that neither Brasil Telecom nor any subsidiary will be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim (x) whose amount, applicability or validity is being contested in good faith and, if appropriate, by appropriate legal proceedings or (y) where the failure to do so would not have a material adverse effect on Brasil Telecom and its subsidiaries taken as a whole or have a material adverse effect on the rights of the noteholders.

Maintenance of insurance

Brasil Telecom will, and will cause each of its subsidiaries to, maintain insurance with insurance companies that Brasil Telecom and its subsidiaries reasonably believe to be financially sound in such amounts and covering such risks as are usually carried by companies engaged in similar businesses and owning and/or operating properties or facilities similar to those owned and/or operated by Brasil Telecom or its subsidiaries, as the case may be, in the same general locations in which Brasil Telecom and its subsidiaries own and/or operate their properties or facilities, except where the failure to maintain such insurance would not have a material adverse effect on Brasil Telecom and its subsidiaries taken as a whole or have a material adverse effect on the rights of the noteholders.

Maintenance of books and records

Brasil Telecom shall, and shall cause each of its subsidiaries to, maintain books, accounts and records in all material respects in accordance with applicable law.

Maintenance of office or agency

Brasil Telecom shall maintain an office or agency in the Borough of Manhattan, The City of New York, where notices to and demands upon Brasil Telecom in respect of the indenture and the notes may be served. Initially this office will be at the offices of CT Corporation System located at 111 Eighth Avenue, New York, NY 10011, and Brasil Telecom will agree not to change the designation of such office without prior notice to the indenture trustee and designation of a replacement office in the same general location.

Ranking

Brasil Telecom will ensure that the notes will constitute general senior, unsecured and unsubordinated obligations of Brasil Telecom and will rank *pari passu*, without any preferences among themselves, with all other present and future unsecured and unsubordinated obligations of Brasil Telecom (other than obligations preferred by statute or by operation of law).

Notice of certain events

Brasil Telecom will give notice to the indenture trustee, as soon as is practicable and in any event within ten calendar days after Brasil Telecom becomes aware or should reasonably become aware, of the occurrence of any event of default or an event which with the passage of time or notice may become an event of default (a "default"), accompanied by a certificate of a responsible officer of Brasil Telecom setting forth the details of such event of default or default and stating what action Brasil Telecom proposes to take with respect thereto.

Brasil Telecom will also give notice to the indenture trustee, as soon as is practicable and in any event within five business days after Brasil Telecom becomes aware of any action taken by the Brazilian government that could give rise to a Currency Inconvertibility Event; *provided, however*, that if a Currency Inconvertibility Event shall have occurred in the five business days preceding a payment date that limits or restricts the ability of Brasil Telecom to convert reais into U.S. dollars or transfer U.S. dollars outside of Brazil in satisfaction of its obligations under the transaction documents, Brasil Telecom shall give notice of such event promptly and in any event not later than the business day prior to such payment date; and *provided further*, that if any such event occurs on a payment date, Brasil Telecom shall give notice of such event no later than such payment date.

Limitation on consolidation, merger, sale or conveyance

Brasil Telecom will not, in one or a series of transactions, consolidate or amalgamate with or merge into any Person (as defined below under "Limitation on liens") or convey, lease or transfer all or substantially all of its assets to any Person (but excluding any subsidiary of Brasil Telecom) to merge with or into it unless:

- (i) either Brasil Telecom is the continuing entity or the Person formed by such consolidation or into which Brasil Telecom is merged or that acquired or leased such property or assets of Brasil

Edgar Filing: BRASIL TELECOM SA - Form 424B3

Telecom will be a company organized and validly existing under the laws of Brazil or the United States and shall assume (jointly and severally with Brasil Telecom unless Brasil Telecom shall have ceased to exist as part of such merger, consolidation or amalgamation), by a supplemental indenture (the form and substance of which shall be previously approved by the indenture trustee), all of Brasil Telecom's obligations on the notes and under the indenture;

- (ii) the successor company (jointly and severally with Brasil Telecom unless Brasil Telecom shall have ceased to exist as a result of such merger, consolidation or amalgamation) agrees to indemnify each noteholder against any tax, assessment or governmental charge thereafter imposed on such noteholder solely as a consequence of such consolidation, merger, conveyance, transfer or lease with respect to the payment of principal of, or interest on, the notes;
- (iii) immediately after giving effect to the transaction, no event of default, or default has occurred and is continuing;
- (iv) Brasil Telecom has delivered to the indenture trustee an officer's certificate and an opinion of counsel, each stating that the transaction and the supplemental indenture, if applicable, comply with the indenture and that all conditions precedent provided for in the indenture and relating to such transaction have been complied with; and
- (v) Brasil Telecom shall have delivered notice of any such transaction to Moody's and Fitch (which notice shall contain a description of such merger, consolidation or conveyance).

Notwithstanding anything to the contrary in the foregoing, so long as no default or event of default shall have occurred and be continuing at the time of such proposed transaction or would result therefrom:

- (i) Brasil Telecom may merge or consolidate with or into, or convey, transfer, lease or otherwise dispose of assets to a subsidiary of Brasil Telecom in cases when Brasil Telecom is the surviving entity in such a transaction and such transaction would not have a material adverse effect on Brasil Telecom and its subsidiaries taken as a whole, it being understood that if Brasil Telecom is not the surviving entity, Brasil Telecom shall be requi