BRASIL TELECOM SA
Form 6-K
June 13, 2006

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

REPORT OF FOREIGN ISSUER
PURSUANT TO RULE 13a-16 OR 15d-16 OF THE
SECURITIES EXCHANGE ACT OF 1934

THROUGH JUNE 13 , 2006

(Commission File No. 1-15256)

BRASIL TELECOM S.A.
(Exact name of Registrant as specified in its Charter)

BRAZIL TELECOM COMPANY
(Translation of Registrant's name into English)

SIA Sul, Área de Serviços Públicos, Lote D, Bloco B
Brasília, D.F., 71.215-000
Federative Republic of Brazil
(Address of Regristrant's principal executive offices)

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

Form 20-F ___X___ Form 40-F ______

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

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

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

Yes ______ No ___X___

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

FEDERAL PUBLIC SERVICE
SECURITIES AND EXCHANGE COMMISSION (CVM) **CORPORATION LAW**
QUARTERLY INFORMATION
COMMERCIAL, INDUSTRIAL COMPANY AND OTHERS **Date: March 31, 2006**

REGISTRATION AT THE CVM DOES NOT REQUIRE ANY EVALUATION OF THE COMPANY, BEING ITS DIRECTOR RESPONSIBLE FOR THE VERACITY OF THIS INFORMATION.

01.01 - IDENTIFICATION

1 - CVM CODE 01131-2	2 - COMPANY S NAME BRASIL TELECOM S.A.	3 - CNPJ - TAXPAYER REGISTER 76.535.764/0001-43
4 NIRE 5.330.000.622.9		

01.02 - ADDRESS OF COMPANY S HEADQUARTERS

1 - FULL ADDRESS SIA/SUL - LOTE D - BL B - 1º ANDAR				2 - DISTRICT SIA
3 - ZIP CODE 71215-000	4 MUNICIPALITY BRASILIA			5 - STATE DF
6 - AREA CODE 61	7 - TELEPHONE NUMBER 3415-1010	8 - TELEPHONE NUMBER 3415-1256	9 - TELEPHONE NUMBER 3415-1119	10 - TELEX
11 - AREA CODE 61	12 FAX 3415-1593	13 - FAX 3415-1315	14 - FAX -	
15 - E-MAIL ri@brasiltelecom.com.br				

01.03 INVESTOR RELATIONS OFFICER (Address for correspondence to Company)

1 - NAME CHARLES LAGANÁ PUTZ				
2 - FULL ADDRESS SIA/SUL - ASP - LOTE D- BL A 2º ANDAR			3 - DISTRICT SIA	
4 - ZIP CODE 71215-000	5 MUNICIPALITY BRASILIA			6 - STATE DF
7 - AREA CODE 61	8 - TELEPHONE NUMBER 3415-1440	9 - TELEPHONE NUMBER -	10 - TELEPHONE NUMBER -	11 - TELEX
12 - AREA CODE 61	13 - FAX 3415-1315	14 - FAX -	15 - FAX -	
15 - E-MAIL cputz@brasiltelecom.com.br				

01.04 - REFERENCE / INDEPENDENT ACCOUNTANT

CURRENT FISCAL YEAR		CURRENT QUARTER			PRIOR QUARTER		
1 - BEGINNING	2 - ENDING	3 - QUARTER	4 - BEGINNING	5 - ENDING	6 - QUARTER	7 - BEGINNING	8 - ENDING
01/01/2006	12/31/2006	1	01/01/2006	03/31/2006	4	10/01/2005	12/31/2005
9 - INDEPENDENT ACCOUNTANT DELOITTE TOUCHE TOHMATSU AUDITORES INDEPENDENTES					10 - CVM CODE 00385-9		
11 - NAME TECHNICAL RESPONSIBLE MARCO ANTONIO BRANDAO SIMURRO					12 - CPF TAXPAYER REGISTER 755.400.708-44		

01.05 - COMPOSITION OF ISSUED CAPITAL

QUANTITY OF SHARES (IN THOUSANDS)	1 - CURRENT QUARTER 03/31/2006	2 - PRIOR QUARTER 12/31/2005	3 - SAME QUARTER OF PRIOR YEAR 03/31/2005
ISSUED CAPITAL			
1 COMMON	249,597,050	249,597,050	249,597,050
2 PREFERRED	305,701,231	305,701,231	305,701,231
3 TOTAL	555,298,281	555,298,281	555,298,281
TREASURY SHARES			
4 COMMON	0	0	0
5 PREFERRED	13,678,100	13,679,382	13,679,382
6 TOTAL	13,678,100	13,679,382	13,679,382

01.06 - COMPANY S CHARACTERISTICS

1 - TYPE OF COMPANY COMMERCIAL, INDUSTRIAL COMPANY AND OTHERS
2 SITUATION OPERATING
3 - TYPE OF CONTROLLING INTEREST NATIONAL PRIVATE
4 - ACTIVITY CODE 1130 TELECOMMUNICATIONS
5 MAIN ACTIVITY PROVIDING SWITCHED FIXED TELEPHONE SERVICE (STFC)
6 - TYPE OF CONSOLIDATED TOTAL
7 - TYPE OF INDEPENDENT ACCOUNTANTS REPORT UNQUALIFIED

01.07 - SUBSIDIARIES EXCLUDED FROM THE CONSOLIDATED FINANCIAL STATEMENTS

1 ITEM	2 GENERAL TAXPAYERS REGISTER	3 - NAME

01.08 - DIVIDENDS APPROVED AND/OR PAID DURING AND AFTER THE QUARTER

1 ITEM	2 - EVENT	3 - APPROVAL	4 - DIVIDEND	5 - BEGINNING PAYMENT	6 - TYPE OF SHARE	7 - VALUE OF THE DIVIDEND PER SHARE
01	RCA	12/30/2005	Interest on shareholders equity	01/14/2006	Common	0.0006064042
02	RCA	12/30/2005	Interest on shareholders equity	01/14/2006	Preferred	0.0006064042

01.09 - ISSUED CAPITAL AND CHANGES IN CURRENT YEAR

1 ITEM	2 DATE OF CHANGE	3 - CAPITAL STOCK (In R$ thousand)	4 - VALUE OF CHANGE (In R$ thousand)	5 - ORIGIN OF ALTERATION	6 - QUANTITY OF ISSUED SHARES (In R$ thousand)	7 - SHARE PRICE ON ISSUANCE DATE (In R$)

01.10 - INVESTOR RELATIONS OFFICER

1 DATE	2 SIGNATURE
05/12/2006	

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

1 - CODE	2 - ACCOUNT DESCRIPTION	3 03/31/2006	4 12/31/2005
1	TOTAL ASSETS	13,964,376	14,969,146
1.01	CURRENT ASSETS	3,834,060	4,552,814
1.01.01	CASH AND CASH EQUIVALENTS	705,735	1,479,040
1.01.02	CREDITS	1,963,842	1,939,589
1.01.02.01	ACCOUNTS RECEIVABLE FROM SERVICES	1,963,842	1,939,589
1.01.03	INVENTORIES	4,474	4,977
1.01.04	OTHER	1,160,009	1,129,208
1.01.04.01	LOANS AND FINANCING	5,732	3,873
1.01.04.02	DEFERRED AND RECOVERABLE TAXES	910,792	970,189
1.01.04.03	JUDICIAL DEPOSITS	32,736	30,858
1.01.04.04	CONTRACTUAL RETENTIONS	91,439	0
1.01.04.05	OTHER ASSETS	119,310	124,288
1.02	LONG-TERM ASSETS	936,765	955,527
1.02.01	SUNDRY CREDITS	0	0
1.02.02	CREDITS WITH RELATED PARTIES	0	0

1.02.02.01	FROM ASSOCIATED COMPANIES	0	0
1.02.02.02	FROM SUBSIDIARIES	0	0
1.02.02.03	FROM OTHER RELATED PARTIES	0	0
1.02.03	OTHER	936,765	955,527
1.02.03.01	LOANS AND FINANCING	3,300	5,211
1.02.03.02	DEFERRED AND RECOVERABLE TAXES	734,570	759,637
1.02.03.03	INCOME SECURITIES	589	502
1.02.03.04	JUDICIAL DEPOSITS	143,945	135,205
1.02.03.05	INVENTORIES	0	0
1.02.03.06	OTHER ASSETS	54,361	54,972
1.03	PERMANENT ASSETS	9,193,551	9,460,805
1.03.01	INVESTMENTS	2,563,198	2,481,988
1.03.01.01	ASSOCIATED COMPANIES	4	4
1.03.01.02	SUBSIDIARIES	2,435,848	2,348,514
1.03.01.03	OTHER INVESTMENTS	127,346	133,470
1.03.02	PROPERTY, PLANT AND EQUIPMENT	6,142,469	6,523,613
1.03.03	DEFERRED CHARGES	487,884	455,204

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

1 - CODE	2 - ACCOUNT DESCRIPTION	3 03/31/2006	4 12/31/2005
2	TOTAL LIABILITIES	13,964,376	14,969,146
2.01	CURRENT LIABILITIES	3,971,685	4,607,415
2.01.01	LOANS AND FINANCING	968,569	880,891
2.01.02	DEBENTURES	554,115	608,226
2.01.03	SUPPLIERS	1,065,462	1,264,665
2.01.04	TAXES, DUTIES AND CONTRIBUTIONS	818,877	892,165
2.01.04.01	INDIRECT TAXES	752,769	705,383
2.01.04.02	TAXES ON INCOME	66,108	186,782
2.01.05	DIVIDENDS PAYABLE	61,109	376,579
2.01.06	PROVISIONS	229,705	249,453
2.01.06.01	PROVISIONS FOR CONTINGENCIES	184,949	203,958
2.01.06.02	PROVISIONS FOR PENSION PLAN	44,756	45,495
2.01.07	DEBTS WITH RELATED PARTIES	0	0
2.01.08	OTHER	273,848	335,436
2.01.08.01	PAYROLL AND SOCIAL CHARGES	60,942	60,324
2.01.08.02	CONSIGNMENTS IN FAVOR OF THIRD PARTIES	92,668	137,580
2.01.08.03	EMPLOYEE PROFIT SHARING	23,977	54,149
2.01.08.04	LICENSE FOR OPERATING TELECOMS SERVICES	17,043	0
2.01.08.05	OTHER LIABILITIES	79,218	83,383
2.02	LONG-TERM LIABILITIES	4,485,711	4,859,602
2.02.01	LOANS AND FINANCING	2,587,545	2,879,653
2.02.02	DEBENTURES	500,000	500,000
2.02.03	PROVISIONS	1,081,164	1,123,317
2.02.03.01	PROVISIONS FOR CONTINGENCIES	402,298	421,695

2.02.03.02	PROVISIONS FOR PENSION PLAN	660,321	682,594
2.02.03.03	PROVISIONS FOR LOSS WITH SUBSIDIARIES	18,545	19,028
2.02.04	DEBTS WITH RELATED PARTIES	0	0
2.02.05	OTHER	317,002	356,632
2.02.05.01	PAYROLL AND SOCIAL CHARGES	0	0
2.02.05.02	SUPPLIERS	21,999	21,319
2.02.05.03	INDIRECT TAXES	254,313	290,712
2.02.05.04	TAXES ON INCOME	4,524	8,872
2.02.05.05	OTHER LIABILITIES	28,192	27,755
2.02.05.06	FUNDS FOR CAPITALIZATION	7,974	7,974
2.03	DEFERRED INCOME	5,350	5,522
2.05	SHAREHOLDERS EQUITY	5,501,630	5,496,607
2.05.01	CAPITAL	3,435,788	3,435,788
2.05.02	CAPITAL RESERVES	1,362,897	1,362,890
2.05.02.01	GOODWILL ON SHARE SUBSCRIPTION	334,825	334,825
2.05.02.02	SPECIAL GOODWILL ON THE MERGER	59,007	59,007
2.05.02.03	DONATIONS AND FISCAL INCENTIVES FOR INVESTMENTS	123,558	123,551

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

1 - CODE	2 - ACCOUNT DESCRIPTION	3 03/31/2006	4 12/31/2005
2.05.02.04	INTEREST ON WORKS IN PROGRESS	745,756	745,756
2.05.02.05	SPECIAL MONETARY CORRECTION-LAW 8200/91	31,287	31,287
2.05.02.06	OTHER CAPITAL RESERVES	68,464	68,464
2.05.03	REVALUATION RESERVES	0	0
2.05.03.01	COMPANY ASSETS	0	0
2.05.03.02	SUBSIDIARIES/ASSOCIATED COMPANIES	0	0
2.05.04	PROFIT RESERVES	287,672	287,672
2.05.04.01	LEGAL	287,672	287,672
2.05.04.02	STATUTORY	0	0
2.05.04.03	CONTINGENCIES	0	0
2.05.04.04	REALIZABLE PROFIT RESERVES	0	0
2.05.04.05	PROFIT RETENTION	0	0
2.05.04.06	SPECIAL RESERVE FOR UNDISTRIBUTED DIVIDENDS	0	0
2.05.04.07	OTHER PROFIT RESERVES	0	0
2.05.05	RETAINED EARNINGS/ACCUMULATED DEFICIT	415,273	410,257

03.01 - STATEMENT OF INCOME (IN THOUSANDS OF REAIS)

1 - CODE	2 DESCRIPTION	3 01/01/2006 TO 03/31/2006	4 - 6 01/01/2006 TO 03/31/2006	5 01/01/2005 TO 03/31/2005	6 - 5 01/01/2005 TO 03/31/2005
3.01		3,349,862	3,349,862	3,250,369	3,250,369

	GROSS REVENUE FROM SALES AND/OR SERVICES				
3.02	DEDUCTIONS FROM GROSS REVENUE	(1,051,330)	(1,051,330)	(942,247)	(942,247)
3.03	NET REVENUE FROM SALES AND/OR SERVICES	2,298,532	2,298,532	2,308,122	2,308,122
3.04	COST OF GOODS AND/OR SERVICES SOLD	(1,421,668)	(1,421,668)	(1,404,840)	(1,404,840)
3.05	GROSS PROFIT	876,864	876,864	903,282	903,282
3.06	OPERATING EXPENSES/REVENUES	(804,044)	(804,044)	(787,231)	(787,231)
3.06.01	SELLING EXPENSES	(284,788)	(284,788)	(284,024)	(284,024)
3.06.02	GENERAL AND ADMINISTRATIVE EXPENSES	(264,854)	(264,854)	(255,850)	(255,850)
3.06.03	FINANCIAL	(106,316)	(106,316)	(118,345)	(118,345)
3.06.03.01	FINANCIAL INCOME	58,325	58,325	132,269	132,269
3.06.03.02	FINANCIAL EXPENSES	(164,641)	(164,641)	(250,614)	(250,614)
3.06.04	OTHER OPERATING INCOME	79,439	79,439	80,203	80,203
3.06.05	OTHER OPERATING EXPENSES	(115,350)	(115,350)	(85,146)	(85,146)
3.06.06	EQUITY IN THE EARNINGS OF SUBSIDIARIES AND ASSOCIATED COMPANIES	(112,175)	(112,175)	(124,069)	(124,069)
3.07	OPERATING INCOME	72,820	72,820	116,051	116,051
3.08	NON-OPERATING INCOME	(3,336)	(3,336)	(33,463)	(33,463)
3.08.01	REVENUES	4,767	4,767	12,115	12,115
3.08.02	EXPENSES	(8,103)	(8,103)	(45,578)	(45,578)
3.09	INCOME (LOSS) BEFORE TAXES AND MINORITY INTEREST	69,484	69,484	82,588	82,588
3.10	PROVISION FOR INCOME TAX AND SOCIAL CONTRIBUTION	(64,468)	(64,468)	(79,784)	(79,784)
3.11	DEFERRED INCOME TAX	0	0	0	0
3.12	STATUTORY INTEREST/CONTRIBUTIONS	0	0	0	0
3.12.01	INTEREST	0	0	0	0
3.12.02	CONTRIBUTIONS	0	0	0	0

03.01 - STATEMENT OF INCOME (IN THOUSANDS OF REAIS)

1 - CODE	2 DESCRIPTION	3 01/01/2006 TO 03/31/2006	4 - 01/01/2006 TO 03/31/2006	5 01/01/2005 TO 03/31/2005	6 - 01/01/2005 TO 03/31/2005
3.13	REVERSAL OF INTEREST ON SHAREHOLDER S EQUITY	0	0	0	0
3.15	INCOME (LOSS) FOR THE PERIOD	5,016	5,016	2,804	2,804
	NUMBER OF OUTSTANDING SHARES, EX-TREASURY(THOUSAND)	541,620,181	541,620,181	541,618,899	541,618,899
	EARNINGS PER SHARE	0.00001	0.00001	0.00001	0.00001

	LOSS PER SHARE				

01131-2 BRASIL TELECOM S.A. 76.535.764/0001-43

04.01-NOTES TO THE FINANCIAL STATEMENTS

NOTES TO THE QUARTERLY FINANCIAL STATEMENTS
AS OF 03/31/2006

(In thousands of Brazilian reais)

1. OPERATIONS

BRASIL TELECOM S.A. (the Company) is a concessionaire of the Switched Fixed Telephone Service (STFC) and operates in Region II of the General Concession Plan, covering the Brazilian states of Acre, Rondônia, Mato Grosso, Mato Grosso do Sul, Tocantins, Goiás, Paraná, Santa Catarina and Rio Grande do Sul, besides the Federal District. In this area of 2,859,375 square kilometers, which corresponds to 34% of the Brazilian territory, the Company renders since July 1998 the STFC in the modalities of local and intra-regional long distances.

With recognition of the prior fulfillment of the obligations for universalization stated in the General Plan of Universalization Goals (PGMU), required for December 31, 2003, the Company obtained from the National Agency for Telecommunications (ANATEL), on January 19, 2004, issued authorizations for the Company to exploit STFC in the following service modalities: (i) Local and Domestic Long Distance calls in Regions I and III and Sectors 20, 22 and 25 of Region II of the General Concession Plan (PGO); and (ii) International Long Distance calls in Regions I, II and III of PGO. As a result of these authorizations, the Company began to exploit the Domestic and International Long Distance Services in the Regions I, II and III, starting on January 22, 2004. In the case of the Local Service in the new regions and PGO sectors, the service began to be rendered as from January 19, 2005.

The Company s business, as well as the rendered services and the charged fees are regulated by ANATEL.

New concession agreements under the modalities of local and long distance services came into force as of January 1, 2006, effective until December 31, 2025. Additional information about these agreements is mentioned in Note 5.i.

Information related to the quality and universal service targets of the Switched Fixed Telephone Service are available to interested parties on ANATEL s homepage, in the website *www.anatel.gov.br*.

The Company is a subsidiary of Brasil Telecom Participações S.A. (BTP), incorporated on May 22, 1998 as a result of the privatization of the Telebrás group (State-owned holding company of the telecommunication segment).

The Company is registered at the Brazilian Securities and Exchange Commission (CVM) and at the U.S. Securities and Exchange Commission (SEC). Its shares are traded on the São Paulo Stock Exchange (BOVESPA), where it also integrates level 1 of Corporate Governance, and trades its American Depositary Receipts - ADRs on the New York Stock Exchange (NYSE).

Subsidiaries

a) 14 Brasil Telecom Celular S.A. (BrT Celular): a wholly-owned subsidiary which operates since the fourth quarter of 2004 to provide Personal Mobile Service (SMP), with authorization to assist the same coverage area where the Company operates with STFC.

b) BrT Serviços de Internet S.A. (BrTI): A wholly-owned subsidiary which since 2002 provides Internet services and correlated activities.

BrTI, on the other hand, has the control of the following companies:

(i) BrT Cabos Submarinos Group

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

- Brasil Telecom Cabos Submarinos do Brasil (Holding) Ltda. (BrT CSH)
- Brasil Telecom Cabos Submarinos do Brasil Ltda. (BrT CS Ltda.): BrTI exercises direct control and total control jointly with BrT CSH.
- Brasil Telecom Subsea Cable Systems (Bermudas) Ltd. (BrT SCS Bermuda): it is also an integral part of the Companies BrT Cabos Submarinos, and BrTI maintains a minority interest, however it is ensured the indirect control once the majority control belongs to the Company. On its turn, BrT SCS Bermuda holds the total shares of Brasil Telecom of America Inc. and Brasil Telecom de Venezuela, S.A.

(ii) iBest Group

iBest Companies have their operations concentrated in providing dial up connection to the Internet, sale of advertising space for divulgation in its portal and value-added service with the availability of its Internet access accelerator. They are represented by the companies: iBest Holding Corporation, incorporated in Cayman Islands, and Freelance S.A., established in Brazil.

<u>IG Companies</u>

IG Companies have operations based on providing dial up access to the Internet, inclusively, its mobile internet portal related to mobile telephony in Brazil. They also render value added services related to broadband access to its portal and web page hosting and other services in the Internet market.

On November 24, 2004, BrT SCS Bermuda acquired 63.0% of the total capital, and the resulting control, of Internet Group (Cayman) Limited (IG Cayman), incorporated in Cayman Islands. On July 26, 2005, BrT SCS Bermuda complemented the acquisition of additional 25.6% of IG Cayman s total capital. On the quarter closing date, the interest held by BrT SCS Bermuda was 88.8% . IG Cayman is a holding which, in its turn, have control of Internet Group do Brasil Ltda. (IG Brasil) and Central de Serviços Internet Ltda. (CSI), both established in Brazil.

c) MTH Ventures do Brasil Ltda. (MTH): The Company holds 100% of the capital of MTH, a holding company which has 100% of the capital of Brasil Telecom Comunicação Multimídia Ltda. (BrT Multimídia).

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

d) Vant Telecomunicações S.A. (VANT): Corporation that the Company acquires the total capital stock. VANT is a service provider of corporate network services which operates throughout Brazil, and is present in the main Brazilian state capitals, offering voice and data products.

e) Other Service Provider Companies

The Company is the holder of 100% of the capital stock of the companies Santa Bárbara dos Pampas S.A., Santa Bárbara dos Pinhais S.A., Santa Bárbara do Cerrado S.A. and Santa Bárbara do Pantanal S.A. These companies, which were not operating on the quarter closing date, aim at rendering services in general comprising, among others, the management activities of real states or assets.

Change in the Management

On July 27, 2005, the Extraordinary Shareholders Meeting dismissed from office the members of the Company s Board of Directors connected with former manager Opportunity. At Board of Directors Meeting held on August, 25, 2005, a new Board of Executive Officers was elected, and the Technical Officer was maintained in his position.

At the Extraordinary Shareholders Meeting held on September 30, 2005, the Board of Directors members of the Company were dismissed from office and new members were elected. On the same date, the Board of Directors meeting resolved to dismiss the Chairman and to elect new members for the Board of Executive Officers, and the Network Officer was reelected. Such resolutions were ratified by the Board of Directors of the Company in meeting held on October 5, 2005.

The process to change the management of Brasil Telecom Participações S.A. and the Company was litigious, according to various material facts published by the Company during 2005 and various lawsuits brought by the former manager, aiming at recovering the management of the Companies, which are still under progress.

Agreements as of April 28, 2005 under the Previous Management

On April 28, 2005, still under previous management, Brasil Telecom Participações S.A. and Brasil Telecom S.A. entered into various agreements involving the Opportunity Group and Telecom Italia (April 28 Agreements).

Among such agreements, Brasil Telecom S.A. and its subsidiary 14 Brasil Telecom Celular S.A. (BTC) executed with TIM International N.V. (TIMI) and TIM Brasil Serviços e Participações S.A. (TIMB) an instrument named as Merger Agreement and a Protocol related thereto.

As mentioned in material facts published, the merger was forbidden by injunctions issued by the Brazilian and U.S. courts. It is also subject-matter of discussion under arbitration involving the controlling shareholders.

The actual management of Brasil Telecom Participações S.A. and of the Company understands that the Merger Agreement, the respective Protocol, and other April 28 agreements, which included the waiver and transaction in lawsuits involving the Companies, were entered into with conflict of interests, breaching the laws and the Bylaws of the Companies, and also, in opposition to shareholders agreements and without the necessary corporate approvals. In addition, the actual management deems that such agreements are contrary to the best interest of the Companies, especially regarding its mobile telephony business. TIMI and TIMB sent to the Company and to Brt Celular a correspondence dated as of May 2, 2006, terminating unilaterally the referred Merger Agreement , reserving supposed rights.

2. PRESENTATION OF FINANCIAL STATEMENTS

Preparation Criteria

The financial statements have been prepared in accordance with accounting practices adopted in Brazil, in compliance with the Brazilian corporate law, rules of the Brazilian Securities and Exchange Commission (CVM) and rules applicable to telephony service concessionaires.

As the Company is registered with the SEC, it is subject to SEC s standards, and it must prepare financial statements and other information by using criteria that comply with that agency s requirements. To comply with these requirements and aiming at meeting the market s information needs, the Company adopts, as a principle, the disclosure of information in both markets in their respective languages.

The notes to the financial statements are presented in thousands of reais, unless otherwise demonstrated. According to each situation, they present information related to the Company and the consolidated statements, identified as PARENT COMPANY and CONSOLIDATED , respectively. When the information is common to both situations, it is indicated as PARENT COMPANY AND CONSOLIDATED .

In compliance with the Resolution 489/05, of CVM, as from 2006 the amounts of judicial deposits linked to the provisions for contingencies are presented in a deductive way from the liabilities established. Aiming at providing a better comparison between the data presented in the quarterly information, an identical reclassification of balances belonging to 2005 was promoted, as well as of the amounts referring to the cash flow.

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

Consolidated Financial Statements

The consolidation was made in accordance with CVM Instruction 247/96 and includes the Company and the companies listed in Note 1.

Some of the main consolidation procedures are:

- Elimination of balances of the asset and liability accounts among the consolidated companies, as well as revenue and expenses of transactions among them;
- Elimination of the balances of the investment accounts and corresponding investor s shareholdings, reserves and accumulated results in the consolidated companies; and
- Segregation of the portions of shareholders equity and income belonging to minority shareholders, indicated in specific items.

Supplementary Information

The Company is presenting as supplementary information the statements of cash flows, which were prepared in accordance with Accounting Rules and Procedures - NPC 20 of the Brazilian Institute of Independent Auditors - IBRACON. The statement of cash flow is shown together with Note 17.

Report per Segment

The Company is presenting, supplementary to note 42, the report per business segment. A segment is an identifiable component of the company, intended for service rendering (business segment), or provision of products and services which are subject to different risks and compensations different from those of other segments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING PRACTICES

The criteria mentioned in this note refer to the practices adopted by the Company and its subsidiaries that are included in the consolidated balance sheet.

a. Cash and Cash Equivalents: Cash equivalents are temporary high-liquid investments, with immediate maturity. They are recorded at cost, plus income registered until the closing dates of the quarters, and do not exceed market value. Investment funds quotas are appreciated considering the quota values on March 31, 2006.

b. Trade Accounts Receivable: Receivables from users of telecommunications services are recorded at the amount of the fee or the service on the date the service is rendered. Accounts receivable from services include credits for services rendered and not billed until the closing dates of the quarters. Receivables resulting from sales of cell phones and accessories are recorded by the amount of sales made, at the moment in which the goods are delivered and accepted by the customer. The criterion adopted for making the allowance for doubtful accounts takes into account the calculation of the actual percentage of losses incurred on each range of accounts receivable. The historic percentages are applied to the current ranges of accounts receivable, also including accounts coming due and the portion yet to be billed, thus composing the amount that could become a future loss, which is recorded as a provision.

c. Material Inventories: Stated at average acquisition cost, not exceeding replacement cost. Inventories are segregated into inventories for plant expansion and those for maintenance and in relation to consolidated statements, goods inventories for resale, mainly composed of cell phones, accessories and electronic cards - chips. The inventories to be used in expansion are classified in property, plant and equipment (construction in progress), and inventories to be used in maintenance are classified as current and long-term assets, in accordance with the period in which they will be used, and the resale inventories are classified as current assets. Obsolete inventories are recorded as allowance for losses. With regard to cell phones and accessories, the subsidiary BrT Celular records the adjustments for the trading prices held as of the quarter closing date, in the cases in which the acquisitions presented higher values.

d. Investments: Investments in subsidiaries are assessed using the equity method. Goodwill is calculated based on the expectation of future results and its amortization is based on the expected realization/timing over an estimated period of not more than ten years. Other investments are recorded at acquisition cost, less allowance for losses, when applicable. The investments resulting from income tax incentives are recognized on the date of investment, and result in shares of companies with tax incentives or investment fund quotas. In the period between the investment date and receipt of shares or quotas of funds, they remain recognized in long-term assets. The Company adopts the criterion of using the maximum percentage of tax allocation. These investments are periodically valued and the result of the comparison between its original and market costs, when the latter is lower, results in the constitution of allowances for probable losses.

e. Property, Plant and Equipment: Stated at cost of acquisition and/or construction, less accumulated depreciation. Financial charges for financing assets and construction in progress are capitalized.

The costs incurred, when they represent improvements (increase in installed capacity or useful life) are capitalized. Maintenance and repair are charged to the profit and losses accounts, on an accrual basis.

Depreciation is calculated under the straight-line method. Depreciation rates used are based on expected useful lives of the assets and in accordance with the standards of the Public Telecommunications Service. The main rates used are set forth in Note 27.

f. Deferred Charges: Segregated between deferred charges on amortization and formation. Their breakdown is shown in Note 28. Amortization is calculated under the straight-line method, for a five-year period, in accordance with the legislation in force. When benefits are not expected from an asset, it is written off against non-operating income.

g. Income and Social Contribution Taxes: Corporate income and social contribution taxes are accounted for on an accrual basis. These taxes levied on temporary differences, tax losses and the social contribution negative basis are recorded under assets or liabilities, as applicable, according to the assumption of realization or future demand, within the parameters set forth in the CVM Instruction 371/02.

h. Loans and Financing: These are updated for monetary and/or exchange variations and interest incurred until the quarter closing date. Equal restatement is applied to the guarantee contracts to hedge the debt.

i. Provision for Contingencies: The contingency provisions are made based on a survey of the respective risks and they are quantified according to economic grounds and legal opinions on the contingency proceedings and facts known on the quarter closing date. The basis and nature of the provisions are described in Note 7.

j. Revenue Recognition: Revenues from services rendered are recognized when provided. Local and long distance calls are charged based on time measurement according to the legislation in force. Revenues from sales of payphone cards (Public Use Telephony - TUP), cell phones and accessories are recorded when delivered and accepted by the clients. For prepaid services linked to mobile telephony, the revenue is recognized in accordance with the utilization of services. Revenue is not recognized if there is a significant uncertainty in its realization.

k. Recognition of Expenses: Expenses are recognized on an accrual basis, considering their relation with revenue realization. Expenses related to future periods are deferred.

l. Financial Income (Expense), Net: Financial income comprises interest earned on overdue accounts settled after the term, gains on financial investments and hedges. Financial expenses comprise interest incurred and other charges on loans, financing and other financial transactions.

Interest on shareholders equity, when credited, is included in the financial expenses balance, and for financial statement presentation purposes, the amounts are reversed to profit and loss accounts and reclassified as a deduction of retained earnings, in the shareholders equity.

m. Research and Development: Costs for research and development are recorded as expenses when incurred, except for expenses with projects linked to the generation of future revenue, which are recorded under deferred assets and amortized over a five-year period from the beginning of the operations.

n. Benefits to Employees: Private pension plans and other retirement benefits sponsored by the Company and its subsidiaries for their employees are managed under three foundations. Contributions are determined on an actuarial basis, when applicable, and accounted for on an accrual basis. As of December 31, 2001, the Company recorded its actuarial deficit on the balance sheet date against shareholders equity, net of its tax effects. As from 2002, as new actuarial revaluations show the necessity for adjustments to the provision, they are recognized in the profit and loss accounts. Additional information on private pension plans is described in Note 6.

o. Profit Sharing: The provision for employees and management profit sharing is recognized on an accrual basis, being accounted as operating expense. The calculation of the amount, which is paid in the subsequent year after the provision is recognized, is based on the target program established with the labor union, by means of collective labor agreement, in accordance with Law 10,101/00 and the Company s Bylaws.

p. Earnings or losses per thousand shares: Calculated based on the number of shares outstanding on the quarter closing date, which comprises the total number of shares issued, minus shares held in treasury.

4. RELATED-PARTIES TRANSACTIONS

Related parties transactions refer to operations with Brasil Telecom Participações S.A., the Company s parent company, and with the subsidiaries mentioned in Note 1.

Operations between related parties and the Company are carried out under normal prices and market conditions. The main transactions are:

Brasil Telecom Participações S.A.

Loans with the Parent Company: Liabilities arose from the spin-off of Telebrás and are indexed to exchange variation, plus interest of 1.75% per year, amounting to R$ 51,137 (R$ 58,798 as of December 31, 2005). The financial gain recognized against the result in the quarter, due to the drop of the U.S. dollar was R$ 3,926 (R$ 554 of financial loss in 2005).

Debentures: On January 27, 2001, the Company issued 1,300 private debentures at the unit price of R$ 1,000 non-convertible or exchangeable for any type of share, totaling R$ 1,300,000, for the purpose of financing part of its investment program. All these debentures were acquired by the parent company Brasil Telecom Participações S.A. The balance of the debentures par value will be amortized in a remaining installment, equivalent to 40% of issuance, with maturity term on July 27, 2006. The debentures remuneration is equivalent to 100% of the CDI, paid semiannually. The balance of this liability is R$ 534,070 (R$ 560,459 on December 31, 2005) and the charges recognized in the income on the quarter represented R$ 21,362 (R$ 37,313 in 2005).

Sureties and Guarantees: (i) The Company renders sureties as guarantee of loans and financings owed by the Company to the lending financial institutions. In this first quarter of 2006, referring to the guarantee benefit, the Company recorded expenses in favor of the Parent Company at the amount of R$ 581 (R$ 1,055 in 2005); and (ii) the Parent Company renders surety for the Company related to the contracting of insurance policies, guarantee of contractual liabilities (GOC), which amounted to R$ 220,305 (R$ 217,142 in 2005). In the quarter, in return to such surety, the Company registered an operating expense of R$ 66 (R$ 65 in 2005).

Revenues and Accounts Payable: arising from transactions related to share of resources. The balance payable is R$ 381 (R$ 54 receivable on 12/31/05) and the amounts recorded in income on the quarter comprises operating revenues of R$ 337 (R$ 1,056 in 2005).

BrT Serviços de Internet S.A.

Amounts Receivable, Revenues and Expenses: arising from transactions related to the use of facilities, logistic support and telecommunications services. The balance receivable is R$ 13,710 (R$ 23,126 receivable on 12/31/05). The amounts recorded in income on the quarter represented R$ 9,772 of the operating revenues (R$ 15,618 in 2005) and R$ 15,712 of operating expenses (R$ 39,381 in 2005).

14 Brasil Telecom Celular S.A.

Amounts Payable, Revenues and Expenses: arising from transactions related to the use of facilities, logistic support and telecommunications services. The balance payable is R$ 2,176 (R$ 1,680 receivable, on 12/31/05). The amounts recorded in income on the quarter represented R$ 45,727 of the operating revenues (R$ 40,310 in 2005) and R$ 87,849 of operating expenses (R$ 35,567 in 2005).

Vant Telecomunicações S.A.

Accounts Payable, Revenues and Expenses: arising from transactions related to telecommunications services and acquisitions of property, plant and equipment. The balance payable is R$ 3,443 (R$ 320 payable on 12/31/05) and the amounts recorded in income in the quarter represented R$ 1,239 of operating revenues (R$ 262 in 2005) and R$ 490 of operating expenses (R$ 520 in 2005).

BrT SCS Bermuda

Amounts Receivable and Revenues: arising from transactions related to telecommunications services. The balance receivable is R$ 197 (R$ 201 on 12/31/05). The amounts accounted against the result in the quarter represented R$ 44 of operating revenues. In the first quarter of 2005 a financial revenue of R$ 189 was recorded, resulting from a loan agreement released in the same period.

Freelance S.A.

Accounts Payable, Revenues and Expenses: arising from transactions related to the use of telecommunications services. The payable balance amounts is R$ 311 (R$ 769 receivable on 12/31/05). The amounts accounted against the result in the quarter represented R$ 982 of operating revenues (R$ 52 in 2005) and R$ 2,062 of operating expenses.

IG Brasil

Accounts Receivable, Revenues and Expenses: arising from transactions related to the use of telecommunications services. The balance receivable is R$ 76 (R$ 733 on 12/31/05). The amounts accounted in the income on the quarter are represented by R$ 1,014 of operating revenues (R$ 2,003 in 2005) and operating expenses R$ 360.

BrT Multimídia

Accounts Payable, Revenues and Expenses: arising from transactions related to telecommunications services. The balance payable is R$ 7,067 (R$ 10,772 payable on 12/31/05). The amounts recorded in income on the quarter represented Operating Revenues of R$ 126 (R$ 22 in 2005) and Operating Expenses of R$ 4,953 (R$ 19,504 in 2005).

Other Related Parties Transactions

Due to the existence of common partners in the control chain of the Company and the Companies mentioned below, the operations among them may be classified, pursuant to CVM Resolution 26/86, as related-parties transactions .

Telemig Celular

The Company and Telemig Celular maintain agreements related to the operations of telecommunications services, comprising CSP 14 Operator Selection Code, infrastructure rental and co-billing agreements. The amount receivable, resulting from these contracts and agreements is R$ 3,849 (R$ 4,228 on 12/31/05). The amounts recorded in the result in the quarter are represented by operating expenses of R$ 9,973 (R$ 14,696 in 2005) and operating revenues of R$ 76 in the first quarter of 2005.

Amazônia Celular

The Company and Amazônia Celular maintain an agreement concerning operation of telecommunications services, comprising CSP 14 Operator Selection Code and co-billing agreements. The amount receivable, resulting from these contracts and agreements is R$ 1,376 (R$ 258 on 12/31/05). The amounts recorded in the result in the quarter are represented by operating expenses of R$ 2,632 (R$ 5,077 in 2005).

TIM Celular

The Company and TIM s cell phone companies maintain agreements concerning the operation of telecommunications services, comprising lease of means and co-billing agreements, as well as relationships resulting from CSP. The amount payable, resulting from these transactions is R$ 46,715 (R$ 38,296 on 12/31/05). The amounts recorded in the result in the quarter are represented by operating revenues of R$ 34,663 and operating expenses of R$ 129,272.

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

The Company and its subsidiaries assessed the book value of its assets and liabilities as compared to market or realizable values (fair value), based on information available and valuation methodologies applicable to each case. The interpretation of market data regarding the choice of methodologies requires considerable judgment and determination of estimates to achieve an amount considered adequate for each case. Accordingly, the estimates presented may not necessarily indicate the amounts, which can be obtained in the current market. The use of different assumptions for calculation of market value or fair value may have material effect on the obtained amounts. The selection of assets and liabilities presented in this note took place based on their materiality. Instruments whose values approximate their fair values, for example cash and cash equivalents, accounts receivable, assets and liabilities of taxes, pension funds, among others, and whose risk assessment is not significant, are not mentioned.

In accordance with their natures, the financial instruments may involve known or unknown risks, and the potential of such risks is important for the best judgment. Thus, there may be risks with or without guarantees, depending on circumstantial or legal aspects. Among the principal market risk factors which can affect the Company s business are the following:

a. Credit Risk

The majority of services provided by Brasil Telecom S.A. are related to the Concession Agreement, and a significant portion of these services is subject to the determination of fees by the regulatory agency. The credit policy, in its turn, in case of telecommunications public services, is subject to legal standards established by the concession authority. The risk exists since the Company may incur losses arising from the difficulty in receiving amounts billed to its customers. The Company s default on the quarter was 2.96% of the gross revenue (2.94% in 2005). For the Consolidated it was 3.09% and 3.02%, respectively. By means of internal controls, the level of accounts receivable is constantly monitored, thus limiting the risk of past due accounts by cutting the access to the service (out phone traffic) if the bill is overdue for over 30 days. Exceptions are made for telephone services, which should be maintained for national security or defense.

The Company operates in co-billing, concerning long distance calls with the use of its CSP (Operator Selection Code) originated by subscribers of other fixed and mobile telephony operators. The co-billing accounts receivable are managed by these operators, based on the operational agreements entered into with them and according to the rules set forth by ANATEL. The blocking rules set forth by the regulating agency are the same for the fixed and mobile telephony companies, which are co-billing suppliers. The Company separately controls receivables of this nature and maintain an allowance for losses that may occur, due to the risks of not receiving such amounts.

In respect to mobile telephony, credit risk in cell phones sales and in service rendering in the postpaid category is minimized with the adoption of a credit pre-analysis. Still in relation to postpaid service, whose client base at the end of the quarter was 33.4% (31.3% on 12/31/05), the receivable accounts are also monitored in order to limit default and the block is made to the service (out of phone traffic) if the bill is overdue for over fifteen days.

b. Exchange Rate Risk

Liabilities

The Company has loans and financing contracted in foreign currency. The risk related to these liabilities arises from possible exchange rate fluctuations, which may increase these liabilities balances. Consolidated loans subject to this

risk represent approximately 22.6% (23.3% on 12/31/05) of the total liabilities of loans and consolidated financing, minus the contracted hedge balances. In order to minimize this kind of risk, the Company has been entering into exchange hedge agreements with financial institutions. Of the debt installment consolidated in foreign currency, 67.9% (66% on 12/31/05) is covered by hedge operations and financial investments in foreign currency, resulting in an effective exposition of 11.9% . Unrealized positive or negative effects of these operations are recorded in the profit and loss as gain or loss. Until the end of the quarter, the negative adjustments of these operations amounted to R$ 64,517 (R$ 47,771 of negative adjustments in 2005).
Net exposure as per book and market values, at the exchange rate prevailing on the quarter closing date, is as follows:

PARENT COMPANY

	03/31/06		**12/31/05**	
	Book Value	**Market Value**	**Book Value**	**Market Value**
Liabilities				
Loans and Financing	938,872	983,388	1,040,800	1,086,134
Hedge Contracts	366,110	364,009	311,469	301,119
Total	**1,304,982**	**1,347,397**	**1,352,269**	**1,387,253**
Current	183,368	183,662	125,690	126,588
Long-term	1,121,614	1,163,735	1,226,579	1,260,665

CONSOLIDATED

	03/31/06		**12/31/05**	
	Book Value	**Market Value**	**Book Value**	**Market Value**
Liabilities				
Loans and Financing	960,487	1,005,003	1,064,090	1,109,424
Hedge Contracts	366,110	364,009	311,469	301,119
Total	**1,326,597**	**1,369,012**	**1,375,559**	**1,410,543**
Current	183,368	183,662	125,690	126,588
Long-term	1,143,229	1,185,350	1,249,869	1,283,955

The method used for calculation of market value (fair value) of loans and financing in foreign currency and hedge instruments was future cash flows associated to each contracted instruments, minus the market rates in force in the quarter date.

c. Interest Rate Risk

<u>Assets</u>

The Company has loans granted to the phone directory company, with interest indexed to the IGP-DI (a national index price), as well as loans resulting from the sale of property, plant and equipment to other telephony companies, remunerated by IPA-OG/Industrial Products of Column 27 (FGV). The Company also has Certificate of Deposits (CDBs) with Banco de Brasília S.A. related to the guarantee to tax incentive granted by the Federal District Government under a program called Programa de *Promoção do Desenvolvimento Econômico e Sustentável do Distrito Federal* PRO-DF, (Program to Promote the Economic and Sustained Development of the Federal District), and the remuneration of these securities is equivalent to 95% of the SELIC rate.

These assets are represented in the balance sheet as follows:

	PARENT COMPANY		CONSOLIDATED	
	Book and Market Value		Book and Market Value	
	03/31/06	12/31/05	03/31/06	12/31/05
Assets				
Loans subject to:				
IGP-DI	7,792	7,747	7,865	7,836
IPA-OG Column 27 (FGV)	1,240	1,337	1,240	1,337
Securities subject to:				
SELIC rate	589	502	2,788	2,604
Total	**9,621**	**9,586**	**11,893**	**11,777**
Current	5,732	3,873	5,805	3,962
Long-term	3,889	5,713	6,088	7,815

Liabilities

Brasil Telecom S.A. has loans and financing contracted in local currency subject to interest rates linked to indexing units TJLP, UMBNDES, CDI IGP-M and IGP/DI. The inherent risk in these liabilities arises from possible variations in these rates. The Company has contracted derivative hedge contracts to 20.4% (22.7% on 12/31/05) of the liabilities subject to the UMBNDES rate, using exchange rate swap contracts. However, the other market rates are continually monitored to evaluate the need to contract derivatives to protect against the risk of volatility of these rates.

In addition to the loans and financing, the Company issued non-convertible private and public debentures, non-convertible or exchangeable for shares. These liabilities were contracted at interest rates linked to the CDI, and the risk associated with this liability results from the possible increase of the rate.

The above mentioned liabilities on the quarter closing date are as follows:

	PARENT COMPANY			
	03/31/06		12/31/05	
	Book Value	Market Value	Book Value	Market Value
Liabilities				
Loans subject to TJLP	1,949,789	1,951,866	2,076,211	2,077,094
Debentures CDI	1,054,115	1,084,238	1,108,226	1,100,815
Loans subject to UMBNDES	246,107	246,932	272,601	273,318
Hedge without loans subject to UMBNDES	37,296	29,913	37,630	27,462
Loans subject to IGPM	4,990	4,990	8,158	8,158
Loans subject to IGP/DI	3,683	3,683	3,145	3,145
Other loans	9,267	9,267	10,530	10,531
Total	**3,305,247**	**3,330,889**	**3,516,501**	**3,500,523**
Current	1,339,316	1,338,928	1,363,427	1,360,208
Long-term	1,965,931	1,991,961	2,153,074	2,140,315

	CONSOLIDATED			
	03/31/06		12/31/05	
	Book Value	Market Value	Book Value	Market Value
Liabilities				
Loans subject to TJLP	1,949,789	1,951,866	2,076,211	2,077,094
Debentures CDI	1,054,115	1,084,238	1,108,226	1,100,815
Loans subject to UMBNDES	246,107	246,932	272,601	273,318
Hedge on loans subject to UMBNDES	37,296	29,914	37,630	27,462
Loans subject to IGP/DI	21,374	21,374	19,310	19,310
Loans subject to IGPM	4,990	4,990	8,158	8,158
Other loans	9,267	9,267	10,530	10,530
Total	**3,322,938**	**3,348,581**	**3,532,666**	**3,516,687**
Current	1,339,413	1,339,025	1,363,694	1,360,475
Long-term	1,983,525	2,009,556	2,168,972	2,156,212

Book value is equivalent to market values where the current contractual conditions for these types of financial instruments are similar to those in which they were originated or they did not present parameters for quotation or contraction.

d. Risk of Not Linking Monetary Restatement Indexes of Loans and Financing to Accounts Receivable

Loan and financing rates contracted by the Company are not linked to amounts of accounts receivable. Thus, a risk arises, since telephony fees adjustments do not necessarily follow increases in local interest rates, which affect the Company s debts.

e. Contingency Risks

Contingency risks are assessed according to loss hypotheses, as probable, possible or remote. Contingencies considered probable risks are recorded as liabilities. Details of these risks are presented in Note 7.

f. Risks Related to Investments

The Company has investments, which are assessed through the equity method and the acquisition cost. The investments assessed by the equity method are presented in Note 26, for which no market value exists, as they are represented by non-listed companies or private limited companies. Provisions are recorded for losses when the future cash flows expected from an investment lead to loss expectations.

On the quarter closing date, an allowance for losses was recorded at the amount of R$ 18,545 (R$ 19,028 on 12/31/05) related to VANT s unsecured liability.

The investments assessed at acquisition cost are immaterial in relation to total assets. Their associated risks would not cause significant impacts to the Company in case of loss of part of these investments.

g. Financial Investments Risks

The company has temporary high-liquid investments in exclusive financial investment funds (FIFs), whose assets comprise federal securities based on post-fixed, pre-fixed and foreign exchange rates, all subject to CDI, by means of the own backing of these securities or through futures contracts traded at the Futures and Commodities Exchange - BM&F, exclusive financial investment funds (FIFs), subject toexchange variation through futures contracts in dollar with the Futures and Commodities Exchange -BM&F, overnight financial investments, in own portfolio of CDB issued by national financial institutions, and own portfolio of CD issued by financial institutions abroad. Overnight investments, in exchange fund and deposit certificates are subject to exchange rate fluctuation risks. The CDB investments, as well as overnight investments that have spread in this type of certificate, are subject to the issuing financial institution credit risk.

The Company maintains financial investments at the amount of R$ 698,120 (R$ 1,428,587 on 12/31/05). Income earned to the quarter closing date is recorded as financial revenue and amounts to R$ 27,949 (R$ 53,239 in 2005). Amounts recognized in the consolidated financial statements are R$ 825,878 (R$ 1,667,009 on 12/31/05), related to investments, and R$ 36,598 (R$ 59,693 in 2005), related to earnings.

h. Risk of Early Maturity of Loans and Financing

Liabilities resulting from financing, mentioned in the Note 34, concerning agreements of BNDES, public debentures and most of them referring to financial institutions, have clauses that estimate the early maturity of liabilities or retention of amounts pegged to debt covenants, in the cases in which certain minimum amounts for certain indicators are not reached, such as ratios of indebtedness, liquidity, cash generation and other.

Considering the provisions recognized in the financial statements of the fiscal year ended on 12/31/05, provisions of which informed to the market by means of the Material Fact as of 1/4/06, the Company renegotiated, in February 2006, all the loan and hedge agreements that had financial covenants related to the Earnings before Interest, Taxes, Depreciation and Amortization EBITDA and, in the case of BNDES, the negotiations are still ongoing, aiming at the adequacy of these covenants.

As set forth in the financing agreements maintained with BNDES, the Company must comply with a set of financial indices and in the event of non-compliance with some of these indices, BNDES is allowed to request the temporary block of amounts, given as guarantee in a linked account. In view of the non-compliance with this clause, the total estimated retention amount is approximately R$ 247,442, made operational through the partial block of the Company s financial investments, without prejudice of the remuneration to be received by it. After the end of the quarter, blocks in the investment fund in the amount of R$ 91,439 (R$ 191,439 for the Consolidated) took place, which were reclassified for the item of contractual retentions, mentioned in note 24, for purposes of presentation of this quarterly information. The release of the blocked amounts will take place when the Company returns to complying with the financial relations set forth in the agreements or it is successful in the adequacy of financial covenants negotiated. BNDES granted a renouncement in relation to the possible declaration of early maturity in view of the new non-compliance with the financial indices.

i. Regulatory Risks

<u>New Concession Agreements</u>

On 12/22/05, new local and domestic long distance concession agreements were entered into by Brasil Telecom S.A., which shall be take effect between January 1, 2006 and December 31, 2025. These new concession agreements, which provide for reviews on a five-year basis, in general have a higher intervention level in the management of the businesses and several provisions defending the consumer s interest, as noticed by the regulation body. The main highlights are:

- The burden of the concession defined as 2% of the net revenue from taxes, calculated every two years, starting in 2006 fiscal year, whose initial payment incurs on 4/30/07 and then successively until the end of the concession. This calculation method, concerning accrual, corresponds to 1% for each fiscal year;

- The definition of new universalization targets, particularly AICE Special Class Individual Access, of mandatory offer and the Telecommunications Service Centers - PST, with full burden for the Concessionaire;
- The possibility of the Regulating Agency to impose mandatory alternative plans;
- The introduction of Regulating Agency s right to intervene and modify agreements of the concessionaire with third parties;
- The inclusion of assets of the parent company, subsidiary, affiliated companies and third parties, indispensable to the concession, as reversible assets;
- The creation of the users board in each concession;

Additionally, the regulation connected to the new concession agreement provides for changes in the local calls tariff system, which change from pulse to minute in the regular hours, in amounts of the public tariffs and in the readjustment criteria, which had the individual excursion factor reduced from 9% to 5% and will be then defined by a sector index - IST, in which composition the highest weight is IPCA.

On their turn, the interconnection tariffs, as provided for, are then defined as a percentage public tariff until the implementation of cost model by service/modality, estimated for 2008, as defined in the Regulation for Separation and Accounting Allocation (Resolution 396/05).

ANATEL, on February 23, 2006, issued the Resolution 432, postponing for a twelve-month period the dates mentioned in Rule 423, as of 12/6/05, which deals with the Amendment to the Tariff System of STFC Basic Plan in the Local Modality Rendered under Public Scheme.

It is not possible to assess, on the date this quarterly information was prepared, the future impacts to be generated by such regulation change.

Legislative Bill of Change in Telecommunications Act (LGT)

At the beginning of March 2006, the Executive Branch sent to the Brazilian Congress the Legislative Bill 6,677 to amend LGT 9,472, as of 7/16/97, whose content is essentially to enable the adoption of distinctive criteria based on the social-economic condition of the aspirant-user, with the purpose of reducing the social disparities and facilitate the access to telecommunications services publicly provided.

Due to the lack of objective elements it is not possible to evaluate, on the date of the preparation of this quarterly information, the future impacts which will be produced in the Company s businesses, if the referred legislative bill is approved at the Brazilian Congress.

Overlapping of Licenses

When the Company received the certification for achieving the universalization targets for 2003, set forth by ANATEL, it already provided the fixed telephony service (STFC) in the local and domestic long distance modalities (LDN) intra-regional in the Region II of the General Concession Plan (PGO). After achieving the referred targets, ANATEL, in January 2004, issued authorizations that increase the possibility of Company s operation: Local STFC and LDN in the Regions I and III of the PGO (and a few sectors of the Region II); International Long Distance (LDI) in the Regions I, II and III of the PGO; mobile telephony, by means of the subsidiary 14 Brasil Telecom Celular S.A. (BrT Celular), in the Region II of the Personal Mobile Service (SMP). The already existing concession agreements were expanded, enabling LDN calls to any part of the Brazilian territory. If Telecom Italia International N.V. (TII) acquired an indirect controlling interest in the Company, the Company and TIM Brasil Serviços e Participações S.A. (TIM) could be considered affiliates under the new Brazilian telecommunications legislation. That would imply the ability of providing domestic (LDN) and international (LDI) fixed and mobile telephony services throughout the same regions of TIM s, would be subject to risk of being partially closed by ANATEL. On January 16, 2004, ANATEL issued the Act 41,780 establishing an 18-month period for TII to reacquire an indirect controlling interest in the

Company, as long as TII did not participate or vote on issues related to the overlapping of services offered by the Company and TIM, such as domestic and international long-distance and mobile services. On June 30, 2004, the Administrative Council of Economic Defense CADE, in the records of the Write of Prevention 08700.000018/2004 -68, set forth restrictions to the exercise of the control rights on the part of Telecom Italia International N.V. and its representatives at the board of directors of Solpart Participações S.A., Brasil Telecom Participações S.A. and Brasil Telecom S.A.

On April 28, 2005, TII and TIM and the Company and BrT Celular entered into various corporate agreements, including an instrument called Merger Agreement and a Protocol related thereto. Among other reasons alleged, this merger operation was justified by the management of that time as possible solution to overlapping of regulatory licenses and authorizations with TIM, to remove sanctions and penalties, which could be imposed by ANATEL. The operation was forbidden by an injunction issued by the U.S. court. It is also subject-matter of discussion in the Brazilian Court and in arbitration involving controlling shareholders. Whether or not confirming the validity of April 2005 agreements, there is the possibility of assets related to fixed and mobile segments (see Note 42) eventually loose their value, as a result of overlapping of operations or sanctions from ANATEL. On the other hand, it is also possible that corporate agreements as of April 28, 2005 are declared null and void by courts or arbitration, which would remove TII from the control block of Brasil Telecom group, eliminating the overlapping of concessions and consequently, the regulatory risk. Nevertheless, at this moment, it is not possible to anticipate such legal developments and their future effects on the financial statements.

On July 7, 2005, ANATEL declared, by means of Act 51,450, that the counting of 18 month-term to solve the overlapping of licenses would start on the date of effective return of TII to the control group of Brasil Telecom S.A. On July 26, 2005, ANATEL, by means of Order 576/2005, declared that the counting of term had already started on April 28, 2005. Therefore, according to ANATEL, the interested companies shall adopt the measures necessary to eliminate the overlapping of the concessions until the end of referred term in October 2006, under the penalty of applying legal sanctions, which may affect either companies or both of them.

Depending on final decision of ANATEL, these sanctions may have an adverse and material effect on businesses and operations of the Company and of 14 Brasil Telecom Celular S.A.

Regarding the Merger Agreement mentioned in this note, the Company and its subsidiary BrT Celular started on March 15, 2006 arbitration against TII and TIM, aiming at annulling it. The Company disclosed material fact about this matter on March 16, 2006.

TII and TIM sent to the Company and to BrT Celular a correspondence dated as of May 2, 2006, unilaterally terminating the referred Merger Agreement , reserving supposed rights. The Company published a material fact about it on May 2, 2006.

6. BENEFITS TO EMPLOYEES

The benefits described in this note are offered to the employees of the Company and its direct or indirect subsidiaries. These companies are better described jointly, and can be referred to as Brasil Telecom Companies and for the purpose of the supplementary pension plan mentioned in this note, are also denominated Sponsor or Sponsors .

a. Supplementary Pension Plan

The Company sponsors supplementary pension plans related to retirement for its employees and assisted members, and, in the case of the latter, medical assistance in some cases. These plans are managed by the following foundations: (i) Fundação 14 de Previdência Privada (Fundação 14); (ii) Fundação BrTPREV (FBrTPREV) former CRT, a company merged by the Company on 12/28/00; and (iii) Fundação de Seguridade Social (SISTEL), originated from certain companies of the former Telebrás System.

The Company s Bylaws stipulate approval of the supplementary pension plan policy, and the joint liability attributed to the defined benefit plans is linked to the acts signed with the foundations, with the agreement of the Secretaria de Previdência Complementar - SPC, where applicable to the specific plans.

The plans sponsored are valued by independent actuaries on the fiscal year closing date. In the case of the defined benefit plans described in this explanatory note, immediate recognition of the actuarial gains and losses is adopted. Liabilities are provided for plans which show deficits. This measure has been applied since the 2001 financial year, when the regulations of CVM Resolution 371/00 were adopted. In cases that show positive actuarial situations, no assets are recorded due to the legal impossibility of reimbursing these surpluses.

The characteristics of the supplementary pension plans sponsored by the Company are described below.

FUNDAÇÃO 14

As from the split of the only pension plan managed by SISTEL, the PBS, in January 2000, already predicted the evolution trend for a new stage. Such stage would result in an own and independent management model for TCSPREV pension plan, by means of a specific entity to manage and to operate them, and this fact has become more and more evident throughout the years. This trend also occurred in other main SISTEL pension plan sponsoring companies, which created their respective supplementary pension plan foundations. In this scenario, Fundação 14 de Previdência Privada was created in 2004, with the purpose of taking over the management and operation of the TCSPREV pension plan, which started as from March 10, 2005, whose process was backed by the segment s specific legislation and properly approved by the Secretaria de Previdência Complementar SPC (the Brazilian pension s regulatory authority).

In accordance with the Transfer Agreement entered into between Fundação Sistel de Seguridade Social and Fundação 14 de Previdência Privada, SISTEL, by means of the Management Agreement, has been rendering management and operation services of TCSPREV and PAMEC-BrT plans to Fundação 14, after the transferring of these plans, which took place on March 10, 2005, for a period of up to 18 months, while Fundação 14 organizes itself to take over the management and operation services of its plans.

Plans

TCSPREV (Defined Contribution, Settled Benefit and Defined Benefit)
This defined contribution and settled benefit plan was introduced on 2/28/00. On 12/31/01, all pension plans sponsored by the Company with SISTEL were merged, being exceptionally and provisionally approved by the Secretaria de Previdência Complementar SPC of document sent to that Agency, due to the need for adjustments to the regulations. Thus, TCSPREV is comprised of defined contribution groups with settled and defined benefits. The plans that were merged into the TCSPREV were the PBS-TCS, PBT-BrT, BrT Management Agreement, and the Unusual Contractual Relation Instrument, and the conditions established in the original plans were maintained. In March 2003, this plan was no longer offered to the sponsors new contracted ones. However, this plan, concerning the defined contribution, started being offered as of March 2005. TCSPREV currently provides assistance to nearly 62.5% of the staff.

PAMEC-BrT Health Care Plan for Supplementary Pension Beneficiaries (Defined Benefit)
Destined for health care of retirees and pensioners subject to Grupo PBT-BrT, which was merged into TCSPREV on 12/31/01.

Contributions Established for the Plans

TCSPREV
Contributions to this plan, by group of participants, are established based on actuarial studies prepared by independent actuaries according to regulations in force in Brazil, using the capitalization system to determine the costs. Currently, contributions are made by the participants and the sponsor only for the internal groups PBS-TCS (defined benefit) and TCSPREV (defined contribution). In the TCSPREV group, the contributions are credited in individual accounts of each participant, equally by employee and sponsor, and the basic contribution percentages vary between 3% and 8% of the participant s salary, according to participant s age and limited to R$ 19,520.40 for 2006. Participants have the option to contribute voluntarily or sporadically to the plan above the basic contribution, but without parity of the Company. In the case of the PBS-TCS group, the sponsor s contribution corresponds to 12% of the payroll of the participants; while the employees contribution varies according to the age, service time and salary. An entry fee may also be payable depending on the age of entering the plan. The sponsors are responsible for the cost of all administrative expenses and risk benefits. Until the quarter, contributions by the sponsor to the TCSPREV group represented 5.03% of the payroll of the plan participants. For employees, the contributions represented 4.90% .

The contributions of the party-company in the quarter were R$ 4,206 (R$ 3,750 in 2005).

PAMEC-BrT
The contribution for this plan was fully paid in July 1998, through a single payment. New contributions are limited to future necessity to cover expenses, if that occurs.

FUNDAÇÃO SISTEL DE SEGURIDADE SOCIAL (SISTEL)

The supplementary pension plan, which remains under SISTEL s management, comes from the period before the Telebrás Spin-off and assists participants who had the status of beneficiaries in January 2000 (PBS-A). SISTEL also manages the PAMA/PAMA-PCE pension plan, formed by participants assisted by the PBS-A Plan, the PBS s plans segregated by sponsor in January 2000 and PBS-TCS Internal Group, merged into the TCSPREV plan in December 2001.

Plans

PBS-A (Defined Benefit)
Maintained jointly with other sponsors subject to the provision of telecommunications services and destined for participants that had the status of beneficiaries on 1/31/00.

PAMA - Health Care Plan for Retirees / PCE Special Coverage Plan (Defined Contribution)

Maintained jointly with other sponsors subject to the provision of telecommunications services and destined for participants that had the status of beneficiaries on 1/31/00, for the beneficiaries of the PBS-TCS Group, merged into TCSPREV on 12/31/01 and for the participants of PBS s defined benefit plans sponsored by other companies. According to a legal and actuarial appraisal, the Company s responsibility is exclusively limited to future contributions. During 2004, an optional migration of retirees and pensioners of PAMA took place for new coverage conditions (PCE). The participants who opted for the migration began to contribute to PCE.

Contributions Established for the Plans

PBS-A
Contributions may occur in case of accumulated deficit. On 12/31/05, the actuarial appraisal date, the plan presented a surplus.

PAMA/PCE
This plan is sponsored by contributions of 1.5% on payroll of active participants subject to PBS plans, segregated and sponsored by several SISTEL sponsors. In the case of Brasil Telecom, the PBS-TCS was merged into the TCSPREV plan on 12/31/01, and began to constitute an internal group of the plan. Contributions by retirees and pensioners who migrated to PCE are also carried out.

The contributions to PAMA, in the part attributed to the Sponsor, in the quarter were R$ 37 (R$ 29 in 2005).

FUNDAÇÃO BrTPREV

It is the manager originated from the plans sponsored by former CRT, company incorporated by the Company at the end of 2000. The main purpose of the Company sponsoring FBrTPREV is to maintain the supplementary retirement, pension and other provisions in addition to those provided by the official social security system to participants.

Plans

BrTPREV
Defined contribution plan and settled benefits, launched in October 2002, destined for the concession of pension plan benefits supplementary to those of the official pension plan and that initially assisted only employees subject to the Subsidiary Rio Grande do Sul. This pension plan remained open to new employees of the Company and its subsidiaries from March 2003 to February 2005, when its offering was suspended. Currently, BrTPREV provides assistance to nearly 33.2% of the staff.

Fundador Brasil Telecom and Alternativo Brasil Telecom
Defined benefits plans destined to provide supplementary social security benefits in addition to those of the official social security, closed to the entry of new participants. Currently, these plans assist approximately 0.1% of the staff.

Contributions Established for the Plans

BrTPREV
Contributions to this plan are established based on actuarial studies prepared by independent actuaries according to the regulations in force in Brazil, using the capitalization system to determine costs. Contributions are credited in

individual accounts of each participant, the employee s and Company s contributions being equal, the basic percentage contribution varying between 3% and 8% of the participation salary, according to the participant s age and limited to R$ 20,193.00 for 2006. Participants have the option to contribute voluntarily or sporadically to the plan above the basic contribution, but without parity of the sponsor. The sponsor is responsible for the administrative expenses and risk benefits. The Company s contributions on the quarter represented 8.41% of the payroll of the plan participants, whilst the employee contribution was 4.83% .

The contributions of the party-company in the quarter were R$ 3,420 (R$ 2,252 in 2005).

Fundador Brasil Telecom and Alternativo Brasil Telecom
The regular contribution by the sponsor on the quarter was of 4.13% on the payroll of plan participants, who contributed at variable rates according to age, service time and salary; the average rate on the quarter was 4.13% . With the Alternativo Plan - Brasil Telecom, the participants also pay an entry fee depending on the age of joining the plan.

The normal contributions of the Sponsor in the quarter were R$ 4 (R$ 4 in 2005.)

The mathematical reserve to amortize, corresponding to the current value of the Company s supplementary contribution, as a result of the actuarial deficit of the plans managed by FBrTPREV, have the settlement within the maximum established period of twenty years, as from January 2002, according to Circular 66/SPC/GAB/COA from the Supplementary Pension Department dated 1/25/02. Of the maximum period established, 15 years and 9 months still remain for complete settlement, and in the