

Analyzing Telecommunications Finances in Brazil (A)

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Introduction

This case study considers the financial conditions of four Brazilian telecommunications operators -- *Brasil Telecom S.A.*, *Oi*, *Vivo S.A.*, and *TIM S.A.* -- using their 2005 and 2006 annual reports.

Background

In the 1970s, Brazil established Telebrás to control telecommunications and telex in the country. Telebrás served over 95 percent of the population, but even though service expanded, people were unsatisfied with what they viewed as Telebrás' overly high prices. As a result in the 1980s and 1990s, Brazil engaged in a set of telecommunications reforms that included privatization, liberalization, and the establishment of a regulatory body, ANATEL.

The privatization and reforms resulted in the formation of four privately owned landline companies and a number of mobile providers.

The reforms have led to a rapid growth in telecommunications development in Brazil. In 2006 there were 148.6 million subscribers to fixed line, mobile, and Internet services. Mobile phones grew from 667 in 1990 to 105 million 15 years later. In 1998 only 32 percent of domiciles had phone service, but in 2005, over 71 percent of domiciles had access to fixed or mobile service.

With respect to the operators considered in this case, all four compete against each other in mobile. Only TIM and VIVO compete against each other in fixed.

Brasil Telecom S.A.¹

Brasil Telecom provides voice, text, data and image transmission services for both private and public sectors via fixed telecommunication networks. It also provides prepaid and post paid mobile services, roaming facilities, internet services, email services, CDs, accessories, modem and computers. The Group operates in the states of Acre, Rondonia, Mato Grosso, Mato Grosso do Sul, Tocantins, Goias, Santa Catarina, federal district, Parana and Rio Grande do Sul with the exception of the city of Londrina.² Financial statements are in Exhibit 1.

The company moved from a negative Net Income in 2005 to a positive one in 2006. The Net Operating Revenue increased while the company has also controlled and decreased the Costs of Goods Sold and the Operating Expenses. The Financial Expenses of the firm, the gains less losses on domestic and foreign currency positions, along with the interest expense the firm owes on its outstanding debt, is nearly half of the 2005 numbers. In 2005, the firm received a *tax rebate* due to its negative Operating Income. Ultimately, *Brasil Telecom* realized a 242% increase in Net Income for 2006.

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The firm's Balance Sheet show increases in the Current Assets and Long Term Assets; however Permanent Assets decreased through depreciation and amortization of Fixed Assets, Intangibles (which are predominately licensing contracts in the telecommunications industry), and Deferred Charges. Assets overall could have changed due to the sale of Permanent Assets and the increase in Loans and Financing, adding cash to the books, both actions seen on the Statement of Changes in Financial Position (Cash Flow Statement). The firm took a larger position in Judicial Deposits in relation to possible risks associated with Labor, Tax, and Civil issues that *Brasil Telecom* could potentially incur. Across the industry, there seems to be a trend of investing more in Judicial Deposits.

Total Liabilities decreased by more than Total Assets. *Brasil Telecom* is buying less on credit. In the short term, the firm has paid down some of its debt, while adding more to its long term position. Furthermore, as opposed to last year, the firm didn't have to rely on advances from clients nor other sources of third-party funds, proving a better situation in the firm's financial outlook. Provisions for Contingencies, very similar to Judicial Deposits, are a form of risk management.

The Current and Quick ratios denote an overall increase in the firm's liquidity by about 30%. *Brasil Telecom* increased its Inventory Turnover immensely, and also holds the largest Inventory Turnover of the four companies analyzed. Its Days of Sales Outstanding has decreased to the leanest number of the companies. The Fixed Asset Turnover shows that the firm is efficiently making use of its Property, Plant, and Equipment to produce sales. The highest industry Total Asset Turnover, combined with the highest return on its assets, suggests that *Brasil Telecom* is also using its assets most productively. The Debt Ratio shows the firm is the most leveraged in the industry.

Oi³

Oi, formed through a merger with Tele Norte Leste Participacoes, S.A, is the industry leader in telephone services, leased lines, data transmission, mobile telephone services, internet, teletext and telex transmission. The Group also provides other related services in the following Brazilian States such as Rio de Janeiro, Minas Gerais, Espirito Santo, Bahia, Sergipe, Alagoas, Pernambuco, Paraiba, Rio Grande do Norte, Ceara, Piaui, Maranhao, Para, Amazonas, Roraima, Amapa and Acre. Financial statements are in Exhibit 2.

Oi earned a positive Net Income in both 2005 and 2006, but a tepid growth in revenue combined with an increase in costs resulted in a declining Net Operating Income. Equity Adjustments account for salary changes that are outside of regular compensation such as promotions and merits. However, the firm actually grew its Net Income by 17 percent. With a smaller dividend paid out to investors, while holding outstanding shares constant, Retained Earnings were reinvested back into the firm.

The Balance Sheet highlights an increase in Total Assets while decreasing Total Liabilities. The increments and decrements seem consistent across the Balance Sheet, representing a conservative fiscal policy in the firm.

The Credits Receivable Account shows that *Oi* is slowing its collections from clients; however, this could be explained by the increase in sales, wherein the firm has more clients and more clients who buy on credit. At the same time, the firm is paying suppliers slower. There was a 500 percent increase in Other Assets, a large change, but the amount is inconsequential overall. The firm is also decreasing the amount of debt it has on books while increasing its Shareholders' Equity through boosting its reserves, which emphasizes a restructuring towards a more balanced Debt to Equity ratio.

The ratios show that *Oi* is now the most liquid company in the industry and it is increasing liquidity at the fastest pace. It has decreased its overall Inventory Turnover, perhaps losing efficiency slightly while it continues to grow and capture a majority of the industry. There was a large decrease in its DSO, however keep in mind this is based off of Accounts Receivables and there was the large increase in the Credits Receivables. The firm is effectively using its Fixed Assets, while maintaining a steady Total Asset Turnover and holding the industry's highest Return on Assets.

VIVO Participacoes S.A.⁴

Vivo manages and explores public, private and industrial telephone services. The group also provides data transmission services, leased lines, cellular mobile telephone services, telex transmission and other related activities. It operates through its subsidiaries in the states of Sao Paulo, Parana and Santa Catarina and Federal District. Financial Statements are in Exhibit 3.

Vivo drifted from a negative Net Income to a positive Net Income over the 2 years. *Vivo* recognized a 50 percent increase in sales in 2006, but it experienced an Operating *Loss* and a positive Net Income in 2006.

The Balance Sheet provides insight for this interesting Income Statement. The Cash Account declines appear to result from moving into the Temporary Cash Investments, which represent investments in fixed income securities. There is an overall increase in Accounts Receivable and a large decrease in *Vivo's* Derivative Contract position which is a hedge to cover any foreign exchange risk. The Liabilities show an increase in Accounts Payable.

The balance sheet also highlights the deferring of taxes. By deferring taxes to a later date, *Vivo* was able to create the tax rebate that gave it a positive

Net Income in year 2006. By increasing reserves, the firm boosted its Shareholders' Equity even though it actually repurchased shares from the market to decrease the shares outstanding. Due to the decrease in the Loans and Financing, the firm seems to be restructuring its Debt to Equity ratio.

Vivo has more Current Liabilities on its books than Current Assets, which is extremely risky if faced with bankruptcy. The firm is increasing its efficiency with inventory, but it is well below the standards of *Brasil Telecom* and *Oi*.

An interesting move by this firm was its change in policy for preferred shareholders. A preferred shareholder is one that has a higher claim on earnings and assets of a firm than common shareholders because he waives his voting right and receives dividends before the other shareholders. At a recent shareholder meeting, the board voted to award full voting rights to the preferred shareholders because they have not been paid their dividends while *Vivo* has been negatively operating.

TIM Participacoes S.A.⁵

TIM Participacoes' principal activities are to manage and explore private, public and industrial telephone services at both local and regional levels. The Group provides services such as line leases, data transmission, cellular mobile telephone services, video text and telex transmission. Financial Statements are in Exhibit 4.

One would think positively about an overall increase in revenues by almost 273 percent; however, due to a sharp increase in costs *TIM's* Operating Income actually decreased by 125% after accounting for Financial Expenses which grew 382 percent year to year. *TIM* went from a positive Net Income to a loss, perhaps caused by rapid growth and several oversights by management.⁶

The Balance Sheet notes large changes across all line items under Assets and Liabilities. The most glaring changes would include Cash increasing by 1363 percent. Further down the sheet, the firm's Loans and Financing increased by 1225 percent in the short term and 1688 percent in the long term. With this financing, *TIM* could easily increase its assets in large proportions. Total Liabilities increase more than Total Assets. Due to large increases in Liabilities and Shareholders' Equity, the firm's overall restructuring in 2006 includes changing its capital structure. Note that Intangibles went up 8780 percent. There was no explanation in

the annual report.

The ratios do show that the company is liquid. The firm is increasing its Inventory Turnover, but note it is on the low side of the industry. As for use of its assets, *TIM* has the industry's lowest Fixed Asset Turnover and it is declining. *TIM* also has the lowest Total Asset Turnover and a negative Return on Assets. Finally *TIM* has a low Debt Ratio.

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Exhibit 1. Financial Statements of Brazil Telecom

Consolidated Balance Sheet of Brazil Telecom			
(In thousands of Brazilian Reais)			
	2006	2005	
Current Assets	6,014,809	5,271,687	14.10%
Cash and Bank Accounts	127,160	63,074	101.60%
High-Liquid Investments	2,414,448	1,667,009	44.84%
Temporary Investments	89,424	-	
Trade Accounts Receivables	2,127,654	2,152,813	-1.17%
Inventories	64,164	83,035	-22.73%
Loans and Financing	5,557	3,962	40.26%
Deferred and Recoverable Taxes	901,173	1,122,548	-19.72%
Judicial Deposits	119,058	31,465	278.38%
Other Assets	166,171	147,781	12.44%
Non Current	9,982,975	10,835,766	-7.87%
Long Term Assets	1,842,523	1,438,299	28.10%
Loans and Financing	2,852	5,211	-45.27%
Deferred and Recoverable Taxes	1,369,507	1,225,631	11.74%
Income Securities	3,280	2,604	25.96%
Judicial Deposits	424,641	137,635	208.53%
Other Assets	42,243	67,218	-37.16%
Permanent	8,140,452	9,397,467	-13.38%
Investments	303,367	390,463	-22.31%
Property, Plant, and Equipment	6,535,225	7,592,574	-13.93%
Intangible	1,163,392	1,219,986	-4.64%
Deferred Charges	138,468	194,444	-28.79%
Total	15,997,784	16,107,453	-0.68%
Current Liabilities	4,616,403	5,363,295	-13.93%
Payroll and Related Charges	78,561	78,214	0.44%
Accounts Payable and Accrued Expenses	1,578,823	1,941,231	-18.67%
Indirect Taxes	851,234	776,527	9.62%
Taxes on Income	37,050	199,127	-81.39%
Dividends/JSCP and Profit Sharing	489,209	441,024	10.93%
Loans and Financing	1,109,564	1,489,384	-25.50%
Licenses to Exploit Services	135,848	55,516	144.70%
Provisions for Contingencies	175,590	219,639	-20.06%
Provisions for Pension Plans	43,238	45,495	-4.96%
Advances from Clients	52,643	31,602	66.58%
Other liabilities	64,643	85,536	-24.43%
Non-Current	5,832,716	5,222,925	11.68%
Long-Term Liabilities	5,832,716	5,222,925	11.68%
Accounts Payable and Accrued Expenses	6,709	21,357	-68.59%
Indirect Taxes	55,800	294,070	-81.02%
Taxes on Income	50,186	9,413	433.16%
Loans and Financing	4,265,626	3,418,841	24.77%
Licenses to Exploit Services	219,533	252,274	-12.98%
Provisions for Contingencies	552,939	43,090	1183.22%
Provisions for Pension Plans	605,975	682,594	-11.22%
Advances from Clients	70,665	84,587	-16.46%
Other liabilities	5,283	29,699	-82.21%
Total Liabilities	10,449,119	10,586,220	-1.30%
Non-Controlling Shareholders' Interest	12,390	16,652	-25.59%
Shareholders' Equity and Fund For Capitalization	5,536,275	5,504,581	0.58%
Shareholders' Equity	5,528,301	5,496,607	0.58%
Capital Stock	3,470,758	3,435,788	1.02%
Capital Reserves	1,482,619	1,517,582	-2.30%
Profit Reserve	729,616	697,959	4.54%
Legal Reserve	309,291	287,672	7.52%
Retained Earnings	420,325	410,287	2.45%
Shares held in Treasury	(154,692)	(154,722)	0.02%
Funds For Capitalization	7,974	7,974	
Total	15,997,784	16,107,453	-0.68%

Consolidated Statement of Income of Brazil Telecom (In thousands of Brazilian Reais)

	2006	2005	
Gross Operating Revenue	15,111,318	14,687,239	2.89%
Deductions from Gross Revenue	(4,814,659)	(4,548,555)	5.85%
Net Operating Revenue	10,296,659	10,138,684	1.56%
Costs of Services Rendered and Goods Sold	(6,465,221)	(6,523,502)	-0.89%
Gross Income	3,831,438	3,615,182	5.98%
Operating Revenue (expenses)	(3,048,137)	(3,549,685)	-14.13%
Sale of Services	(1,470,632)	(1,655,749)	-11.18%
General and Administrative Expenses	(1,307,391)	(1,255,935)	4.10%
Management Compensation	(7,980)	(11,695)	-31.77%
Other Operating Expenses, Net	(262,134)	(626,306)	-58.15%
Operating Income Before Financial Expenses and Equity Accounting Result	783,301	65,497	1095.93%
Financial Expenses, Net	(638,562)	(1,222,739)	-47.78%
Operating Income (Loss)	144,739	(1,157,242)	112.51%
Non-operating Revenues (expenses)	30,865	(149,024)	120.71%
Profit (loss) Before Taxes and Interest	175,604	(1,306,266)	113.44%
Income Tax and Social Contribution on Income	(95,035)	389,066	-124.43%
Profit (Loss) After Taxes and Before Non-Controlling Shareholders' Interest	80,569	(917,200)	108.78%
Non-Controlling Shareholders' Interest	2,922	(12,971)	122.53%
Profit (Loss) Before Reversal of JSCP	83,491	(930,171)	108.98%
Reversal of Interest on Shareholders' Equity	348,900	626,500	-44.31%
Net Income (Loss) For the Year	432,391	(303,671)	242.39%
Outstanding Shares on the Balance Sheet date (million)	547,272	541,619	1.04%
Net Income (Loss) per thousand shares (in R\$)	0.790	(0.560)	241.07%

Exhibit 2. Financial Statements of Oi

Consolidated Balance Sheet of Oi				
(In millions of Reais)				
		2006	2005	
Assets				
Current Assets				
		10,374	9,839	5.44%
Cash and Cash Equivalents		4,687	3,771	24.29%
Accounts Receivable		3,804	3,711	2.51%
Deferred and recoverable taxes		1,170	1,607	-27.19%
Prepaid Expenses		336	393	-14.50%
Inventories		171	159	7.55%
Other Current Assets		206	197	4.57%
Long-Term Assets				
		3,908	2,920	33.84%
Loans receivables		11	15	-26.67%
Credits Receivable		281	106	165.09%
Deferred and recoverable taxes		2,135	1,673	27.62%
Judicial Deposits		1,200	812	47.78%
Fiscal Incentives		64	51	25.49%
Prepaid Expenses		211	262	-19.47%
Other		6	1	500.00%
Permanent Assets				
		13,508	14,402	-6.21%
Investments		97	164	-40.85%
Property, Plant, Equipment		11,733	12,518	-6.27%
Local service revenue		1,309	1,294	1.16%
Deferred assets		369	426	-13.38%
Total Assets		27,791	27,161	2.32%
Liabilities and Shareholders' Equity				
Current Liabilities				
		5,886	8,512	-30.85%
Suppliers		1,971	1,802	9.38%
Loans and financing		1,999	2,828	-29.31%
Payroll and related accruals		138	130	6.15%
Payable and deferred taxes		833	1,225	-32.00%
Tax Financing Program REFIS		126	117	7.69%
Dividends and interest on capital		554	1,068	-48.13%
Debentures		93	1,225	-92.41%
Other		170	117	45.30%
Long Term Liabilities				
		10,776	8,704	23.81%
Loans and financing		5,318	5,802	-8.34%
Payable and deferred taxes		199	121	64.46%
Tax Financing Program REFIS		766	825	-7.15%
Contingency provisions		2,224	1,833	21.33%
Debentures		2,160	0	
Other		109	121	-9.92%
Total Liabilities		16,662	17,216	-3.22%
Unrealized Earnings		13	21	-38.10%
Minority Interest		2,156	1,945	10.85%
Shareholders' Equity				
		8,960	7,979	12.29%
Share Capital		4,689	4,689	0.00%
Capital reserve		25	24	4.17%
Earnings Reserve		4,246	3,266	30.01%
Total Liabilities and Shareholders' Equity		27,791	27,161	2.32%

Consolidated Income Statement of Oi (in millions of Reais)	2006	2005	
Gross Operating Revenue	24,232	23,686	2.31%
Local Services Revenue	11,899	12,140	-1.99%
Long Distance Revenue	3,703	3,795	-2.42%
Public Telephone Revenue	1,117	1,111	0.54%
Data	2,513	2,061	21.93%
Other	1,526	1,825	-16.38%
Wireline	3,474	2,754	26.14%
Deductions from Gross Revenue	(7,360)	(6,939)	6.07%
Net Operating Revenue	16,872	16,747	0.75%
Cost of services and goods sold	(9,360)	(8,796)	6.41%
Gross Income	7,512	7,951	-5.52%
Operating Income			
Equity Accounting adjustments	163	54	201.85%
Selling	(2,593)	(2,680)	-3.25%
General and Administrative	(1,207)	(1,084)	11.35%
Other operating expenses, net	(757)	(773)	-2.07%
Net Operating Income before financial result	3,118	3,468	-10.09%
Financial Revenues	733	908	-19.27%
Financial Expenses	(2,022)	(2,524)	-19.89%
Financial Result	(1,289)	(1,616)	-20.24%
Operating Income	(1,829)	(1,852)	-1.24%
Non-Operating income (expenses), net	(17)	(38)	-55.26%
Income before taxes and minority interests	1,812	1,815	-0.17%
Income tax and social contribution	(210)	(371)	-43.40%
Minority Interest	(292)	(329)	-11.25%
Net Income	1,310	1,114	17.59%
Share outstanding on balance sheet	382,122	382,122	
ON	127,374	127,374	
PN	254,748	254,748	
Dividend	330	785	-57.96%
EBITDA	6,102	6,765	-9.80%
EBITDA MARGIN	36.20%	40.40%	-4.20%

Exhibit 3. Financial Statements of Vivo

Balance Sheet of Vivo (consolidated)			
(In thousands of Brazilian Reals)			
	<u>2006</u>	<u>2005</u>	
Assets			
Current Assets			
Cash and banks	82,927	117,993	-29.72%
Temporary cash investments	1,364,713	904,153	50.94%
Trade accounts receivable, net	1,961,246	1,775,409	10.47%
Inventories	282,020	258,755	8.99%
Advances to suppliers	13,142	18,273	-28.08%
Deferred and recoverable taxes	1,662,739	949,115	75.19%
Derivative contracts	1,298	300,662	-99.57%
Prepaid Expenses	181,872	187,276	-2.89%
Other Assets	122,537	90,158	35.91%
Total Current Assets	5,672,494	4,601,794	23.27%
Non Current Assets			
Long-term receivables			
Deferred and recoverable taxes	2,624,938	1,352,773	94.04%
Derivative Contracts	135	5,354	-97.48%
Prepaid expenses	21,314	25,030	-14.85%
Other assets	21,619	18,435	17.27%
Investments	979,158	1,550,211	-36.84%
Property, Plant and Equipment, net	6,445,479	4,600,732	40.10%
Intangible, net	1,642,683	1,392,677	17.95%
Deferred assets, net	134,257	177,300	-24.28%
Total noncurrent assets	11,869,583	9,122,512	30.11%
Total Assets	17,542,077	13,724,306	27.82%
Liabilities and Shareholders' Equity			
Current Liabilities			
Payroll and related accruals	156,625	105,106	49.02%
Trade accounts payable	2,627,013	1,536,277	71.00%
Taxes Payable	453,710	506,624	-10.44%
Loans and Financing	1,590,345	1,546,935	2.81%
Interest on shareholders' equity and dividends	51,702	51,771	-0.13%
Reserve for contingencies	61,911	41,266	50.03%
Derivative Contracts	372,229	321,686	15.71%
Other liabilities	386,422	215,285	79.49%
Total current liabilities	5,699,957	4,324,950	31.79%
Non Current Liabilities			
Long-term liabilities			
Taxes payable	212,469	169,578	25.29%
Loans and financing	2,910,048	3,646,102	-20.19%
Reserve for contingencies	84,712	171,518	-50.61%
Derivative Contracts	129,718	294,416	-55.94%
Other liabilities	132,981	44,086	201.64%
Total noncurrent liabilities	3,469,928	4,325,700	-19.78%
Total Liabilities	9,169,885	8,650,650	6.00%
Minority Interest	-	1,058,189	
Shareholders' equity			
Capital stock	6,347,784	6,670,152	-4.83%
Treasury shares	(11,070)	-	
Capital reserves	1,071,316	793,396	35.03%
Income reserves	765,068	-	
Accumulated earnings (losses)	198,648	(3,448,359)	105.76%
Total Shareholders' equity	8,371,746	4,015,189	108.50%
Funds for Capitalization	446	278	60.43%
Total Liabilities and shareholders' equity	17,542,077	13,724,306	27.82%

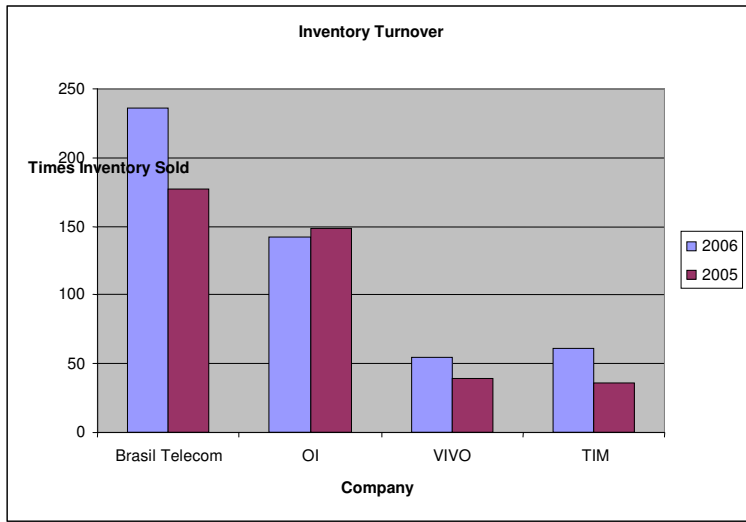
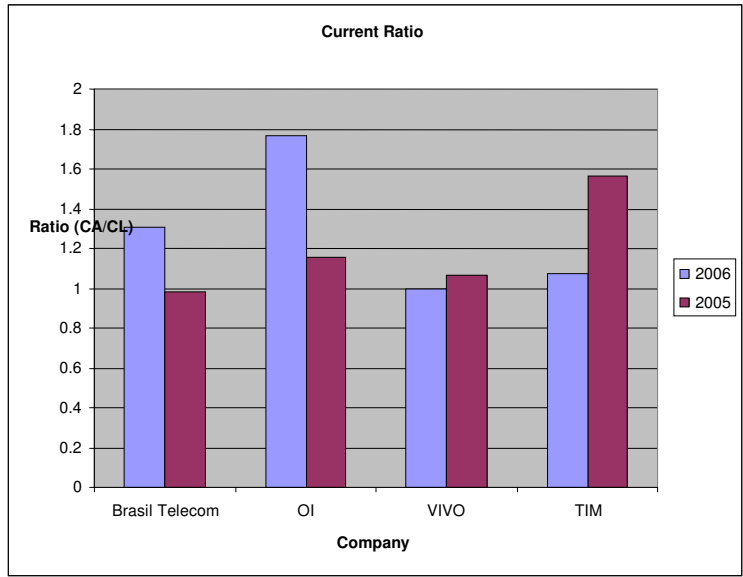
Income Statement/ Statement of Operations for Vivo (consolidated)	2006	2005	
Revenue from Services	12,712,028	8,269,362	53.72%
Sale of handsets and accessories	2,742,645	1,985,514	38.13%
Gross Operating Revenue	15,454,673	10,254,876	50.71%
Deductions from Gross Revenue	(4,517,959)	(2,781,810)	62.41%
Net operating revenue	10,936,714	7,473,066	46.35%
Cost of services provided	(3,665,858)	(1,825,568)	100.81%
Cost of goods sold	(1,898,310)	(1,587,028)	19.61%
Gross Profit	5,372,546	4,060,470	32.31%
Selling expenses	(3,787,500)	(2,571,455)	47.29%
General and Administrative Expenses	(1,112,184)	(659,355)	68.68%
Other Operating expenses	(812,532)	(625,228)	29.96%
Other Operating income	541,928	282,204	92.03%
Operating income(expenses)	(5,170,288)	(3,573,834)	44.67%
Operating income(loss) before financial income (expenses)	202,258	486,636	-58.44%
Financial Expenses	(1,020,855)	(1,136,493)	-10.17%
Interest on shareholders' equity paid	-	(24,281)	
Financial income	286,754	261,106	9.82%
Monetary and exchange variation, net	(13,884)	(42,227)	-67.12%
Operating income (loss)	(545,727)	(455,259)	19.87%
Nonoperating expenses, net	(288,970)	(65,318)	342.40%
Income(loss) before income taxes and minority interest	(834,697)	(520,577)	60.34%
Income and social contribution taxes	859,012	(246,066)	449.10%
Minority Interest	(7,968)	(166,884)	-95.23%
Income (loss) before reversal of interest on shareholders' equity	16,347	(933,527)	101.75%
Reversal of interest on shareholders' equity	-	24,281	
Net income(loss) for year	16,347	(909,246)	101.80%

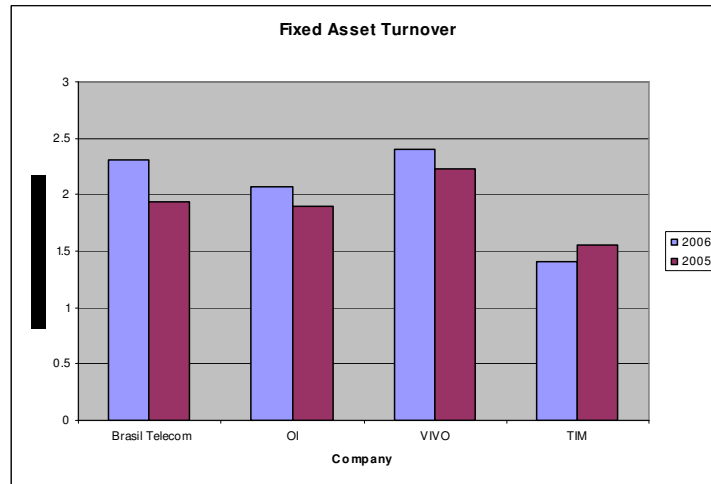
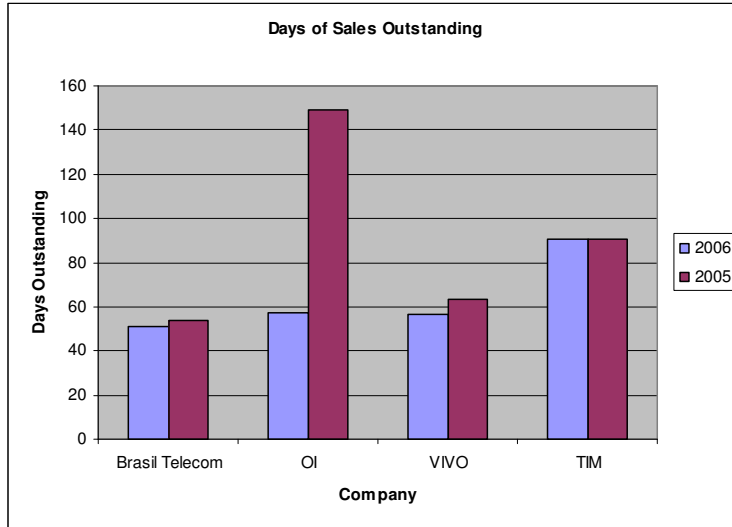
Exhibit 4. Financial Statements of TIM

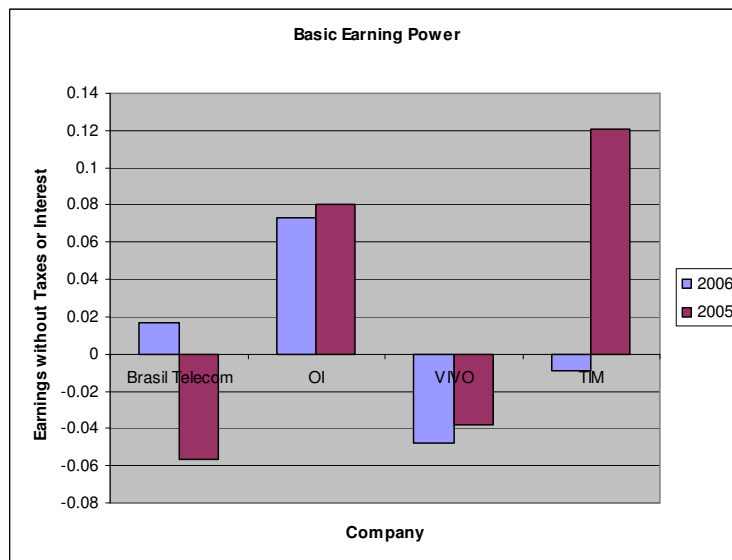
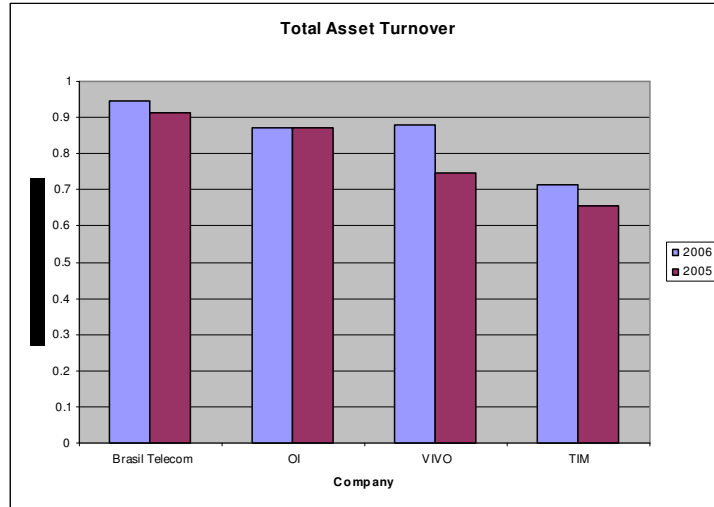
Balance Sheet of TIM (Consolidated)			
(In thousands of Reais)			
	2006	2005	
Assets			
Current Assets			
Cash and bank	440,866	30,124	1363.50%
Short-term inv in the money market	752,611	1,251,644	-39.87%
Accounts receivable	2,505,833	723,335	246.43%
Inventories	164,108	81,880	100.43%
Taxes and contributions recoverable	292,542	114,065	156.47%
Deferred Income Tax and social contribution	50,450	103,118	-51.08%
Prepaid expenses	221,008	6,321	3396.41%
Other assets	15,603	2,952	428.56%
Total Current	4,443,021	2,313,439	92.05%
Non-Current Assets			
Long-term			
Taxes and contributions recoverable	285,681	69,946	308.43%
Deferred Income tax and social contribution	29,429	133,510	-77.96%
Related-party transactions	16,303	18,618	-12.43%
Judicial deposits	57,420	14,499	296.03%
Prepaid expenses	13,257	1,976	570.90%
Other assets	7,191	2,730	163.41%
Permanent Assets			
Investments	6,728	8,310	-19.04%
Property, plant, and equipment	7,185,864	1,872,694	283.72%
Intangibles	1,922,621	21,651	8780.06%
Deferred Charges	232,590	-	
Total Permanent	9,757,084	2,143,934	355.10%
Total Assets	14,200,105	4,457,373	218.58%
Liabilities			
Current Liabilities			
Suppliers- Trade payables	2,642,858	1,047,820	152.22%
Loans and financing	340,762	25,707	1225.56%
Labor obligations	92,493	22,685	307.73%
Taxes, charges and contributions	370,264	157,666	134.84%
Authorizations payable	38,275	8,741	337.88%
Dividends and interest on own capital payable	472,958	141,606	234.00%
Related-party transactions	84,064	53,943	55.84%
Other	93,448	21,909	326.53%
Total Current	4,135,122	1,480,077	179.39%
Non-current liabilities			
Long-term			
Loans and financing	1,879,679	105,076	1688.88%
Taxes, charge and contribution	-	4,634	
Provision for contingencies	128,133	31,008	313.23%
Actuarial Liabilities	6,083	3,584	69.73%
Authorizations payable	6,542	2,962	120.86%
Asset retirement obligations (ARO)	158,168	115,211	37.29%
Total Non Current	2,178,605	262,475	730.02%
Total Liabilities	6,313,727	1,742,552	262.33%
Stockholders' Equity			
Capital	7,512,710	1,472,075	410.35%
Capital reserves	135,230	192,081	-29.60%
Revenue reserves	238,438	1,050,665	-77.31%
Total Liabilities and stockholders' equity	14,200,105	4,457,373	218.58%

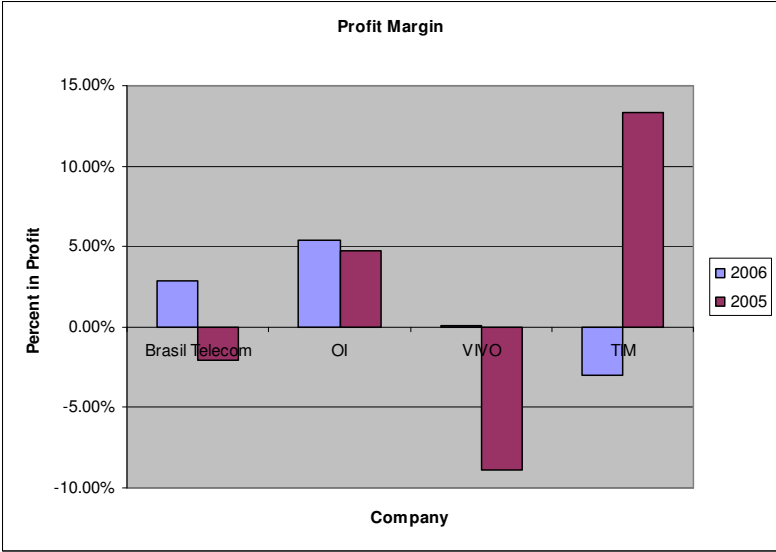
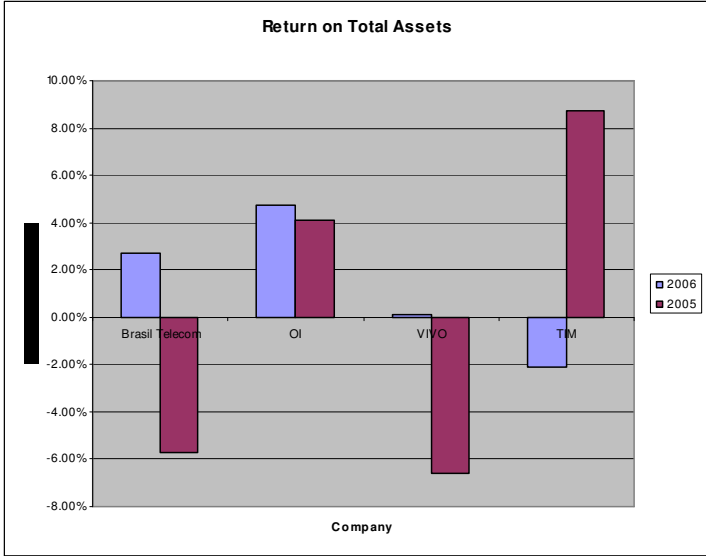
Consolidated Income Statement for TIM (in thousands of reais)	2006	2005	
Gross Operating Revenue			
Telecommunications Service	\$11,820,276	\$3,169,742	272.91%
Goods Sold	\$2,057,283	\$733,530	180.46%
	\$13,877,559	\$3,903,272	255.54%
Deductions from gross revenue	(\$3,761,446)	(\$985,057)	281.85%
Net operating revenue	\$10,116,113	\$2,918,215	246.65%
Cost of services rendered	(\$4,096,500)	(\$846,102)	384.16%
Cost of goods sold	(\$1,407,761)	(\$536,470)	162.41%
Gross Income	\$4,611,852	\$1,535,643	200.32%
Operating Revenues (expenses)			
Selling	(\$3,250,951)	(\$798,106)	307.33%
General and administrative	(\$954,858)	(\$185,946)	413.51%
Equity pickup	-	-	
Amortization of goodwill on privatization	(\$50,450)	(\$50,450)	0.00%
Amortization of concession	(\$248,238)	(\$9,295)	2570.66%
Other operating revenues (expenses) - net	\$100,217	(\$16,014)	725.81%
	(\$4,404,280)	(\$1,059,811)	315.57%
Operating income (loss) before financial income	\$207,572	\$475,832	-56.38%
Financial revenues (expenses)			
Financial revenues	\$162,202	\$158,546	2.31%
Financial expenses	(\$450,027)	(\$93,218)	382.77%
Exchange variations, net	(\$55,132)	(\$2,482)	2121.27%
	(\$342,957)	\$62,846	-645.71%
Operating Income (loss)	(\$135,385)	\$538,678	-125.13%
Non operating income	\$2,526	(\$2,260)	211.77%
Income (loss) before income tax, social contribution and minority participation	(\$132,859)	\$536,418	-124.77%
Provision for income tax and social contribution	(\$168,824)	(\$125,380)	34.65%
Net income (loss) before minority participation	(\$301,683)	\$411,038	-173.40%
Minority participation	-	(\$21,464)	
Net income (loss) for the year	(\$301,683)	\$389,574	-177.44%

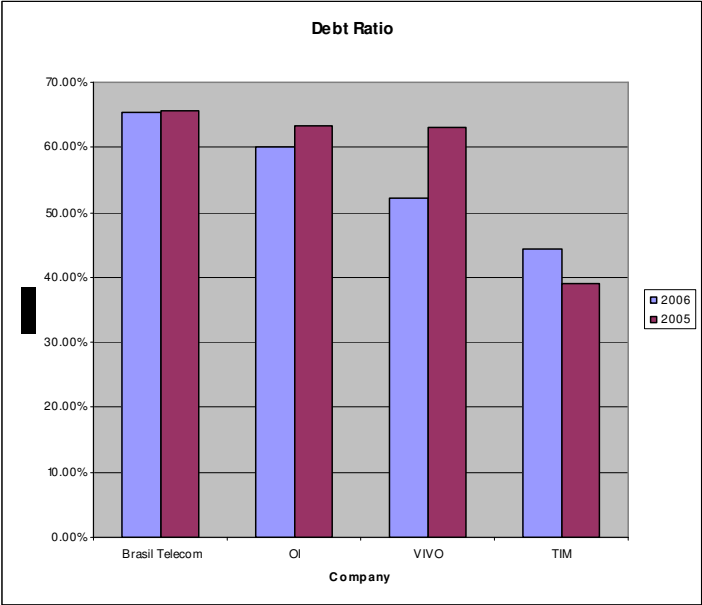
Exhibit 5. Ratio Analyses











Endnotes

¹ <http://www.brasiltelecom.com.br/ri>.

² according to Thomson Financial.

³ <http://www.mediagroup.com.br/host/Oi/2006/>.

⁴ <http://vivo.mediagroup.com.br/RAO/2006/en/financialDemonstrations.asp>.

⁵ <http://www.timpartri.com.br/tim/>

⁶ The issue with TIM arose with an independent auditors' report that stated due to a restructuring of TIM, the year to year for 2005 and 2006 are not fully comparable. Without any further insight on what this restructuring entailed, this analysis still highlights some key problem areas for the firm.