Tele Norte Leste Participações S.A.

Report of Independent Accountants on the Special Review of Quarterly Information - ITR At June 30 and March 31, 2004 and June 30, 2003

REPORT ON SPECIAL REVIEW

To the Board of Directors and Shareholders
Tele Norte Leste Participações S.A.

1 We have carried out a special review of the Quarterly Information - ITR of Tele Norte Leste Participações S.A. (parent company and consolidated) for the quarter ended June 30, 2004, comprising the balance sheet, statement of income, performance report and relevant information, expressed by the accounting principles adopted in Brazil. This information is the responsibility of the Company's management. Our responsibility is to issue a report, without expressing our opinion, on such financial statements. As described in Note 14, the review of financial information for the period ended June 30, 2004 of the subsidiary TNL Contax S.A. and indirect subsidiaries TNL PCS S.A. ("Oi") and Pegasus Telecom S.A., used for purposes of determining equity pick-up and consolidation, was performed by other independent auditors. Our report, with respect to the value of these subsidiaries, is based exclusively on the reports of such independent auditors.

2 Our review was carried out in accordance with specific standards established by IBRACON - Instituto dos Auditores Independentes do Brasil (Brazilian Institute of Accountants) in conjunction with Conselho Federal de Contabilidade – CFC (Federal Accounting Council) and mainly comprised: (a) inquiry of, and discussion with, management responsible for the accounting, financial and operating areas of the Company with regard to the main criteria adopted for the preparation of the quarterly information, and (b) review of the related information and subsequent events which have, or could have, significant effects on the Company's financial position and operations.

3 Based on our special review and the reports issued by other independent auditors, as mentioned in the first paragraph, we are not aware of any significant adjustments which should be made to the quarterly information referred to above in order for it to be in conformity with the accounting principles adopted in Brazil applicable to the preparation of quarterly information, pursuant to the standards issued by Comissão de Valores Mobiliários – CVM (Brazilian Securities Commission).

4 The Quarterly Information –ITR for the quarter ended June 30, 2004, also provides accounting information relating to the quarter ended March 31, 2004 and the six-year period ended June 30, 2003, presented herein for comparison purposes, which were reviewed by other independent auditors who issued an unqualified opinion thereon dated April 28, 2004 and July 28, 2003, respectively.

Rio de Janeiro, July 29, 2004.

Trevisan Auditores Independentes
CRC 2SP013439/O-5 "S" RJ

Luiz Cláudio Fontes
Partner- Contador
CRC 1RJ032470/O-9 "T" PR "S" RJ

01.01- IDENTIFICATION

1 – CVM CODE	2 – COMPANY NAME	3 - CNPJ
01765-5	TELE NORTE LESTE PARTICIPAÇÕES S.A.	02.558.134/0001-58
4 – NIRE		
53 3 000570 2		

01.02 – HEAD OFFICE

1 – FULL ADDRESS				2 – DISTRICT
Rua Humberto de Campos, 425 – 8º andar				Leblon
3 – ZIP CODE	4 - CITY			5 - STATE
22430-190	Rio de Janeiro			RJ
6 – DDD	7 - TELEPHONE	8 – TELEPHONE.	9 – TELEPHONE	10 – TELEX
021	3131-1205			
11 – DDD	12 - FAX	13 - FAX	14 - FAX	
021	3131-1144			
15 - E-MAIL				
marcos.grodetzky@telemar.com.br				

01.03 – INVESTOR RELATIONS OFFICER (Company mailing address)

1 – NAME				2 – FULL ADDRESS	
Marcos Grodetzky				Rua Humberto de Campos, 425 - 8º andar	
3 – DISTRICT		4 – ZIP CODE	3 – CITY	6 – STATE	
Leblon		22430-190	Rio de Janeiro	RJ	
7 – DDD	8 – TELEPHONE	9 – TELEPHONE	10 – TELEPHONE	11 – TELEPHONE	12 - FAX
21	3131-1885				3131-1144
13 - E-MAIL					
marcos.grodetzky@telemar.com.br					

01.04 – REFERENCE / AUDITOR

CURRENT YEAR		CURRENT QUARTER			PREVIOUS QUARTER		
1 – START	2 –END	3 – NUMBER	4 - START	5 – END	6 – NUMBER	7 – START	8 – END
01/01/2004	12/31/2004	2	04/01/2004	06/30/2004	1	01/01/2004	03/31/2004
9- AUDITORS' NAME/COMPANY NAME					10- CVM CODE		
Trevisan Auditores Independentes					210-0		
11- NANE OF OFFICER RESPONSIBLE					12- CPF OF OFFICER RESPONSIBLE		
Luiz Cláudio Fontes					331.194.577-87		

01.05 – COMPOSITION OF CAPITAL STOCK

Amount of Shares (thousand)	1 – Current quarter 06/30/2004	2 – Previous quarter 03/31/2004	2 – Same quarter previous year 06/30/2003
Paid-up capital			
1 – Common	129,306,292	131,618,460	130,185,688
2 – Preferred	258,612,581	263,236,918	260,371,377
3 – Total	387,918,873	394,855,378	390,557,065
Treasury stock			
4 – Common	1,988,532	4,156,100	4,156,100
5 – Preferred	284,500	4,624,337	4,624,337
6 – Total	2,273,032	8,780,437	8,780,437

01.06 – COMPANY CHARACTERISTICS

1 – COMPANY TYPE	2 – STATUS	3 – NATURE OF SHARE CONTROL	4 – CODE OF ACTIVITY
Commercial, Industrial and other	Operational	National Holding	1990100 - Telecommunications

5 – CORE ACTIVITY	6 – TYPE OF CONSOLIDATION	7 – AUDITORS' REPORT TYPE
Provision of telecommunication services	Total	Unqualified

01.07 – COMPANIES NOT INCLUDED IN THE CONSOLIDATED FINANCIAL STATEMENTS

1 – ITEM	2 - CNPJ	3 – COMPANY NAME

01.08 – CASH DISTRIBUTIONS APPROVED AND/OR PAID DURING AHD FOLLOWING THE QUARTER

1 - ITEM	2 – EVENT	3 – APPROVAL	4 - DISTRIBUTION	5 – PAYMENT STARTED ON	6 – SHARE TYPE	7 – AMOUNT OF DISTRIBUTION PER SHARE

01.09 – SUBSCRIBED CAPITAL AND CHANGES DURING THE CURRENT YEAR

1 - ITEM	2 – DATE OF CHANGE	3 – AMOUNT OF CAPITAL (Reais thousand)	4 – AMOUNT OF CHANGE (Reais thousand)	5 – SOURCE OF CHANGE	7 – AMOUNT OF SHARES ISSUED (thousand)	8 – SHARE PRICE – issuance (Reais)
1	03/04/2004	1,579,138	47,597	Share Premium Reserve	1,432,771	33.22
2	03/04/2004	3,232,881	120,008	Share Premium Reserve	2,865,542	41.88

01.10 – INVESTOR RELATIONS OFFICER

1 – DATE	2 – SIGNATURE

1 – CVM CODE	2 – COMPANY NAME	3 – CNPJ
01765-5	TELE NORTE LESTE PARTICIPAÇÕES S/A	02.558.134/0001-58

02.01 – BALANCE SHEET -- ASSETS (REAIS THOUSAND)

1 – CODE	2 – DESCRIPTION	3 - 06/30/2004	4 - 03/31/2004
1	TOTAL ASSETS	15,279,234	15,350,755
1.01	CURRENT ASSETS	4,565,047	3,504,442
1.01.01	CASH AND CASH EQUIVALENTS	4,048,935	3,075,569
1.01.02	RECEIVABLES	0	0
1.01.03	INVENTORIES	0	0
1.01.04	OTHER	516,112	428,873
1.01.04.01	DEFERRED AND RECOVERABLE TAXES	156,958	221,109
1.01.04.02	RELATED PARTIES	5,966	6,217
1.01.04.03	ADVANCES TO SUPPLIERS	4,254	5,269
1.01.04.04	PREPAID EXPENSES	1,717	17,087
1.01.04.05	DIVIDENDS AND INTEREST ON OWN CAPITAL	333,953	165,918
1.01.04.06	OTHER ASSETS	13,264	13,273
1.02	LONG-TERM RECEIVABLES	2,010,208	3,114,115
1.02.01	CREDITS RECEIVABLE	271,026	235,616
1.02.01.01	TAXES RECOVERABLE	271,026	235,616
1.02.02	RELATED PARTIES	1,641,668	2,790,449
1.02.02.01	SUBSIDIARIES	1,641,668	2,790,449
1.02.03	OTHER	97,514	88,050
1.02.03.01	TAX INCENTIVES	4,338	4,338
1.02.03.02	JUDICIAL DEPOSITS	5,400	5,528
1.02.03.03	DEFERRED EXPENSES	87,667	78,076
1.02.03.04	OTHER	109	108
1.03	PERMANENT ASSETS	8,703,979	8,732,198
1.03.01	INVESTMENTS	8,669,832	8,696,558
1.03.01.01	SUBSIDIARIES	8,662,200	8,688,926
1.03.01.02	OTHER INVESTMENTS	7,632	7,632
1.03.02	PROPERTY, PLANT AND EQUIPMENT	34,147	35,640
1.03.03	DEFERRED CHARGES	0	0

1 – CVM CODE	2 – COMPANY NAME	3 – CNPJ
01765-5	TELE NORTE LESTE PARTICIPAÇÕES S/A	02.558.134/0001-58

02.02 – BALANCE SHEET - LIABILITIES AND SHAREHOLDERS' EQUITY

(REAIS THOUSAND)

1 – CODE	2 – DESCRIPTION	3 – 06/30/2004	4- 03/31/2004
2	TOTAL LIABILITIES	15,279,234	15,350,755
2.01	CURRENT LIABILITIES	1,261,876	1,331,885
2.01.01	LOANS AND FINANCING	982,522	1,015,902
2.01.02	DEBENTURES	13,997	63,838
2.01.03	SUPPLIERS	220	220
2.01.04	TAXES AND CONTRIBUTIONS	48,179	28,626
2.01.04.01	NON-FINANCED TAXES	36,421	17,233
2.01.04.02	FINANCED TAXES (REFIS)	11,758	11,393
2.01.05	DIVIDENDS PAYABLE	174,653	171,758
2.01.06	PROVISIONS	0	0
2.01.07	RELATED PARTIES	0	0
2.01.08	OTHER ACCOUNTS PAYABLE	42,305	51,541
2.01.08.01	PAYROLL AND RELATED ACCRUALS	1,450	1,464
2.01.08.02	PROVISION FOR UNSECURED LIABILITIES	38,791	48,018
2.01.08.03	OTHER ACCOUNTS PAYABLE	2,064	2,059
2.02	LONG-TERM LIABILITIES	4,816,450	4,865,675
2.02.01	LOANS AND FINANCING	3,444,987	3,502,017
2.02.02	DEBENTURES	1,207,200	1,207,200
2.02.03	PROVISIONS	853	850
2.02.04	RELATED PARTIES	8,119	976
2.02.05	OTHER	155,291	154,632
2.02.05.01	FINANCED TAXES (REFIS)	150,446	149,787
2.02.05.02	OTHER ACCOUNTS PAYABLE	4,845	4,845
2.03	DEFERRED INCOME	0	0
2.05	SHAREHOLDERS' EQUITY	9,200,908	9,153,195
2.05.01	PAID-IN CAPITAL	4,536,422	4,551,595
2.05.01.01	CAPITAL	4,812,021	4,812,021
2.05.01.02	TREASURY SHARES	(275,599)	(260,426)
2.05.02	CAPITAL RESERVES	201,487	201,487
2.05.04	REVENUE RESERVE	4,295,190	4,295,190
2.05.04.01	LEGAL RESERVE	60,484	60,484
2.05.04.02	OTHER REVENUE RESERVES	4,234,706	4,234,706
2.05.04.02.01	INVESTMENT RESERVE	4,234,706	4,234,706
2.05.05	RETAINED EARNINGS/ACCUMULATED DEFICIT	167,809	104,923

1 – CVM CODE	2 – COMPANY NAME	3 – CNPJ
01765-5	TELE NORTE LESTE PARTICIPAÇÕES S/A	02.558.134/0001-58

03.01 – STATEMENT OF INCOME (REAIS THOUSAND)

1 – CODE	2 – DESCRIPTION	3 - From 04/01/2004 to 06/ 30/2004	4 - From 01/01/2004 to 06/30/2004	5 - From 04/01/2003 to 06/30/2003	6 - From 01/01/2003 to 06/30/2003
3.01	GROSS REVENUES FROM SALES AND/OR SERVICES	0	0	0	0
3.02	DEDUCTIONS	0	0	0	0
3.03	NET REVENUES FROM SALES AND/OR SERVICES	0	0	0	0
3.04	COST OF GOODS AND/OR SERVICES SOLD	0	0	0	0
3.05	GROSS PROFIT	0	0	0	0
3.06	OPERATING EXPENSES/INCOME	55,515	232,391	(92,246)	(237,552)
3.06.01	SELLING	0	0	0	0
3.06.02	GENERAL AND ADMINISTRATIVE	(8,685)	(16,999)	(6,182)	(12,984)
3.06.03	FINANCIAL	(37,386)	(22,756)	59,414	117,549
3.06.03.01	FINANCIAL INCOME	192,488	396,022	330,202	645,122
3.06.03.02	FINANCIAL EXPENSES	(229,874)	(418,778)	(270,788)	(527,573)
3.06.04	OTHER OPERATING INCOME	881	920	68,682	68,687
3.06.05	OTHER OPERATING EXPENSES	(42,101)	(84,349)	(52,585)	(95,866)
3.06.06	EQUITY ADJUSTMENTS	142,806	75	(161,575)	(314,938)
3.07	OPERATING INCOME	55,515	232,391	(92,246)	(237,552)
3.08	NON-OPERATING INCOME	6,878	18,037	417,480	396,833
3.08.01	INCOME	6,878	18,037	499,994	499,994
3.08.02	EXPENSES	0	0	(82,514)	(103,161)
3.09	NET INCOME BEFORE TAXES/PROFIT SHARING AND MINORITY INTERESTS	62,393	250,428	325,234	159,281
3.10	PROVISION FOR INCOME TAX AND SOCIAL CONTRIBUTION	(3,234)	(3,234)	20,991	(20,826)
3.11	DEFERRED INCOME TAX	3,727	20,616	(17,276)	56,479
3.12	PARTICIPATIONS?STATUTORY CONTRIBUTIONS	0	0	0	0
3.12.01	PARTICIPATIONS	0	0	0	0
3.12.02	CONTRIBUTIONS	0	0	0	0
3.13	REVERSAL OF INTEREST ON OWN CAPITAL	0	0	0	0
3.15	NET INCOME/LOSS FOR THE YEAR	62,886	267,810	328,949	194,934
	SHARES EX-TREASURY STOCK (THOUSAND)	385,645,841	385,645,841	381,776,628	381,776,628
	EARNINGS PER SHARE	0.00016	0.00069	0.00086	0.00051
	LOSS PER SHARE				

1 Operations

Tele Norte Leste Participações S.A. ("TNL") was constituted on May 22, 1998, upon the spin-off of Telecomunicações Brasileiras S.A. ("Telebrás"), primarily to participate in other companies and to promote the operating and financial management of its direct and indirect subsidiaries. It is a holding, controlled by Telemar Participações S.A., which at the present date holds 18.87% of the total capital and 54.35% of the voting capital.

TNL is registered with the Comissão de Valores Mobiliários - CVM (Brazilian Securities Commission) as a publicly-held company whose shares are listed on the São Paulo Stock Exchange. The Company is also registered with the U.S. Securities and Exchange Commission – SEC, and its "American Depositary Shares – ADS" - Level II are listed on the New York Stock Exchange (NYSE). Approximately 46.10% of the preferred shares are negotiated on NYSE through ADS.

(a) The Company's business is divided into three major segments:

Wireline telecommunications

Telemar Norte Leste S.A. ("TMAR") is the principal provider of fixed-line telecommunications in its operating area - Region I - which comprises the States of Rio de Janeiro, Minas Gerais, Espírito Santo, Bahia, Sergipe, Alagoas, Pernambuco, Paraíba, Rio Grande do Norte, Ceará, Piauí, Maranhão, Pará, Amazonas, Roraima and Amapá (except for sector 3 in the Region, which corresponds to 57 municipalities in the "Triângulo Mineiro" e "Alto Paranaíba" areas in the state of Minas Gerais, where CTBT operates). These services are provided under a concession granted by Agência Nacional de Telecomunicações - ANATEL (National Agency for Telecommunications), the regulatory authority for the Brazilian telecommunications sector, which expires on December 31, 2005. The concession may be renewed for an additional 20-year period, from January 1, 2006 onwards, if the conditions of the present concession agreement are met (mainly universal service and quality targets), at the cost of 2% of the net revenues payable every two years. On June 30, 2003, TMAR sent a letter to ANATEL formalizing its intent to renew the concession, as required by law. However, the draft of the new contractual terms disclosed by ANATEL include conditions which the Company management disagrees with, as they are not in conformity with covenants of the current concessions. The Company is considering action to be potentially taken to enforce its rights according to the law.

Wireless telecommunications

TNL PCS S.A. ("Oi") operates SMP – Personal Mobile Service and is entitled to use certain radio frequencies until March 12, 2016. On June 26, 2002, Oi was authorized by ANATEL to start providing the service, using GSM technology, within Region I. Oi is also authorized to offer long-distance domestic services in Region II, which comprises the States of Acre, Rondônia, Mato Grosso, Mato Grosso do Sul, Tocantins, Goiás, Paraná, Santa Catarina, Rio Grande do Sul and the Federal District; in Region III, which corresponds to the State of São Paulo; and in Sector 3 of Region I. In addition, Oi provides long-distance international services throughout the Brazilian territory, even for calls originating from fixed-lines. The authorization can be renewed for an additional 15-year period, at a cost of 2% of the previous year's net revenues from telecommunications, provided that the conditions of the current authorization are met.

On May 30, 2003, after approval of the Boards of Directors, TMAR acquired from TNL 99.99% of Oi's shares. The objective of this operation was to secure the value and growth capacity of both companies, by pooling the wireline and wireless assets.

The benefits arising from the optimization of TMAR's and Oi's auxiliary and operating sectors, as well as the alignment of goals and commercial strategies, led to a more rational use of available resources, with consequent costs reductions , and productivity gains.

Contact center

TNL Contax S.A. ("TNL Contax"), controlled directly by TNL, is a contact center, with the objective to render attendance services in general, active as well as receptive. The active part includes logistics, sales, market research, tele-sales and collection, while the receptive part includes providing product information, sales, complaints, attending clients and help desk.

On April 1, 2004, after approval by the Board of Directors of TNL, TNL Contax acquired 100% of the quotas in Inovação Contact Center Serviços de Contatos Telefônicos Ltda. ("Inovação") for R$ 2,754. No goodwill or negative goodwill was recorded on this transaction. At June 30, 2004, Inovação operations had 2,031 customer service positions, servicing large clients, such as Credicard, Citibank, Itaú, Unibanco, Caixa Econômica Federal and Banespa. Accordingly, revenues from contact center services with third parties have almost doubled to reach 39% of total net revenues of this segment for the 2nd quarter of 2004.

Inovação's asset and liabilities accounts, as well as operating results have been consolidated since April 2004.

(b) Other subsidiaries

- Pegasus Telecom S.A. ("Pegasus"), directly controlled by TMAR, is primarily engaged in the exploitation, operation, sale project development, execution and provision of telecommunication services, in particular data transmission, within Regions II and III.

- AIX de Participações ("AIX") supplies infrastructure of ducts for the installation of optic fiber cables along the highways of the State of São Paulo, providing services to TMAR and Pegasus. The main activity of AIX is the participation in the Consortium Refibra, as leader. The Consortium Refibra was founded to equalize the matured credits of highway concessionaires and other creditors with Barramar S.A., a company which defaulted on contracts signed as from 1998. Among the main creditors are the shareholders of AIX, being Pegasus, Telesp and Alcatel. The latter disposed of its participation to Pegasus and Telesp, on December 16, 2003, when Pegasus acquired 79.1% of those shares for R$ 1, recording a negative goodwill of R$ 53,955. Pegasus held 18.1% of AIX, having increased its participation to 50% in december 2003 (joint venture with Telesp), subsequently sold to TMAR on December 31, 2003. The negative goodwill is recorded in the consolidated accounts and amortized over the period determined in the economic feasibility study, estimated at 5 years.

  Pursuant to CVM Instruction 2147/96, Art. 26, the negative goodwill is classified as "Deferred income";

- TNL.Acesso S.A. encompasses all Internet businesses, including access providers (operating in the access provider market services and e-market places), its share control belonging totally to TNL;

- TNL.Net Participações S.A., indirectly controlled by TNL, indirectly holds shares which represent 17.5% of the total capital of Internet Group do Brasil Ltda., owner of the iG Internet Service Provider. IG is an ISP for entertainment, services and contents and also the first provider of free access to the Internet in Brazil, having started its activities in January 2000;

  In May 2004, the Company signed agreements with Brasil Telecom S.A. to dispose of this investment in iG for approximately US$ 17,500 thousand (Note 14). The sale depends on the compliance with certain covenants, including due diligence, negotiation of agreements and approval by the competent authorities;

- TNL Trading S.A., 100% controlled by TNL, is mainly engaged in the import and export of consumer products to comply with covenants of loans previously signed;

- HiCorp Comunicações Corporativas S.A. ("HiCorp"), ABS 52 Participações Ltda. ("ABS 52"), TNL PCS Participações S.A., Coari Participações S.A. ("Coari") and Caroaci Participações S.A. ("Caroaci") are subsidiaries whose activities are suspended or in the pre-operating stage. Their equity value is not relevant.

All telephone services are subject to the regulations of, and inspections by, ANATEL, in accordance with Law No. 9.472, of July 16, 1997.

04.01 - NOTES | (In thousands of reais, unless otherwise stated)

2 Gross Sales Revenues

	Consolidated			
	06/30/04	%	06/30/03	%
Wireline				
Local services:				
Subscription fees	2,832,697	27.1	2,456,752	27.2
Additional pulses	1,262,307	12.1	1,188,057	13.2
Fixed-to-mobile calls - VC1	1,367,039	13.1	1,456,049	16.1
Installation fees	33,269	0.3	45,975	0.5
Collect calls	52,468	0.5	59,171	0.7
Other revenues	1,191		2,982	
Long-distance:				
Intra-sectorial	799,131	7.6	618,650	6.9
Inter-sectorial	294,653	2.8	251,542	2.8
Inter-regional	277,803	2.7	121,751	1.3
International	53,667	0.5	40,662	0.5
Fixed-to-mobile calls VC2 and VC3	348,978	3.3	314,310	3.5
Prepaid calling cards (public pay phones)	474,060	4.5	390,194	4.3
Advanced voice (basically 0500/0800)	113,273	1.1	116,426	1.3
Additional services	237,655	2.3	190,788	2.1
	8,148.,91	77.9	7,253,309	80.4
Wireless				
Monthly fees	154,446	1.5	74,812	0.8
Originating calls	241,925	2.3	109,957	1.2
Sale of mobile handsets and accessories	272,827	2.6	199,950	2.2
National roaming	12,175	0.1	4,715	0.1
International roaming	38,590	0.4	20,231	0.2
Additional services	44,311	0.4	13,716	0.2
	764,274	7.3	423,381	4.7
Wireline network usage remuneration				
Fixed-to-fixed calls	440,089	4.2	530,759	5.9
Mobile-to-fixed calls	138,897	1.3	115,857	1.3
	578,986	5.5	646,616	7.2
Wireless network usage remuneration				
Mobile-to-mobile calls	48,884	0.5	63,821	0.7
Fixed-to-mobile calls	52,295	0.5	23,659	0.3
	101,179	1.0	87,480	1.0
Data transmission services				
Transmission (EILD)	160,233	1.5	160,310	1.8
Dedicated line services - SLD	166,487	1.6	164,997	1.8
IP services	109,034	1.0	101,974	1.1
Switching packs and frame relay	92,629	0.9	59,799	0.7
ADSL ("Velox")	154,877	1.5	40,224	0.4
Other	54,173	0.5	32,499	0.4
	737,433	7.0	559,803	6.2
Contact center	99,696	1.0	41,640	0.4
Other services	30,447	0.3	10,589	0.1
Gross operating revenues	10,460,206	100.0	9,022,818	100.0

Rate and tariff adjustments (unaudited)

Telecommunication service rates are subject to comprehensive regulation. The concessions establish a price-cap mechanism for annual rate adjustments (net of taxes), which provides an upper limit based on a weighted average of the rates for a basket of local, long-distance services. The interconnection tariffs are also adjusted annually.

On June 27, 2003, ANATEL authorized the readjustment of the tariffs for local and long-distance services, based on the variation of “Índice Geral de Preços – Disponibilidade Interna” – IGP-DI (general price index – internal availability) according to the concession contract. The approved readjustment would be, on average, 28.75% (local services), 24.85% (national long-distance) and 10.54% (international long-distance). These adjustments gave rise to a significant number of lawsuits.

The judge of the 2° Vara da Justiça Federal do Ceará (second federal court of justice of the state of Ceará) decided, via an injunction, on July 3, 2003, that until the judgment of the cause, the readjustment to be applied would be based on the “Índice de Preços ao Consumidor - Ampliado” – IPC-A (amplified consumer price index), accumulated for the last 12 months up to May 2003 (17.24%). During this period the difference between the IGP-DI and IPC-A was approximately 12.81%. Although such decision would still be subject to resource, on July 12, 2003, TMAR was obligated to adjust tariffs according to the IPCA, retroactively as from June 29, 2003.

The STJ decided that all lawsuits are to be distributed to the 2ª Vara Federal do Distrito Federal, and it was decided via an injunction dated September 11, 203, that the tariff adjustments of wireline companies must follow the IPCA variation in the period, instead of adopting the adjustment formula based on the IGP-DI variation, as established in the concession contracts. Embratel opposed declaration embargoes against this decision, that were judged on September 26, 2003, to explain that the IPCA should replace the IGP-DI in the formula in the concession contracts. Recourses were filed against the new decision and on July 1, 2004 STJ decided on one of the recourses and reaffirmed the validity and effect of the Concession Contract clauses signed, which determine that the adjustment index is IGP-DI, recognizing that noncompliance with such clauses would adversely impact the public and economic order.

On July 12, 2004, wireline telecommunications companies reached an agreement with the Ministry of Communications in order to pay the 2003 adjustment difference in two installments. Under this agreement, the service basket will be adjusted by 4.35% in September and 4.35% in November. ANATEL is yet to determine and announce the specific indices per type of service. None of these effects are reflected in the Company’s results.

On February 12, 2004, TMAR adjusted fixed-to-mobile calls (VC1, VC2 and VC3) by 6.99% on average. Accordingly, the estimated average values for these services, including taxes, are as follows:

- VC1 = R$ 0.6603 / minute
- VC2 = R$ 1.2724 / minute
- VC3 = R$ 1.4477 / minute

On June 30, 2004, ANATEL ratified rates for the use of TU-RL network (local network usage tariff) of 10.47% (negative) and TU-RIU (interurban network usage tariffa) of 3.20% (positive). Local and long-distance service rates were adjusted as follows, on average: installation fees – 19.0% (negative), TUP (public pay phones), measured services and monthly fees – 7.43% (positive), and national long-distance – 3.20% (positive), effective July 2, 2004. Civil actions have been filed against the new adjustment. STJ has determined that the new actions are to be distributed to the 2ª Vara Federal do Distrito Federal (which other actions on last year's adjustment were also distributed to). A final decision on this matter, whether to stay or cancel the new adjustment, is still pending.

04.01 - NOTES — (In thousands of reais, unless otherwise stated)

3 Cost of Services Rendered and Operating Expenses – by Nature

during 2004, the Company reviewed its controls for the appropriation of certain operating expenses, by improving the criteria to distribution and allocation of such expenditures to "Selling" and "General and Administrative". The change affected mainly the "Postage and billing costs" and "Printing and clearing services" accounts.

	Consolidated – 06/30/03		
	As disclosed in ITR at June 30, 2003	Reclassification	As disclosed in this ITR at 06/30/2004 for comparison purposes
Selling expenses	721,468	64,853	786,321
General and administrative	500,263	(64,853)	435,410

	Parent co.	
	General and administrative	
	06/30/04	06/30/03
Legal counsel	1,404	5,833
Other third-party services	670	2,441
Depreciation (i)	13,405	2,755
Personnel	641	1,158
Other costs and expenses	879	797
	16,999	12,984

(i) On July 30, 2003, a loan for use agreement was entered into by TNL and Hewlett Packard (HP), for R$ 81,998 million, effective December 2003, with a R$ 3 million (not subject to restatement) purchase option at the end of the agreement. The goods were acquired at book value by TNL Contax, and a provision for losses from this transaction, in the amount of R$ 81,998, was made in December 2003. Such goods are depreciated by TNL as a contra entry to the reversal of the provision for losses already made (see Note 6).

04.01 - NOTES (In thousands of reais, unless otherwise stated)

	Consolidated – 06/30/04			
	Cost of services rendered	Selling expenses	General & adminis-trative	Total
Depreciation (i)	1,501,746	30,955	105,523	1,638,224
Interconnection (ii)	1,220,993			1,220,993
Personnel	313,392	97,045	106,439	516,876
Network maintenance	425,048			425,048
Cost of mobile handsets and accessories (iii)	342,566			342,566
Provision for doubtful accounts (iv)		316,356		316,356
Rental and insurance (v)	217,861	2,627	42,122	262,610
Other third-party services	38,258	48,156	76,364	162,778
Sales commissions		152,738		152,738
Postage and billing costs		133,153		133,153
Advertising (vi)		124,576		124,576
Electricity	80,776	2,693	6,283	89,752
Materials (vii)	68,813	11,329	4,816	84,958
Data processing	5,273	2,184	59,683	67,140
Counsultancy and legal counselling	5,067	5,597	53,422	64,086
Cost of materials for resale	42,653			42,653
Third party printing and clearing services		23,029		23,029
Other costs and expenses (ix)	78,816	9,047	6,296	94,159
	4,341,262	959,485	460,948	5,761,695

(In thousands of reais, unless otherwise stated)

	Consolidated – 06/30/03			
	Cost of services rendered	Selling expenses	General & adminis-trative	Total
Depreciation (i)	1,652,940	30,858	96,355	1,780,153
Interconnection (ii)	1,274,937			1,274,937
Personnel	227,543	97,744	97,825	423,112
Network maintenance	398,371			398,371
Cost of mobile handsets and accessories (iii)	238,343			238,343
Provision for doubtful accounts (iv)		293,882		293,882
Rental and insurance (v)	194,261	3,107	25,670	223,038
Other third-party services	33,764	53,909	52,348	140,021
Sales commissions		97,316		97,316
Postage and billing costs		103,792		103,792
Advertising (vi)		67,099		67,099
Electricity	46,279	1,396	27,430	75,105
Materials (vii)	36,132	5,872	2,181	44,185
Data processing	1,783	1,402	29,983	33,168
Consultancy and legal counselling	2,102	8,562	85,050	95,714
Cost of materials for resale	37,30			37,730
Third party printing and clearing services		15,855		15,855
Administration fee (viii)			12,156	12,156
Outros custos e despesas (ix)	51.308	5.527	6.412	63.247
	4,195,493	786,321	435,410	5,417,224

(i) Depreciation costs of switching and transmission equipment reduced due to the increase in the volume of totally depreciated TMAR equipment as from 2003. The useful life of that TMAR equipment was adjusted from 10 to 5 years in the beginning of 1999, right after the privatization.

(ii) Interconnection costs refer mainly to rates charged by the other mobile-telephone operators for the use of their networks, substantially reducing the margin of the fixed-to-mobile services (VC1, VC2 and VC3). In February 2004, ANATEL awarded an average increase of 7.18% for the mobile-telephone operators in Region I.

(iii) This refers to the selling cost of handsets, sim-cards and other Oi accessories.

(iv) The increase in the expense of the provision for doubtful accounts reflects, in addition to the adverse effect of a non-growth economy, the increase in the traffic of calls made from mobile telephones using CSP 31, as a result of the migration rule for wireless operators (SMC - "Cellular Mobile Service" to SMP – "Personal Mobile Service"). At present, users select the code of any operator authorized to make long-distance calls and billing is done by wireless operators. TMAR has a significant market share in this segment, in particular in Region I.

(v) Rent and insurance costs mainly include amounts currently paid for rental of circuits, mobile platforms, posts of electricity companies, satellites, rights of way and dedicated lines from other telephone providers, as well as areas for the installation of Oi towers.

TMAR has rental agreements for IT hardware.During the six-month period ended June 30, 2004, expenses with such agreements totaled R$ 20,592 (06/30/03 - R$ 11,779), accounted for under "Rental and insurance".

04.01 - NOTES (In thousands of reais, unless otherwise stated)

(vi) The increase in marketing expenses is due to the commercial campaigns implemented by TMAR, in particular for "Velox" and the use of CSP 31 in calls originating in wireless phones (SMP). In addition, Oi has been promoting sponsorship of, and merchandising at, several spots events and nationwide TV shows.

(vii) Materials costs comprise substantially materials applied in network maintenance without increasing the useful life of the assets, as well as fuel and lubricant expenses.

(viii) This refers to the administration fee charged by Telemar Participações S.A. until December 31, 2003, based on a management and administrative services agreement. To this date the agreement has not been renewed.

(ix) This refers primarily to FISTEL tax on installation and maintenance, indemnizations, donations and fines.

4 Other Operating Income (Expenses), Net

	Parent Co.		Consolidated	
	06/30/04	06/30/03	06/30/04	06/30/03
Amortization of down-strteam merger goodwill (i)	(246,479)	(246,479)	(246,479)	(246,479)
Reversal of provision for down-strteam merger goodwill reduction (i)	162,676	162,676	16,.676	162,676
Amortiz. Of goodwill on the acquisition of Pegasus (Note 14)			(37,531)	(31,075)
Amortiz, of negative goodwill - acquisition of AIX (Note 14)			5,395	
Amortization of deferred charges (Note 16)			(33,594)	(35,026)
Taxes (ii)	(8)	(102)	(151,860)	(127,255)
Fines (iii)	(10)	(8,557)	(5,445)	(33,765)
Technical and administrative services	33	947	31,695	28,122
Fines for late payment (Note 9)			79,400	64,012
Recovered expenses (iv)	887	544	47,661	34,453
Provision for contingencies (v)		67,181	(161,489)	6,508
Rental of infrastructure (vi)			49,712	43,024
Bonuses/rebates obtained (vii)			13,015	59,832
Other, net	(528)	(3,389)	(41,565)	(24,867)
	(83,429)	(27,179)	(288,409)	(99,840)

(i) This refers to the amortization of the goodwill on the downstream merger, the tax benefit of which is passed on to Telemar Participações S.A. at the time of issue of shares in the following year. It also includes the reversal of the provision for reduction of goodwill to the amount of tax benefits to accrue.

04.01 - NOTES (In thousands of reais, unless otherwise stated)

(ii) During the six-month periods ended June 30, 2004 and 2003, the subsidiaries TMAR, Oi and Pegasus recorded R$ 89,566 and R$ 82,366, respectively, with respect to expenses with the Fund for Universal Telecommunications Services (Fundo de Universalização de Serviços de Telecomunicações – "FUST") and Fund for Development of Brazilian Telecommunications Technologies (Fundo para o Desenvolvimento Tecnológico das Telecomunicações Brasileiras – "FUNTTEL"). Up to February 29, 2004, such contributions corresponded to 1.5% of gross operating revenues from telecommunications services, net of EILD and interconnection revenues, and also net of ICMS, PIS and COFINS. From March 2004 onwards, pursuant to ANATEL instructions, the calculation basis to determine the FUST amount was modified, and revenues from EILD and interconnection will no longer be excluded. The Company has requested ANATEL's authorization to offset overpayments in the amount of R$18,878, although not yet accounted for.

Furthermore, for consolidation purposes, the amounts of taxes (ISS, ICMS, PIS and COFINS) levied on intercompany revenues, eliminated on consolidation, are reclassified to this account, totaling R$ 38,022 in the first half of 2004 (06/30/03 - R$ 25,593).

(iii) Nearly all fines recorded in 2003 refer to the adhesion of TMAR, Oi, Pegasus and TNL Contax to REFIS.

(iv) The recovered expenses refer substantially to the recovery of ICMS, PIS and COFINS credits unduly withheld in excess in previous years.

(v) The main changes during the six-month period are attributable to increases in the following provisions: (i) labor and civil claims, in the amounts of R$ 64,410 and R$ 55,322, respectively, as a result of unfavorable decisions rendered and new settlements made during the past few months; and (ii) small claims court, in the amount of R$ 22,608, in the light of the likelihood of disbursements. In additionl, during the six-month period ended June 30, 2004, the Company R$ 9,650 (06/30/03 - R$ 11,510) for ANATEL assessments due to noncompliance with rules relating to customer service. Management formed partnerships with the Post Office, lottery outlets, drugstores and supermarkets to provide services to our customers, thus avoiding new assessments. See Note 21 for details of the provisions for contingencies.

The monetary restatement of the existing provisions, in accordance with the actual amounts to be paid, is recorded in "Financial expenses" (see Note 5 for amounts).

Amounts provisioned for PIS/COFINS, ISS, INCRA, FUNTTEL, CPMF and IOF being questioned are recorded in the results accounts of such taxes and contributions, as shown below:

	Parent Co.	Consolidated

	06/30/04	06/30/03	06/30/04	06/30/03
Deductions from gross revenues:				
ICMS Agreement 69/98 – additional services			5,628	(6,355)
ISS – rental of IP gates			(6,283)	
COFINS – rate increase				(87,105)
Personnel expenses:				
INCRA			(359)	
Other operating expenses:				
PIS/COFINS – base increase				(1,375)
FUNTTEL – equalization with FUST calculation basis			(1,684)	
Financial expensess:				
PIS/COFINS – base increase				(3,393)
CPMF		(12,271)		(49,610)
IOF		(17,048)		(17,108)
Monetary restatement of provisions for tax contingencies	(6)	(13,568)	(42,703)	(112,211)
Income tax and social contribution				9,000
	(6)	(42,887)	(45,401)	(268,157)

(vi) This refers mainly to rental charged from mobile telephone providers for the utilization of TMAR's buildings and infrastructure and from Oi for the installation of radio base stations (ERBs). The increase of this other operating revenue is related to the expansion of the mobile telephone network in Region I.

(vii) Refers to bonus or rebate obtained from suppliers of Oi's mobile handsets according to the contract's terms , based upon buying volumes.

04.01 - NOTES (In thousands of reais, unless otherwise stated)

5 Financial Results

	Parent Co.		Consolidated	
	06/30/04	06/30/03	06/30/04	06/30/03
Financial income				
Interest on marketable securities (i)	168,407	112,897	209,492	128,619
Interest on own capital receivable from TMAR (iii)	323,872			
Reversal of interest on own capital (iii)	(323,872)			
Interest on receipt of overdue bills (Note 9)			65.024	47.025
Interest and monetary variations on loans receivable from subsidiaries	83,099	267,138		
Interest on debentures of subsidiaries (Note 25)	114,605	232,567		
Financial discounts obtained (ii)			4,354	27,892
Other	29,911	32,520	28,707	87,267
	396,022	645,122	307,577	290,803
Despesas financeiras				
Interest on loans payable to TNL	(91)	(2,881)		(2,782)
Interest on loans payable to third parties	(97,699)	(84,480)	(303,691)	(346,705)
Interest on own capital (iii)	(99,625)		(175,678)	
Reversal of interest on own capital (iii)	99,625		175,678	
Monetary and exchange variations on loans payable to third parties (iv)	(288,447)	886,059	(619,840)	1,698,007
Hedging results (iv)	163,507	(1,077,141)	268,905	(2,096,568)
Amortization of option premiums		(1,152)		(3,290)
Bank charges, including CPMF	(17,544)	(31,513)	(101,477)	(119,004)
Monetary restatement of interest on own capital and dividends proposed	(6,674)	(4,065)	(9,344)	(5,463)
Interest on debentures	(88,417)	(149,628)	(88,417)	(149,628)
Monetary restatement of provisions for contingencies (v)	(6)	(13,568)	(102,049)	(134,898)
IOF and PIS/COFINS on financial income	(75,452)	(49,059)	(117,185)	(59,753)
Interest on financed taxes - REFIS (Note 20)	(7,947)		(35,712)	(20,913)
Other	(8)	(145)	(67,245)	(38,612)
	(418,778)	(527,573)	(1,176,055)	(1,279,609)
	(22.756)	117.549	(868.478)	(988.806)

(i) This refers basically to interest on bank certificate deposits and investment funds.

(ii) In 2003, this refers to a discount obtained because of the early payment by TMAR of a debt to Alcatel Telecomunicações S.A. in January of that year. In 2004, this refers basically to discounts obtained as a result of early payments made to suppliers.

(iii) In the light of the tax benefits made available by changes in the income tax Law 9249/95, both TMAR and TNL recorded interest on own capital.

Pursuant to tax authority requirements, such interests were accounted for as “Financial expenses” and “Financial income”, and reversed to “Retained earnings” and “Investments” since they are, in essence, distributions of earnings. In order not to distort financial ratios and allow for comparison between years, reversals are stated under financial income and expenses.

04.01 - NOTES (In thousands of reais, unless otherwise stated)

(iv) In the first half of 2004, the real appreciated 7.6% to the U.S. dollar, compared to a 5.1 % depreciation in 2003. Swap transactions are recognized on the accrual method, thus reducing or increasing financial expenses arising from exchange variations.

(v) Restatement of provisions for contingencies in amounts equal to the amounts to be actually paid, in the event of loss and/or settlement, is stated as "Financial expenses" (Note 21).

6 Non-Operating Income (Expenses), Net

	Parent Co.		Consolidated	
	06/30/04	06/30/03	06/30/04	06/30/03
Reveral of Oi's unsecured liabilities (i)		499,994		
Proceeds from the sale of Pegasus (ii)		(20,647)		
Write-off of deferred assets of subsidiaries (iii)				(27,247)
Write-off of tax incentives lost (v)			(6,180)	
Provision for losses on assets (iv)		(80,276)		(80,276)
Proceeds from the sale of permanent assets (vi)	10,525		(3,354)	10,027
Equity accounting adjustments (vii)	7,512	(2,238)	7,512	(1,495)
Other non-operating income (expenses), net			601	557
	18,037	396,833	(1,421)	(98,434)

(i) This refers to TNL gains on the sale of its participation in Oi, as disclosed in the ITR for June 30, 2003.

(ii) This refers to proceeds arising from the adjustment of the price of Pegasus shares purchase and sale agreement.

(iii) This refers to the write-off of deferred assets of TNext and HiCorp, recorded in February 2003, as such businesses were closed down.

(iv) On June 30, 2003, TNL signed an agreement with Hewlett Packard (HP), for the sale of the customer portfolio and hardware, software and other equipment against book values of approximately R$ 7,350. Also on June 30 a loan for use agreement was signed, effective December 2003, for goods in the amount of R$ 81,998 with a purchase option, to be exercised for R$ 3,000 after 36 months. In order to adjust its results to this decision, in July 2003 TNL made a provision for losses on these assets, in the amount of R$ 81,998. When these assets are depreciated, the related provision, stated in the same line, is reversed.

(v) This refers primarily to the write-off of tax incentive investments under the Fund for the Economic Recovery of the Espírito Santo State (Fundo para Recuperação Econômica do Estado do Espírito Santo – "FUNRES"), as such credits are not expected to be realized.

(vi) This refers to the sale of permanent asset items, mainly the write-off of equipment in connection with the network modernization, net of income earned on such sale.

For the parent company, this refers to the reversal of the provision for losses on assets made in December 2003. As described in Note 3, the reversal for losses is reversed as the assets are depreciated.

04.01 - NOTES (In thousands of reais, unless otherwise stated)

(vii) TNL recognizes as non-operating results the equity accounting gains and losses arising from variations in shareholding.

7 Income Tax and Social Contribution

The reconciliation of income tax and social contribution based on nominal rates and the taxes recorded in the income statement is as follows:

	Parent Co.		Consolidated	
	06/30/04	06/30/03	06/30/04	06/30/03
Net income (loss) before income tax and social contribution and minority interests and after employees' profit sharing	250,428	159,281	476,337	(56,426)
Income tax and social contribution at combined rates (34%)	(85,146)	(54,155)	(161,955)	19,185
Adjustments to determine the effective rate:				
Permanent elimination (addition) of equity acct.adjustments	123,450	(107,840)		
Tax effects on permanent (additions) eliminations (i)	(1,252)	169,998	(27,098)	11,004
Tax effects on reversal of provision for goodwill reduction (ii)	55,310	55,310	55,310	55,310
Income tax and social contribution on unrealized tax losses (iii)		(27,294)	(63,800)	(287,752)
Tax effects of interest on own capital (Note 5)	(76,244)		59,731	
Other	1,264	(366)	29,837	21,817
Income tax and social contribution benefits (expenses)	17,382	35,653	(107,975)	(180,436)
Income tax and social contribution effective rate	-6.94%	-22.38%	22.67%	319.77%

(i) In 2003, this refers to the effect of the reversal of the provision for unsecured liabilities upon the sale of Oi shares (Note 6).

(ii) Pursuant to CVM Instruction 349, TNL records a provision for reduction of the goodwill on the downstream merger to the amount of the tax benefit arising from the amortization of goodwill. The amortization of this provision in the statement of income (Note 4), however, is not taxed.

(iii) Certain subsidiaries did not record deferred taxes on tax losses in the absence of past experience and/or expectation of generation of future taxable income sufficient to ensure the full realization of such benefits over the next ten years (Note 11). These tax assets may be recorded according to the potential of realization of such benefits.

04.01 - NOTES (In thousands of reais, unless otherwise stated)

Income tax and social contribution results for the quarter are as follows a:

	Parent Co.		Consolidated	
	06/30/04	06/30/03	06/30/04	06/30/03
Previous years (a)				
Income tax		(15,313)	19,420	(3,768)
Social contribution		(5,513)	5,066	716
		(20,826)	24,486	(3,052)
Current				
Income tax	(2,375)		(21,769)	(1,210)
Social contribution	(859)		(8,507)	(448)
	(3,234)		(30,276)	(1,658)
Deferred				
Income tax on temporary additions	15,159	(1,306)	37,401	(103,576)
Social contribution on temporary additions	5,457	(470)	10,438	(47,351)
Income tax on tax losses (b)		42,835	(114,480)	(25,752)
Social contribution on tax losses (b)		15,420	(33,579)	953
	20,616	56,479	(100,220)	(175,726)
	17,382	35,653	(106,010)	(180,436)

(a) This refers substantially to reversals of a portion of income tax and social contribution expenses which had been included in REFIS (Note 20).

(b) According to current legislation, tax loss carryforwards may be offset against future taxable income up to an annual limit of 30% of this income. However, TMAR holds an injunction authorizing the offsetting of 100% of its accumulated tax loss carryforwards determined in 1998 and prior years, and maintains a provision for contingencies relating to charges and interest in arrears (Note 21).

04.01 - NOTES (In thousands of reais, unless otherwise stated)

8 Cash and Short-Term Investments

	Parent Co.		Consolidated	
	06/30/04	03/31/04	06/30/04	03/31/04
Cash and cash equivalents	384	559	114,591	62,365
Financial investments:				
Bank Deposit Certificates (i)	1,615,819	1,520,657	1,764,852	1,631,844
Repurchase operations (i)	722,514	336,555	722,514	336,555
Investment funds (ii)	1,710,218	1,217,798	2,118,123	1,517,117
Remunerated deposits			125,208	69,567
	4,048,935	3,075,569	4,845,288	3,617,448

(i) Financial investments in Bank Deposit Certificates - CDB and repurchase operations backed by debentures are indexed to the Interbank Deposit Certificate (CDI) rate, with immediate liquidity and an average yield of 16.6% per annum (06/30/03 – 26.6% p.a).

(ii) Investment funds (consolidated) have immediate liquidity, of which R$ 1,272,053 correspond to offshore investment funds whose portfolio is comprised basically of U.S. government securities and private securities issued by financial institutions, with an average yield of 1% per annum (06/30/04 - 2%), plus exchange variation. In addition, R$813,004 refers to investment funds linked to the variation of federal government securities, with an average yield of 16.5% per annum (06/30/03 – 10.95% p.a).

04.01 - NOTES (In thousands of reais, unless otherwise stated)

9 Accounts Receivable

	Consolidated	
	06/30/04	03/31/04
Services billed and goods sold	2,925,688	2,949,507
Services not yet billed	844,877	902,579
Handsets and accessories sold	125,015	90,562
Provision for doubtful accounts	(310,927)	(353,486)
	3,584,653	3,589,162

The aging of accounts receivable is as follows:

	Consolidated			
	06/30/04	%	03/31/04	%
Not yet billed	844,877	21.7	902,579	22.9
Not yet due	1,141,308	29.3	1,106,644	28.1
Receivable from other providers	709,480	18.2	671,686	17.0
Overdue up to 30 days	582,577	15.0	547,352	13.9
Overdue from 31 to 60 days	186,390	4.8	216,718	5.5
Overdue from 61 to 90 days	133,603	3.4	143,904	3.6
Overdue more than 90 days	297,345	7.6	353,765	9.0
	3,895,580	100.0	3,942,648	100.0

Overdue accounts are subject to a 2% fine (included in "Other operating income") on the total debt and late-payment interest of 1% per month (included in "Financial income"), which are recorded when the subsequent bill is issued after payment of the overdue bill.

Accounts receivable from other telephone operators include credits with Embratel, currently under discussion with ANATEL and in court. The amounts recorded arise from DETRAF and are sourced by third parties, pursuant to contractual rules and in accordance with the applicable regulation. If TMAR´s management has any doubts on the possibility of realizing receivables, the related amounts are conservatively provisioned, reducing the accounts receivable balance.

	06/30/04	03/31/04
Amounts receivable	402,810	408,064
Liabilities to pass through	(100,547)	(95,518)
Provision for contingencies (Note 21 – civil)	(50,713)	(50,713)
Net amount receivable	251,550	261,833

04.01 - NOTES (In thousands of reais, unless otherwise stated)

Management understands that Embratel has not complied with its obligations under the interconnection contracts, which determine that the amounts must always be paid by the providers, whether or not they are being disputed. The amounts which are paid in excess, should be refunded by the other party, being monetarily restated by the variation of the IGP-DI.

TMAR filed two judicial claims against Embratel. The first relates to the differences between the amounts for the use of the network, billed by TMAR in August 2001 and July 2002 and paid only partially by Embratel; the second is a request for an anticipated judgment to make sure that Embratel does not disallow any remuneration amounts for the use of TMAR’s network in the monthly DETRAF. These claims amount to approximately R$ 481 milion in June 2004.

From September 2002 to December 2003, Embratel deposited judicially the amounts which are being discussed, related to the interconnection traffic, totaling R$ 165,103 as of June 30, 2004, recorded under accounts receivable at TMAR. Conservatively, the monetary restatement of the amounts receivable is not accounted for. The preliminary injunction that forced Embratel to deposit such values judicially was overruled in January 2004. The Company´s legal department filed an appeal to reverse this ruling. The appeal will be judged by the Rio de Janeiro State Judicial Court at a date still to be defined.

10 Credits Receivable

	Consolidated	
	30/06/04	31/03/04
América Móvil S.A. (i)		101,801
Credits receivable - Barramar S.A. (ii)	139,563	139,376
Credits receivable - Hispamar Ltda. (iii)	31,856	31,298
Assets to be sold (iv)	53,586	53,586
Other amounts receivable	25	25
	225,030	326,086
Short term		101,801
Long term	225,030	224,285

(i) On August 26, 2003, TMAR signed an agreement with América Móvil S.A., and transferred to its subsidiary Oi an option to take part in the acquisition of the capital of BCP S.A. As Oi did not exercise the option, it was entitled to a US$ 35 million credit, which was received on May 18, 2004, totaling R$ 107,530.

(ii) The amount receivable from Barramar S.A. refers to 50% of the amounts recorded under “long term assets” at AIX, which could be utilized in the acquisition of the permanent assets of that company. The recovery of AIX’s assets depends on the future profitability of Consórcio Refibra.

04.01 - NOTES (In thousands of reais, unless otherwise stated)

(iii) In November 2001, TMAR signed an association agreement with Hispamar Ltda., designed to reduce costs to reach the Northern region of the country, specifically transponders rented from Embratel. On December 31, 2002, TMAR signed an agreement with Hispamar Satélites S.A., suibsidiary of Hispamar Ltda., to transfer, at a charge, the right to explore the geostationaty C Band satellite, while TMAR was assured a participation in Hispamar Satélites S.A.. The transfer price of the exploration right was determined by a report of an expert, independent firm, totaling R$ 28,659, restated by the Consumer Price Index - IPC.

The conversion of these credits into interest in Hispamar has already been approved by the Company´s Board of Directors, pending completion of corporate agreements. Accordingly, TMAR will continue to state these amounts under long-term receivables until they are transferred to permanent investments. TMAR management estimates that this participation will not exceed 20% of the total capital of the investee.

(iv) This refers to permanent assets to be put up for sale, substancially a building under construction in Rio de Janeiro and a tract of land in São Paulo. Management is assessing the equity position and market value of these assets.

11 Deferred and Recoverable Taxes

	Parent Company				Consolidated			
	06/30/04		03/31/04		06/30/04		03/31/04	
	Short term	Long term	Short term	Long term	Short term	Long term	Short term	Long term
ICMS					434,151	196,178	502,988	233,073
Tax credit CVM 349 (i)	69,836		111,737		69,836		111,737	
IR (inc.tax) on temp.additions(ii)	519	199,284		173,247	77,138	649,737	80,267	636,137
CS (soc.contr.) on temp.add. (ii)	583	71,742	583	62,369	28,396	224,651	30,433	220,035
IR on tax losses (ii)			23,296		11,029	374,411	34,606	397,283
CS on tax losses (ii)			8,386		3,971	137,969	12,458	141,514
IR recoverable	2,868		2,291		34,754		18,858	
CS recoverable	826		8,562		25,563		14,910	
Other taxes recoverable	1,846		2,474		30,261		28,326	
Withholding taxes	80,480		63,780		117,977		84,689	
	156,958	271,026	221,109	235,616	833,076	1,582,946	919,272	1,628,042

(i) As a result of the reverse merger goodwill transaction, an income tax and social contribution benefit was recorded as a contra entry to the “Special goodwill reserve”.

(ii) TNL and its subsidiaries record deferred tax credits arising from timing differences and tax loss carryforwards, under the terms of CVM Resolution No. 273 and CVM Instruction No. 371, based on studies confirming the existence of taxable income, at present value, over the next ten years. Such credits are recorded as current assets and long-term receivables, according to their expected realization.

04.01 - NOTES (In thousands of reais, unless otherwise stated)

Pursuant to a technical appraisal approved by TMAR´s management in November 2003, submitted to the approval of the Audit Committee, the generation of taxable income over the next ten years, brought to present value, will be sufficient to offset such tax credit, as shown below:

	Parent Co.	Consolidated
Until December 31:		
2004	70,938	190,370
2005	23,256	192,956
2006	18,513	214,577
2007	25,476	285,538
2008	28,707	178,151
2009	34,055	92,397
2010	42,356	111,162
2011	51,248	112,342
2012	47,415	118,625
2013		81,020
	341,964	1,577,138

For those subsidiaries which do not have a history of profitability and/or expectation of generation of future taxable income for the next ten years, that would be enough to offset the tax credits, management has chosen not to recognize 100% of tax credits arising from timing differences and tax loss carryforwards. Unrecognized credits amount to R$ 367,866 at June 30, 2004 (12/31/03 - R$ 304,066), of which R$ 341,727 refers to Oi (12/31/03 – R$ 277,474).

Additionally, at June 30, 2004, tax credits on timing differences not accounted for amount to R$ 36,870 (12/31/03 – R$ 20,237).

12 Prepaid Expenses

	Parent Co.		Consolidated	
	06/30/04	03/31/04	06/30/04	03/31/04
Financial charges (i)	87,726	91,484	267,044	270,908
Subsidies – Oi handsets (ii)			41,295	43,958
Fistel fee - Oi (iii)			110,020	124,048
Insurance			10,016	13,838
Taxes, fees and contributionss	72	72	7,047	10,050
Other	1,586	3,607	62,219	51,953
	89,384	95,163	497,641	514,755
Short term	1,717	17,087	260,178	287,812
Long term	87,667	78,076	237,463	226,943

(i) Financial charges and premiums paid in advance when obtaining loans and financing are amortized during the term of the related contracts.

(ii) This refers to the number of postpaid mobile handsets sold during the year, with a minimum subsidy of R$ 300 reais. This amount is recoverable over 12 months, considering that the agreements provide for an early termination fee or migration to prepaid plans.

04.01 - NOTES (In thousands of reais, unless otherwise stated)

(iii) The amount of the "Fundo de Fiscalização das Telecomunicações - FISTEL" charge paid on monthly installation in the course of the year (R$ 26,83) is deferred to be amortized during the estimated period of client churn (retention), which is equivalent to 24 months, and also to the anticipated payments made by TMAR and Oi, according to the applicable legislation, as Fistel fee for maintenance, taken to income on a monthly basis during the current year.

13 Judicial Deposits

	Parent Company		Consolidated	
	06/30/04	03/31/04	06/30/04	03/31/04
Tax	3,585	3,712	218,386	214,679
Labor	25	25	136,273	123,075
Civil	1,790	1,791	97,410	87,053
	5,400	5,528	452,069	424,807

The Company and its subsidiaries make judicial deposits to ensure the right of recourse in connection with civil, labor and tax claims. Significant tax claims include challenging by TMAR of INSS assessments in the amount of R$ 11,668 and R$10,228 relating to IPTU collection. Considering the likelihood of loss, management records a provision for contingencies (Note 21).

There are also several other deposits to cover potential tax foreclosures in connection with the collection of taxes by the Secretaria da Receita Federal (Internal Revenue Service), as well as the suspension of payment of other liabilities to the state and local Finance Departments, in the amount of R$ 130,506. Judicial deposits were also made in connection with the challenging of the ICMS levy on ancillary telecommunications services (Agreement 69/98), retroactively to June 1998, in the amount of R$ 65,984.

14 Investments

	Parent Co.		Consolidated	
	06/30/04	03/31/04	06/30/04	03/31/04
Investments accounted for under the equity method	8,662,200	8,688,926		
Goodwill on the acquisition of Pegasus, net			262,716	281,482
Investments accounted for under the cost method	77	77	54,498	51,249
Tax incentives (i)	10,698	10,698	40,073	72,148
Provision for losses on tax incentives (i)	(3,143)	(3,143)	(36,991)	(64,374)
Other investments			250	250
	8,669,832	8,696,558	320,546	340,755

04.01 - NOTES (In thousands of reais, unless otherwise stated)

Subsidiaries	Stockholders' equity (unsecured liabilities)	Net income (loss) for the 6-month period	% holding Total capital	% holding Voting capital	Gain (loss) on Equity pick-up 30/06/04	Gain (loss) on Equity pick-up 30/06/03	Interest on own capital	Investment value 06/30/04	Investment value 03/31/04	Provision for Unsecured liabilities 06/30/04	Provision for Unsecured liabilities 03/31/04
TMAR (ii)	10,476,312	376,161	80.89	97.24	315,875	222,741	333,953	8,486,445	8,527,730		
Oi (iii)			100	100		(478,296)					
TNL Contax (iv)	150,637	(544)	100	100	(544)	(33,133)		150,637	153,538		
TNL.Net	9,697	564	100	100	564	(16,686)		9,697	7,654		
TNL.Acesso	15,420	51,039	100	100	51,039	1,804		15,420			(11,092)
HiCorp	(35,448)	(3,726)	100	100	(3,726)	(12,307)				(35,448)	(33,567)
TNL Trading	(3,339)	48	100	100	48	(1,299)				(3,339)	(3,359)
TNL PCS Participações S.A.	1		100	100				1	1		
Caroaci	(4)	(168)	100	100	(168)				3	(4)	
					363,088	(317,176)	333,953	8,662,200	8,688,926	(38,791)	(48,018)
Other investments								7,632	7,632		
								8,669,832	8,696,558		

(i) As described in Note 6, during the six-month period ended June 30, 2004, the Company wrote off R$ 6,180 relating to tax incentives (FUNRES), of which R$ 4,693 were written off in the second quarter.

(ii) Equity in the earnings of TMAR is calculated according to the percentage holding after excluding treasury shares, equal to 81.01%.

(iii) Equity in the earnings of Oi during the first quarter of 2003 corresponds to the 100% holding by TNL up to April 30, 2003, when Oi was acquired by TMAR. Since May 2003 equity in the earnings of Oi is accounted for at TMAR.

On May 18, 2004, the Company accepted Brasil Telecom S.A.'s offer to sell the Company's investments in iG, representing 17.5% of outstanding shares, for the total amount of US$ 17,487 thousand (Note 1(b)). Participations in TNL.Net are recorded under permanent assets.

(iv) The financial statements for the six-month period ended June 30, 2004 were examined by other independent accountants.

04.01 - NOTES (In thousands of reais, unless otherwise stated)

15 Property, Plant and Equipment

Parent Company

	06/30/04			03/31/04	
	Cost	Accum. depreciation	Net	Net	Annual depreciation rate (%)
Hardware and software	96,402	(24,091)	72,311	78,320	20
Buildings	36,822	(19,060)	17,762	18,189	4 to 10
Land	8,810		8,810	8,810	
Other assets	14,507	(8,862)	5,645	3,819	10 to 20
Construction in progress	177		177	2,297	
Other equipment	1,512	(597)	915	941	
Provision for losses (Note 6)	(71,473)		(71,473)	(76,736)	
	86,757	(52,610)	34,147	35,640	

Consolidated

	06/30/04			03/31/04	
	Cost	Accumulated depreciation	Net	Net	Taxa anual de depreciação (%)
TMAR switching equipment	11,563,971	(9,919,066)	1,644,905	1,847,591	20
Oi switching equipment (i)	502,786	(78,765)	424,021	408,991	10
Pegasus switching equipment	12,385	(1,546)	10,839	3,740	3 to 20
TMAR transmission equipment	6,954,841	(5,187,272)	1,767,569	1,834,846	20
Oi transmission equipment (i)	1,101,326	(151,161)	950,165	911,193	10
Pegasus transmission equipment	131,934	(37,063)	94,871	97,383	3 to 25
Terminal equipment	2,277,894	(1,964,903)	312,991	343,239	13 to 20
Trunking (switches)	6,018,495	(4,678,861)	1,339,634	1,417,555	5 to 20
Cables (access network)	4,651,867	(2,002,459)	2,649,408	2,679,665	5 to 20
Pegasus cables and networks (ii)	199,410	(20,520)	178,890	180,790	3 to 20
Other equipment	1,600,060	(1,038,692)	561,368	578,797	3 to 20
Underground ducting	1,924,709	(1,102,663)	822,046	834,785	4
Posts and towers	834,583	(308,634)	525,949	528,507	4 to 5
Hardware and software	1,507,195	(823,682)	683,513	699,369	20
Buildings	2,066,748	(1,202,956)	863,792	867,879	4 to 10
Land	157,418		157,418	157,563	
Third parties improvements	9,596	(1,753)	7,843	8,083	10
Other assets	1,059,717	(488,447)	571,270	567,152	10 to 20
Right of use - Oi (iii)	1,236,567	(171,801)	1,064,766	1,086,943	7
Construction in progress	192,350		192,350	233,307	
Provision for losses (Note 6)	(71,473)		(71,473)	(76,736)	
Inventory for expansion	161,491		161,491	172,434	
	44,093,870	(29,180,244)	14,913,626	15,383,076	

(i) The depreciation rate of Oi's transmission and switching equipment is based on an internal report on the assessment of their useful lives, taking into account mainly the technology obsolescence and wear and tear, in line with the policies of other wireless companies.

(ii) On December 29, 2001 Pegasus received an appraisal report on the useful lives of certain fixed assets (machinery, equipment, cables and networks) prepared by an outside expert. The assets are depreciated in accordance with the rates set out in the report.

04.01 - NOTES — (In thousands of reais, unless otherwise stated)

(iii) This refers to the right to use radio frequencies, acquired by Oi in March 2001 for R$ 1,102,007, in effect until March 12, 2016, subject to a single renewal for 15 years. Financial charges accruing until the start-up of Oi were capitalized, and the portion relating to the license amounts to R$ 63,942. In July 2003 and January 2004, Oi acquired new authorizations to use radio frequency blocks until March 12, 2016, for the total amount of R$ 70,618, to allow for the penetration of signals in certain areas.

As described in Note 17, Oi has pledged some of its assets as guarantees.

16 Deferred Charges

These amounts refer to expenses incurred during the pre-operating period and are being amortized based on economic feasibility studies prepared by third parties. The average period is estimated at five years, except for Oi, whose estimated period is 10 years as of July 2002 (start-up) and November 2001, respectively.

Deferred charges comprise the following:

	06/30/04	03/31/04
	Net value	Net value
Third-party services	236,490	236,490
Financial expenses	339,459	339,448
Personnel	47,863	47,863
Cost of materials	10,734	10,734
Rental and insurance	29,952	29,952
Other	2,658	2,911
Accumulated amortization	(142,925)	(126,054)
	524,231	541,344

The composition of deferred assets is as follows:

			Consolidated	
			06/30/04	03/31/04
	Cost	Accumulated depreciation	Net value	Net value
Oi	628,586	(125,168)	503,418	519,113
AIX	21,511	(5,162)	16,349	16,914
TNL.Acesso	10,000	(6,667)	3,333	3,833
TNL Contax	3,726	(2,608)	1,118	1,304
Pegasus	3,333	(3,320)	13	180
	667,156	(142,925)	524,231	541,344

(In thousands of reais, unless otherwise stated)

17 Loans and Financing

		Inception	Maturity	Guarantees	Financial charges	Parent Company 06/30/04	Parent Company 03/31/04	Consolidated 06/30/04	Consolidated 03/31/04
(a)	**Local currency**								
	BNDES (i)	12/00	01/08	TNL endorsement and TMAR receivables	TJLP +4.40% p.a.			1,443,130	1,530,298
	BNDES (ii)	12/03	01/11	TNL endorsement and TMAR receivables	TJLP +4.50% p.a.			341,662	243,309
	Banco do Nordeste do Brasil S.A.	06/04	06/12	TMAR receivables	11.9% p.a.			63,828	
	Banco Bilbao Vizcaya Argentaria S.A.	06/02	06/05	None	IGPM + 12% p.a.	70,396	67,887	70,396	67,887
	Subsidiary				102% of CDI	7,745	642		
	Other							22,519	24,232
	Financial charges					18,979	15,884	30,253	25,660
					Total in local currency	97,120	84,413	1,971,788	1,891,386

04.01 - NOTES (In thousands of reais, unless otherwise stated)

		Inception	Maturity	Guarantees	Currency	Financial charges	Parent Company 06/30/04	Parent Company 03/31/04	Consolidated 06/30/04	Consolidated 03/31/04
(b)	**Foreign currency**									
	Financial institutions									
	BNDES (i)	12/00	01/08	TNL endorsement and TMAR receivables	UMBND (viii)	Variable rate + 4.40% p.a.			586,682	591,856
	BNDES (ii)	12/03	01/11	TNL endorsement and TMAR receivables	UMBND (viii)	Variable rate + 4.50% p.a.			88,080	60,494
	ABN AMRO Bank N.V.	12/00	05/06	None	US$	LIBOR + 5% p.a.	129,694	162,944	129,694	162,944
	ABN AMRO Bank N.V. (iii)	08/01	08/09	TNL endorsement	US$	LIBOR + 5.5% p.a.			2,300,853	2,068,442
	ABN AMRO Bank N.V.	01/04	04/09	None	US$	LIBOR + 3% p.a.to 4.83% p.a.			186,451	87,258
	Banco Itaú S.A.	12/00	04/06	Promissory Note	US$	LIBOR + 2.75% p.a.to 3.125% p.a.	244,573	241,755	244,573	241,755
	BBA Creditanstalt S.A.	10/00	05/05	None	US$	LIBOR + 4.2% p.a.	124,300	116,344	124,300	116,344
	BankBoston N.A.	06/01	03/06	None	US$	LIBOR + 4.8% p.a.	93,225	87,258	93,225	87,258
	BankBoston N.A.	12/99	01/06	TNL endorsement	US$	LIBOR + 4.25% p.a.			42,791	46,945
	Banco Santander do Brasil S.A.	06/01	06/04	None	US$	LIBOR + 4.4% p.a.		101,801		101,801
	Banco Santander do Brasil S.A.	01/04	01/07	None	US$	6.5% p.a.			24,860	23,269
	EDC - Export Development Corporation	01/00	04/07	None	US$	LIBOR + 3.0% p.a.	125,808	124,415	125,808	124,415
	Fuji Bank, Limited	11/00	09/06	None	US$	LIBOR + 3.1% p.a.	141,250	132,209	141,250	132,209
	KFW – Kreditanstalt Fur Wiederaufbau (iv)	02/03	08/12	TNL endorsement & pledge of Oi equipment	US$	LIBOR + 0.75 % p.a.			194,806	182,337
	FINVERA-Finnish Export Credit (iv)	02/03	02/12	TNL endorsement & pledge of Oi equipment	US$	LIBOR + 1.1 % p.a.			497,200	465,376

04.01 - NOTES (In thousands of reais, unless otherwise stated)

	Inception	Maturity	Guarantees	Currency	Financial charges	Parent Company 06/30/04	Parent Company 03/31/04	Consolidated 06/30/04	Consolidated 03/31/04
Nordic Investment Bank – NIB (iv)	03/03	02/12	TNL endorsement & pledge of Oi equipment	US$	LIBOR + 4.3 % p.a.			93,225	87,258
Société Générale / Coface (iv)	02/03	11/12	TNL endorsement & pledge of Oi equipment	US$	LIBOR + 0.75% p.a.			122,206	100,924
KFW – Kreditanstalt Fur Wiederaufbau (v)	06/00	10/09	None	US$	8.75% to 11.87% p.a.	313,341	313,887	313,341	313,887
KFW – Kreditanstalt Fur Wiederaufbau	07/02	01/11	None	US$	LIBOR + 0.8% p.a.& 4.5% p.a.	242,064	226,571	242,064	226,571
Japan Bank for International Cooperation – JBIC (vi)	08/01	01/10	None	Yen	1.65% p.a.	801,577	781,980	801,577	781,980
Japan Bank for International Cooperation – JBIC (vi)	01/03	01/11	None	Yen	Japanese LIBOR + 1.25% p.a.	745,912	727,676	745,912	727,676
Banco Bilbao Vizcaya Argentaria S.A.	07/00	12/06	TNL endorsement	US$	6.84% p.a.			17,248	19,373
Banco Bilbao Vizcaya Argentaria S.A.	01/04	07/04	None None	US$	LIBOR + 1.25% p.a.			28,391	26,573
SVF 1999 A Trust	12/02	08/06	None	US$	LIBOR + 4.5% p.a.	85,974	88,712	85,974	88,712
SEB Merchant Banking	03/02	10/06	None	US$	LIBOR + 2.75% p.a.	88,857	91,250	88,857	91,250
Société Générale	12/02	06/07	None	US$	LIBOR + 5% p.a.	50,164	55,471	50,164	55,471

04.01 - NOTES **(In thousands of reais, unless otherwise stated)**

						Parent Company		Consolidated	
	Inception	Maturity	Guarantees	Currency	Financial charges	06/30/04	03/31/04	06/30/04	03/31/04
Suppliers									
SIEMENS Ltda.	06/02	10/07	None	US$	LIBOR + 4.71% p.a.	22,840	24,432	22,840	24,432
SIEMENS Ltda.	01/00	09/05	Promissory Note endorsed by TNL	US$	LIBOR + 5% p.a.			30,827	28,854
Alcatel Telecomunicações S.A.	12/02	08/09	TNL Promissory Note	US$	3.34% and 6.91% p.a.			1,167	5,752
Alcatel N.V.	01/04	01/07	None	US$	LIBOR + 4% p.a.			71,473	66,898
SIEMENS Ltda.	12/02	08/09	TNL Promissory Note	US$	3.34% and 6.91% p.a.			26,059	6,462
NOKIA do Brasil Ltda.	12/02	08/09	TNL Promissory Note	US$	3.34% and 6.91% p.a.			6,071	18,333
Other suppliers	10/96	05/04	Promissory Note endorsed by TMAR or TNL	US$	LIBOR + 1.125% p.a. up to 6.6% p.a.				34
Non-convertible fixed rate									
Senior Notes (vii)	12/03	08/13	None	US$	8 % p.a.	932,250	872,580	932,250	872,580
Financial charges						39,818	55,941	81,523	76,856
					Total in foreign currency	4,181,647	4,205,226	8,541,742	8,112,579
					Total loans and financing	4,278,767	4,289,639	10,513,530	10,003,965
					Balance of foreign currency swap transactions	156,861	229,256	465,449	730,435
					Loans and financing – Short term	982,522	1,015,902	2,747,807	2,756,618
					Loans and financing – Long term	3,453,106	3,502,993	8,231,172	7,977,782

04.01 - NOTES (In thousands of reais, unless otherwise stated)

(a) Changes in the balance of loans and financing – second quarter of 2004 (consolidated)

Balance 03/31/04	Additions	Amortization	Financial charges	Balance 06/30/04
10,734,400	376,743	(586,090)	453,926	10,978,979

The average annual rate of the debt in local currency, totaling R$1,971,788 at June 30, 2004 (03/31/04 – R$ 1,891,386), is approximately 14.7% p.a.. The average cost of the debt in foreign currency, totaling R$ 9,007,191 at that same date (03/31/04 – R$ 8,843,014), is 5.4% p.a.. The financial charges of the debt include basically interest and monetary and exchange variations, net of the results of swap transactions.

(b) Description of the most significant loans and financing

(i) These refer to the use of special credit lines for the acquisition and installment of equipment and other material, under the “Program to Support Investments in Telecommunications”. Payments of interest and principal amount are due on a monthly basis through January 2008.

On December 31, 2003 and 2002 TMAR did not meet the following financial covenants set out in the contract: (a) current assets divided by current liabilities (AC/PC); and (b) EBITDA divided by current liabilities (EBITDA/PC). Banco Itaú S.A. and Banco do Brasil S.A., as leaders of the creditor syndicate, as well as BNDES itself, waived this requirement upon payment of a fee. The waiver by BNDES and the leaders regarding noncompliance with these covenants up to December 31, 2003 will be effective until January 1, 2005.

(ii) Since December 2003, TMAR withdrew R$ 421,907 of BNDES funds under a loan contract signed in December 2002, in the amount of R$ 520,000, with the objective to finance its investment plans. The funds will be used for the expansion of the telecommunictions network and operating improvements. Financial charges are due on a quarterly basis through January 2005, and on a monthly basis from May 2005 through January 2011.

(iii) In August 2001, Oi obtained loans from a consortium formed by banks and suppliers (Nokia, Siemens and Alcatel) leaded by ABN AMRO Bank, to make investments in working capital. Until June 30, 2004, from this credit line of US$ 1,425,000, approximately R$2,234,327.

(iv) In December 2002, Oi signed a financing contract with KFW - Kreditanstalt Für Wiederaufbau, Nordic Investment Bank, Sociétè Generale/Coface and Finnish Export Credit – Finnvera in the total amount of US$300 million to partially substitute the credit line with ABN AMRO Bank N.V ..

04.01 - NOTES — (In thousands of reais, unless otherwise stated)

Until November 2003, when Oi's debt was transferred to TMAR, Oi withdrew R$ 896,159 to finance the acquisition of equipment from suppliers Siemens, Alcatel and Nokia, as part of its investment program. This equipment has been pledged to these creditors. Subsequently, TMAR withdrew R$ 74,128 under this credit line, also to finance Oi's capital expenditure program.

(v) In June 2000 and May 2001, TNL obtained R$ 410,329 from KFW - Kreditanstalt Fur Wiederaufbau to finance investiments in TMAR.

(vi) In August 2001 and January/February 2003, TNL obtained R$ 761,639 and R$ 884,471, respectively, from the Japan Bank for Internacional Cooperation - JBIC to finance investments in TMAR.

(vii) On December 18, 2003, TNL obtained R$ 878,820 (US$ 300 million) by issuing non convertible senior notes in foreign markets. These securities will bear interest at 8% p.a. and be redeemed in August 2013, with an option of early redemption by the Company on an annual basis from the fifth year onwards, with no guarantees. The proceeds will be used for several corporate purposes.

(viii) Currency basket published by BNDES on a daily basis.

At June 30, 2004, the maturity dates of the long-term debt are as follows:

	Parent Co.	%	Consolidated	%
Local currency				
2005	8,119	0%	247,236	3%
2006			463,106	6%
2007			473,585	6%
2008			104,413	1%
2009 and thereafter			163,802	2%
	8,119	0%	1,452,142	18%
Foreign currency				
2005	622,567	18%	1,223,909	15%
2006	620,866	18%	1,740,183	21%
2007	375,308	11%	911,476	11%
2008	336,076	10%	682,241	8%
2009 and thereafter	1,490,170	43%	2,221,221	27%
	3,444,987	100%	6,779,030	82%
Total				
2005	630,686	18%	1,471,145	18%
2006	620,866	18%	2,203,289	27%
2007	375,308	11%	1,385,061	17%
2008	336,076	10%	786,654	9%
2009 and thereafter	1,490,170	43%	2,385,023	29%
	3,453,106	100%	8,231,172	100%

04.01 - NOTES | (In thousands of reais, unless otherwise stated)

18 Debentures

These comprise 12,072 simple, non convertible debentures, with a unit value of R$ 100, totaling R$ 1,207,200. The debentures mature in five years and bear interest equal to the variation of the CDI rate plus 0.7% p.a., recorded under current liabilities and amortized on a biannual basis from December 2001 onwards.

19 Taxes and Contributions

	Parent Co.		Consolidated			
	06/30/04	03/31/04	06/30/04		03/31/04	
	Short term	Long term	Short term	Long term	Short term	Long term
ICMS			492,083		405,090	
ICMS – Agreement 69/98 (Note 21)			166,274			
PIS and COFINS	30,324	14,370	121,655		105,879	
Income tax payable	4,543	2,168	39,417		22,513	
Social contribution payable	859		8,531		3,172	
Deferred income tax and social contribution – Law 8200			19,011	872	20,208	872
Other	695	695	25,321	34	76,285	34
	36,421	17,233	872,292	906	633,147	906

Several local, state and federal taxes are imposed on telecommunications services. The most important of them is ICMS, a state tax imposed at different rates. The ICMS rate is on average 25%, except for the States or Pará and Rio de Janeiro (30%), Bahia, Sergipe, Paraná and Mato Grosso do Sul (27%), Pernambuco (28%), Goiás (26%) and Rondônia (35%).

20 Refinancing of Taxes and Contributions - REFIS

TNL and its subsidiaries TMAR, Oi, Pegasus and TNL Contax adhered to the program for refinancing of taxes and contributions (Programa de Refinanciamento Fiscal – “REFIS”), according to Law 10.684, of May 30, 2003, including a substantial portion of its debts with the national treasury due before February 28, 2003.

The REFIS amounts comprise the following:

	Parent Company				Consolidated			
	06/30/04		03/31/04		06/30/04		03/31/04	
	Short term	Long term	Short term	Long term	Short term	Long term	Short term	Long term
COFINS					52,920	415,067	51,273	418,377
CPMF	3,170	40,551	3,072	40.,74	22,122	189,085	21,434	190,100
IOF	8,588	109,895	8,321	109,413	11,559	130,536	11,200	130,304
Income tax					12,525	71,936	12,137	97,976
Social contribution					4,425	27,216	4,287	37,807
INSS – SAT					3,063	23,664	2,968	23,865
PIS					464	3,864	451	3,818
	11,758	150,446	11,393	149,787	107,078	861,368	103,750	902,247

04.01 - NOTES (In thousands of reais, unless otherwise stated)

Changes during the quarter refer to the repayment of R$ 2,913 (parent company) and R$ 26,529 (consolidated), in addition to monetary restatement according to the variation of the TJLP in the amount of R$ 3,937 (parent company) and R$ 24,506 (consolidated). In the six-month period ended June 30, 2004, monetary restatement amounts were R$ 7,947 (parent company) and R$ 35,712 (consolidated).

In the course of the second quarter, TMAR reviewed the amounts of REFIS debits, determining that R$ 35,530 relating to income tax and social contribution had been unduly included. Accordingly, the principal, fines and financial charges recorded until June 30, 2004 were reversed, in the amount of R$ 19,602, R$ 1,965 and R$ 13,963, respectively. Such reversals were classified according to the nature of the taxes, and the principal and fine portions were classified as “Income tax and social contribution”, while financial charges were recorded under “Financial expenses”.

At June 30, 2004, the flows of payment of REFIS brought to present value using the projected CDI rate of 14% p.a. totaled R$ 121,549 (parent company) and R$ 760,068 (consolidated).

21 Provisions for Contingencies

(a) Composition of book values

	Parent Company		Consolidated	
	06/30/04	03/31/04	06/30/04	03/31/04
Tax				
ICMS – Agreement 69/98 (i)				171,193
PIS and Finsocial offset (ii)			95,448	98,394
Tax loss carryforwards (Note 7)			99,433	85,358
ISS (iii)	424	424	56,183	52,688
INSS (joint responsibility, fees and indemnification)			36,123	33,988
ILL offset (ii)			33,366	32,626
PIS and COFINS (iv)			29,166	28,397
Other tax assessments (v)	291	288	99,502	86,797
	715	712	449,221	589,441
Labor (vi)				
Overtime			157,621	146,423
Hazardous workconditions premium			80,185	89,229
Subsidies			81,884	73,461
Salary differences/equalization of salary scales			40,687	37,424
Indemnities			33,224	34,455
Other claims	138	138	81,947	71,997
	138	138	475,548	452,989
Civil				
Embratel VC2/VC3 (vii)			50,713	50,713
Fines from ANATEL			42,818	38,436
Small claims court			30,256	32,832
Other claims (viii)			154,434	100,196
			278,221	222,177
	853	850	1,202,990	1,264,607

The provisions for contingencies are monetarily restated on a monthly basis, according to the criteria established in the respective legislation, as follows:

04.01 - NOTES (In thousands of reais, unless otherwise stated)

Tax: Variation of the SELIC (Special System for Settlement and Custody) rate;
Labor: Indexes of the Regional Labor Courts (TRT), plus interest of 1% p.m.;
Civil: Variation of the TR (Referential Rate), plus interest of 0.5% p.m..

(b) Details of the claims per nature of risk of loss at June 30, 2004 (consolidated)

	Tax	Labor	Civil	Total
Probable	449,221	475,548	278,221	1,202,990
Possible	2,738,108	943,219	1,132,479	4,813,806
Remote	319,187	281,715	233,154	834,056
	3,506,516	1,700,482	1,643,854	6,850,852

(c) Summary of changes in the balances of the provisions for contingencies

	Consolidated			
	Tax	Labor	Civil	Total
Balance at December 31, 2003	563,441	409,305	234,076	1,206,822
Additions, write-offs and reversals	8,616	26,789	15,294	50,699
Write-offs by payment	(60)	(19,888)	(28,045)	(47,993)
Monetary restatement (Note 5)	17,444	36,783	852	55,079
Balance at March 31, 2004	589,441	452,989	222,177	1,264,607
Additions, write-offs and reversals	3,583	37,620	72,285	113,488
Write-offs by payment	(3,343)	(32,886)	(20,127)	(56,356)
Transfer to taxes payable (Note 19) (*)	(165,719)			(165,719)
Monetary restatement (Note 5)	25,259	17,825	3,886	46,970
Balance at June 30, 2004	449,221	475,548	278,221	1,202,990

Changes in parent company balances refer only to monetary restatement.

(*) ICMS payable on installation and activation services, provisioned for on a monthly basis, relating to the court injunction described below (Agreement 69).

(d) Comments on probable contingencies (provisioned for)

Tax:

(i) In June 1998, State Finance Secretaries approved Agreement 69, to broaden the incidence of ICMS to include other services, among them the activation fee. Pursuant to this interpretation, the ICMS tax may be retroactively applied to such services for the last five years. TMAR management and legal counsel believe that the extended incidence of the ICMS tax on supplementary services to the basic telecommunication services is questionable, because: (a) the State Secretaries acted beyond the scope of their authority; (b) the interpretation considers, for taxation purposes, certain services which are not telecommunication services; and; and (c) new taxes cannot be applied retroactively.

Following the disclosure of the Agreement, TMAR filed a court injunction against the incidence of ICMS on installation and activation services (main revenues being discussed), recording the provision and respective restatement on a monthly basis. TMAR obtained recently favorable final decisions regarding lawsuits filed by the Company in the States of Sergipe, Amazonas and Amapá, declaring unconstitutional the collection of ICMS on such services.

At June 30, 2004, management reclassified such amounts to "Taxes payable". Such amounts will continued to be provisioned for and monetary restated as they accrue.

(ii) Offsets of PIS and FINSOCIAL, as well as ILL, are provisioned as the criteria of restatement and method of offset of the values involved are still being discussed.

(iii) The amount of R$ 45,177 represents a portion of the assessments received regarding several services, such as equipment rental, which in the opinion of legal counsel represent a possible loss. In October 2003, TMAR also started to provision the ISS on the rental of IP gates, totaling R$ 11,006. Certain interpretations by the Supreme Federal Court (STF) support the levy of ICMS on these services, potentially at the same 5% rate, as defined in the Agreement 78/01.

(iv) Since December 31, 2002, TMAR has paid the portion regarding the expansion in the PIS base, and the amounts due and provisioned up to December 31, 2002 are subject to monthly restatement. As to COFINS, the amounts regarding the expansion of the calculation basis, determined up to February 28, 2003, have also been provisioned and subject to monthly restatement. Changes in the quarter refer to monetary restatement in the amount of R$ 769.

(v) In the second quarter of 2004, TMAR recorded a provision of R$ 9,193 in connection with several tax assessments arising from noncompliance with additional obligations relating to the payment of ICMS. The risk of loss is considered probable by the Company´s legal counsel.

Labor:

(vi) The volume of labor claims increased due to dismissal of employees, incentive to the recovery of the differences of rescission fines, relating to the excesses of inflation due to prior economic stabilization plans and increase in the volume of claims in connection with outsourced employees. The main contingencies refer to the payment of overtime work, as well as the 30% premium for hazardous conditions for employees working near high tension lines.

Civil:

(vii) In July 2000, ANATEL modified its previous understanding regarding the rights to revenues from long-distance fixed-to-mobile calls, assigning the amounts to Embratel for the period from June 1998 through July 1999, and to the telephone company selected by the user, from July 1999 onwards. Management believes that revenues from fixed-mobile calls, irrespective of the distance involved, belong to TMAR, to whom the subscriber who originated the call belongs, in conformity with the regulations established by the Ministry of Telecommunications. Due to the relevance of the matter and Embratel's attempt to retain the amounts involved directly from DETRAF, the Company filed a law suit and was granted an injunction to prevent Embratel from retaining these amounts. In September 2001, TMAR management recorded a provision referring to a portion of the receivables unduly retained by Embratel through DETRAF, and stated in TMAR accounts receivable. Management is assessing the matter together with its legal advisors, waiting for new developments in the forthcoming months.

(viii) This refers to termination of agreements with suppliers and contractors, customer indemnities, expansion plans with issuance of shares, among others. The increase in the quarter stems from the increasing number of decisions against the Company, in addition to provisions for settlements made over the past few months.

(e) Possible contingencies (not provisioned for)

TMAR and its subsidiaries are also party to several lawsuits where the probability of unfavorable decision is considered possible by the Company´s legal counsel and for which no provisions were recorded. Based on the opinion of legal counsel, the main contingencies classified as possible losses are as follows:

Taxs:

Amounts reported are based on the total amount of the claims or tax assessments, which are often subject to arbitration, with no details provided. Accordingly there may be significant variations regarding the actual amounts in discussion.

ICMS – In July 1999, the legal dispute in Rio de Janeiro relating to ICMS on international calls originating in Brazil was estimated at approximately R$ 72,000 (tax assessments). There is doubt as to the responsibility for payment of this tax, if charged, since TMAR does not have revenues from these services for the period subject to assessment. In February 2000, TMAR obtained a favorable decision from the Taxpayers' Council in Rio de Janeiro, countered by a partially unfavorable ruling from the State Revenue Secretary, according to whom the responsibility for payment, before the introduction of CSP, lies with TMAR (July 1999). TMAR obtained a court decision ensuring that the international long-distance provider is responsible for paying this tax.

Besides this, there are several other tax assessments, in the approximate amount of R$331,000, relating to the non-collection of ICMS on certain service revenues, already taxed for ISS which are not taxable for ICMS. There also exist possible risks referring to the offset of credits on acquisition of assets and other goods necessary for the maintenance of the network, in the approximate amount of R$119,000.

ISS – The assessments referring to the levy of ISS on rental of equipment, wake-up call services, among other communication services, in the amount of R$381,000, are not provisioned for being considered as possible or remote risks of loss, once more because these activities do not fit into the list of taxable items for the ISS, or are already taxed for ICMS. Also, strengthening the defense arguments, the STF decided in the last quarter of 2001, that the ISS should not be levied on rental of equipment, because a substantial part of the assessed amounts refers to this type of revenue.

INSS – There are claims in the approximate amount of R$268,000 relating to the joint responsibility, SAT percentage which is to be applied and amounts to be taxed for INSS. TMAR's management presented documented prove, which was not being appreciated by the tax authorities until the present date.

Labor:

These refer to questionings in various requests for claims relating to the differences in salary scales, overtime work, hazardous work condition premiums, joint responsibility, among others, in the approximate amount of R$ 943,219, which are substantially in first judicial instance, pending decision. Furthermore, claims where historically TMAR has obtained favorable rulings are recorded as "possible".

Civil:

These refer to claims without judicial decisions issued, the main objectives of which are associated with questioning of network expansion plans, indemnities for moral and material causes, collection actions, bidding processes, among others. Such actions include over 8,200 claims totaling approximately R$ 1,132,479. This amount is exclusively based on the amounts of the plaintiffs (usually for unreasonably high amounts). No final decision has been issued on these claims.

22 Stockholders' Equity

04.01 - NOTES (In thousands of reais, unless otherwise stated)

At the Extraordinary Shareholders' Meeting held on May 24, 2004, the following proposals were approved: (i) to cancel part of the treasury shares, with no capital reduction, totaling 2,312,168 thousand common and 4,624,337 thousand preferred shares; and (ii) to group shares, after the above mentioned cancellation, at the ratio of 1,000 shares to 1, maintaining the current types and classes of shares. Shareholders owning less than 1,000 shares will be ensured the right to hold 1 share of the same type and class as before.

On June 2, 2004, the Board of Directors approved a share buy-back program up to the limit of 10% of common and preferred shares outstanding, up to the limit of 4,059,000 thousand common and 25,568,000 thousand preferred shares. Such buy-back is paid for with retained earnings accounted for as "Investment reserve", which totaled R$ 4,234,706 at June 30, 2004.

As of June 30, 2004, TNL has bought back 429,100 thousand shares, of which 144,600 thousand are common and 284,500 thousand are preferredshares, corresponding to a disbursement of R$ 15,173.

The reconciliation of net income for the six-month period and sharelholders' equity at June 30, 2004 for the parent company and consolidated is stated below:

	Net income – half year	Stockholders' equity
Parent company	267,810	9,200,908
Unrealized profits on the sale of TNL's interest in Pegasus to TMAR		(43,271)
Unrealized profits on the sale of TNL's interests in Oi to TMAR		(499,994)
Elimination of amortization of goodwill paid by TMAR on The acquisition of TNL's interests in Pegasus	9,905	29,713
Amortization of TNL's goodwill in Pegasus	(5,577)	(16,731)
Elimination of amortization of goodwill paid by TMAR on The acquisition of TNL's interests in Oi	26,548	57,521
Consolidated	298,686	8,728,146

23 Financial Instruments

TNL and its subsidiaries are mainly exposed to market risks arising from changes in interest rates and foreign exchange rates, due to the large volume of funds obtained in foreign currency, whereas its revenues are expressed in reais. The Company and its subsidiaries use derivative instruments, such as forward contracts in foreign currency, foreign currency options and foreign exchange rate swaps to manage its foreign exchange risks. Swap transactions transfer the risk of changes in foreign currencies to the CDI variation. TNL and its subsidiaries do not use derivative or other financial instruments for other purposes.

(a) Foreign exchange risk

04.01 - NOTES — (In thousands of reais, unless otherwise stated)

At June 30, 2004, approximately 74% of the consolidated debt, including debentures, is expressed in foreign currency (U.S. dollar, BNDES currency basket, and Japanese Yen). Accordingly, TNL and its subsidiaries are exposed to foreign exchange risks that can adversely affect their businesses, financial position and the results of their operations, as well as their capacity to meet the debt service requirements. To reduce such exposure, management carries out swap transactions.

The nominal value of cross-currency swaps and investments in U.S. dollars at June 30, 2004 was US$ 2,654,064 thousand on a consolidated basis, with coverage of 96% of the exchange risk (same coverage as at March 31, 2004).

The summary position of the transactions is as follows:

	Derivatives contract value		Gain (loss) on derivatives	
	06/30/04	03/31/04	06/30/04	06/30/03
Parent company:				
Foreign currency investments (i)	1,305,119	1,217,798		(68,625)
Cross-currency swap	2,888,250	2,981,161	69,244	(1,014,132)
Options (ii)				13,348

	Derivatives contract value		Gain (loss) on derivatives	
	06/30/04	03/31/04	06/30/04	06/30/03
Consolidated:				
Investments in foreign currency (i)	1,305,119	1,217,798		(78,425)
Cross-currency swap	6,942,049	6,580,720	191,448	(2,050,094)
Options (ii)				63,310
Forwards				(665)

(i) The results of foreign currency investments comprises return on foreign exchange securities and financial investments in U.S. dollar, recorded under “Results of foreign exchange hedge”.

(ii) Gains and losses on option derivatives include the results of settlement and amortization of premiums paid for and received.

(b) Interest rate risk

TNL and its subsidiaries have loans and financing bearing interest at floating rates based on the Brazilian long-term interest rate (TJLP) or CDI for real-denominated debts, and based on LIBOR for the U.S. dollar-denominated debts. To reduce the exposure to LIBOR, the Company and its subsidiaries enter into swap transactions that substitute LIBOR by fixed rates.

04.01 - NOTES (In thousands of reais, unless otherwise stated)

At June 30, 2004, approximately 80% of the Company's debt was remunerated at floating rates, of which 18% are changed to fixed rates via swap transactions (21% coverage at March 31, 2004).

	Derivatives contract value		Loss on derivatives	
	06/30/04	03/31/04	06/30/04	06/30/03
Interest rate swap:				
Parent Company	447,776	521,049	(8,331)	(8,884)
Consolidated	1,731,616	1,722,715	(31,540)	(33,984)

(c) Concentration of credit risk

The concentration of credit risk associated to accounts receivable is not material due to a highly diversified portfolio and related monitoring controls. Doubtful accounts receivable are adequately protected by a provision to cover possible losses.

Operations with financial institutions (financial investments, loans and financing) are distributed among creditworthy institutions, thus minimizing concentration risks.

(d) Market value of financial instruments

The market values of the main financial instruments are similar to the book values, shown as follows:

		06/30/2004			
		Parent Company		Consolidated	
		Book value	Fair value	Book value	Fair value
(i)	Marketable securities	4,048,551	4,048,551	4,730,697	4,730,697
(ii)	Loans and financing	4,435,628	4,265,912	10,978,979	10,482,526
(ii)	Debentures	1,221,197	1,183,082	1,221,197	1,183,082
(iii)	Investments in TMAR	8,486,445	12,856,750		

04.01 - NOTES (In thousands of reais, unless otherwise stated)

		03/31/2004			
		Parent Company		Consolidated	
		Book value	Fair value	Book value	Fair value
(i)	Marketable securities	3,075,010	3,075,010	3,555,083	3,555,083
(ii)	Loans and financing	4,518,895	4,787,912	10,734,400	10,717,976
(ii)	Debentures	1,271,038	1,233,220	1,271,038	1,233,220
(iii)	Investments in TMAR	8,527,730	12,795,756		

(i) The book value of marketable securities is similar to the fair value, because they are recorded at realizable value.

(ii) The fair values of loans, financing and debentures were calculated according to the present value of these financial instruments, considering the interest rate usually charged for operations with similar risks and maturity dates. The realization of such obligations at their fair value would be possible only in the event or formal renegotiation of the contracts in effect, which has not been formally contemplated.

(iii) The fair value of the investment in TMAR was calculated based on the closing quotation of the last business day of the quarter. The market value of investments in privately held subsidiaries has not been estimated, since there is no active market for such securities. It should also be noted that the market value calculated based on stock exchange quotations arises from transactions between minority shareholders and does not necessarily correspond to the value that could be obtained in connection with a transaction to transfer TNL’s controlling interest in TMAR.

24 Employee Benefits

(a) SISTEL

Fundação Sistel de Seguridade Social ("SISTEL") is a private, non-profit pension plan created on November 9, 1977, with the purpose of establishing private plans to grant assistance or benefits, to supplement the retirement benefits assured by the Federal Government, to SISTEL sponsored employees and their families.

The Company sponsors defined benefits (PBS-Telemar) and defined contribution (TelemarPrev) private pension plans. PBS-Telemar covers a small number of participantes who opted not to transfer to TelemarPrev. Contributions to PBS-Telemar in the six-month period ended June 30, 2004 totaled R$ 85 (06/30/03 – R$ 104).

(b) Employees' profit sharing

Employees' profit sharing is agreed upon annually, based on the attainment of operating result growth targets, pursuant to Law 10101 of December 19, 2000. During the six-month period ended June 30, 2004, subsidiaries TMAR, Oi and TNL Contax recorded provisions in accordance with budget estimates, in the amount of R$ 95,386 (06/30/03 – R$ 52,855). Differences between the amounts provisioned and those disclosed in the statements of income are due to reversals or adjustments to prior year estimates, at the time payments were actually made in 2004 and 2003.

04.01 - NOTES (In thousands of reais, unless otherwise stated)

25 Related Party Transactions – Parent Company

Transactions with related parties are carried out at arm's length. The main transactions between TNL and its subsidiaries are summarized as follows:

	06/30/04							
	TMAR	TNL Contax	TNL.Acesso	TNL.Net	TNL Trading	TNL PCS Participações	HiCorp	Total
Assets								
Loans to subsidiaries		45,373		53,068		299	41,266	140,006
Debentures	1,501,662							1,501,662
Interest on own capital	333,953							333,953
Other assets	5,966							5,966
Liabilities								
Suppliers	220							220
Loans and financing			7,124		995			8,119
Revenues								
Financial income	193,463	6,332	2,275	3,793		21	2,949	208,833
Costs and expenses								
General and administrative	(521)							(521)
Financial expenses	(20)		(4)		(72)			(96)

04.01 - NOTES — (In thousands of reais, unless otherwise stated)

03/31/04	TMAR	Oi	TNL Contax	TNL.Acesso	TNL.Net	TNL Trading	TNL PCS Participações	HiCorp	Total
Assets									
Loans to subsidiaries			40,789	33,667	50,963		287	39,629	165,335
Debentures	2,625,114								2,625,114
Interest on own capital	165,918								165,918
Other assets	6,217								6,217
Liabilities									
Suppliers	220								220
Loans and financing						976			976

30/06/03	TMAR	Oi	TNL Contax	TNL.Acesso	TNL.Net	TNL Trading	TNL PCS Participações	HiCorp	Total
Revenues									
Financial income	250,980	232,582	16,562	14,365	6,870	1		3,645	525,005
Costs and expenses									
General and administrative	(897)								(897)
Financial expenses						(101)			(101)

(a) Credit lines extended by the parent company

Transactions with related parties arise essentially from credit lines extended to subsidiaries by the parent company, which objective is to supply them with working capital for their operating activities, where maturity dates may be redefined according to the subsidiaries' projected cash flows. In February 2004, the Boards of Directors of TNL and TMAR approved the acquisition of simple debentures, not convertible in TMAR shares, which are remunerated at 100% of CDI, plus a spread of 1.5% p.a.. Such debentures mature in 60 months and are recorded in long-term receivables.

For all other subsidiaries, the rate is 102% of CDI, and accounts receivable are classified under current assets and long-term receivables, according to the projected cash flows.

(b) Loan contracts with BNDES

In December 1999, some of the former 16 subsidiaries fixed-telephone operators, merged into TMAR signed loan contracts with the BNDES bank, the controlling shareholder of BNDESPar, which holds 25% of the voting capital of Telemar Participações S.A. The total amount of these loans was R$400,000, with maturity dates in December 2000 and with interests based on the SELIC rate plus 6.5% per year. In December 2000, these contracts were renegotiated and substituted by two new contracts, providing a credit line of up to R$2,700,000, with floating interest rates based on TJLP increased by 3.85% per year, to be paid in installments every half-year, with final maturity in January 2008. Of the total, 30% was obtained directly with BNDES and the remaining 70% were provided by a group of Banks. Banco Itaú and Banco do Brasil were the leaders of the group also comprising Bradesco, Banco Alfa, Unibanco, Citibank, Safra, Votorantim, Sudameris and Santander. Since 2002 there have been no withdrawals from this credit line, which started to be amortized in January of that year. The outstanding balance at June 30, 2004 is R$ 2,038,491 (03/31/04 – R$ 2,128,900). As the Company did not meet the financial covenants required in the contract, the syndicate leaders and BNDES waived this requirement until January 1, 2005, in exchange for the payment of a fee.

Between December 2003 and June 2004, TMAR withdrew R$ 421,907 under a new loan agreement entered into with BNDES in October 2003, for a total amount of R$ 520,000. These funds were used for the expansion of the telecommunications network and operating improvements.

(c) Investment and contract with iG

TNL, through its subsidiary TNL.Net, holds indirectly shares which represent 17.5% of the total share capital of the internet gate iG.). In February 2001, the subsidiary TNL.Acesso signed contracts with iG, whereby it agreed to operate all the infrastructure of the access to the gate during five years. On December 31, 2002, TNL.Acesso terminated this contract and signed a new one to provide all the infrastructure for access in Region I, under similar conditions as offered to other internet access providers in Brazil.

In May 2004, the Company accepted Brasil Telecom S.A.'s offer to sell its investments in iG, for a total price of US$ 17,487 thousand (Note 1(b)).

(d) Assignment of credit rights in Pegasus to the associated company AIX

In 2001, Pegasus received and recorded as indemnity for damage and losses caused by a contract default by Barramar S.A., a credit in the amount of R$ 31,744, and recorded also the right to rent 1,573 km ducts for 20 years, originally recorded under property, plant and equipment at R$ 1.00 and subsequently adjusted to market value and transferred to AIX for R$ 21,710 (accounted for at Pegasus as "Non-operating income" in 2001). Also in 2001, Pegasus assigned to AIX the credit held, in the amount of R$ 31,744. This transaction was executed in order to pass Barramar´s debt to Pegasus through to AIX, leader of the consortium created to restructure Barramar. The credits balance was recorded at Pegasus as of December 31, 2002, in the amount of R$ 54,590. Pegasus capitalized these credits on December 31, 2002, increasing its participation in AIX´s capital (Note 1).

(e) Rental of transmission infrastructure

AIX renders services to TMAR referring to the rental of ducts for the transmission of traffic originated with CSP 31 outside TMAR's local network in Region I. During the six-month period ended June 30, 2004, such costs totaled R$ 5,366 (06/30/03 – R$ 13,517) and are recorded under "Rental and insurance" (Note 3).

(f) Wireless platform rental - WLL

As mentioned in Note 3, TMAR has a contract for the rental of Oi´s network to render fixed-telephone services via the Wireless Local Loop - WLL. During the six-month period ended June 30, 2004, these expenses totaled R$ 42,005 (06/30/03 - R$ 73,537). The amounts and negotiation basis of the contract were revised and reduced by the parties, considering that TMAR had contracted an idle capacity with a monthly cost of approximately R$ 5,000.

(g) Main transactions between subsidiaries (amounts relating to the first half of 2004)

The main transactions charged by TMAR to Oi refer to the rental of dedicated lines (R$ 25,767), interconnection (R$ 44,935), telecommunications and 0800 services (R$ 3,365), co-billing (R$ 664), rental of infrastructure, towers, circuits, satellites and 102 platform (R$ 8,377).

The main services charged by Oi to TMAR are interconnection (R$ 239,671), cellular platform WLL rental (R$ 42,005), and co-billing (R$ 2,285).

TNL Contax renders call-center services to TMAR and Oi, in the amounts of R$ 110,480 and R$ 34,897, respectively, sales support and commissions in the amount of R$ 30,170, and tele-billing for TMAR in the amount of R$ 16,970. TNL Contax has approximately 9,991 client service posts, available to TMAR and Oi.

TMAR rents dedicated lines from Pegasus to offer voice and data services in Regions II and III (R$ 19,474).

TMAR pays TNL.Acesso a commission on the dial up traffic in its network (R$ 177,998).

26 Insurance

Assets and responsibilities of material value and/or high risk are covered by insurance sufficient to ensure their integrity and continuing operating capacity, as well as to comply with the concession agreement rules.

* * *

05.01 – COMMENTS ON THE COMPANY PERFORMANCE DURING THE QUARTER

SEE COMMENTS ON CONSOLIDATED PERFORMANCE

1 – CVM CODE	2 – COMPANY NAME	3 – CNPJ
01765-5	TELE NORTE LESTE PARTICIPAÇÕES S/A	02.558.134/0001-58

06.01 – CONSOLIDATED BALANCE SHEET (REAIS THOUSAND)

1 – CODE	2 – DESCRIPTION	3 – 06/30/2004	4- 03/31/2004
1	TOTL ASSETS	28,365,014	27,853,847
1.01	CURRENT ASSETS	10,041,831	9,014,715
1.01.01	CASH AND CASH EQUIVALENTS	4,845,288	3,617,448
1.01.02	CREDITS	3,584,653	3,589,162
1.01.03	INVENTORIES	183,635	206,904
1.01.04	OTHER	1,428,255	1,601,201
1.01.04.01	DEFERRED AND RECOVERABLE TAXES	833,076	919,272
1.01.04.02	CREDITS RECEIVABLE	0	101,801
1.01.04.03	ADVANCES TO EMPLOYEES	23,798	23,687
1.01.04.04	ADVANCES TO SUPPLIERS	167,175	154,719
1.01.04.05	PREPAID EXPENSES	260,178	287,812
1.01.04.06	OTHER	144,028	113,910
1.02	LONG-TERM RECEIVABLES	2,564,780	2,573,957
1.02.01	SUNDRY CREDITS	1,582,946	1,628,042
1.02.01.01	DEFERRED AND RECOVERABLE TAXES	1,582,946	1,628,042
1.02.02	RELATED PARTIES	15,610	16,130
1.02.02.01	SUBSIDIARIES	15,610	16,130
1.02.03	OTHER	966,224	929,785
1.02.03.01	JUDICIAL DEPOSITS	452,069	424,807
1.02.03.02	TAX INCENTIVES	50,876	53,062
1.02.03.03	PREPAID EXPENSES	237,463	226,943
1.02.03.04	CREDITS RECEIVABLE	225,030	224,285
1.02.03.05	OTHER	786	688
1.03	PERMANENT ASSETS	15,758,403	16,265,175
1.03.01	INVESTMENTS	320,546	340,755
1.03.01.01	ASSOCIATED COMPANIES	262,716	281,482
1.03.01.02	OTHER INVESTMENTS	57,830	59,273
1.03.02	PROPERTY, PLANT AND EQUIPMENT	14,913,626	15,383,076
1.03.03	DEFERRED CHARGES	524,231	541,344

1 – CVM CODE	2 – COMPANY NAME	3 – CNPJ
01765-5	TELE NORTE LESTE PARTICIPAÇÕES S/A	02.558.134/0001-58

06.02 – CONSOLIDATED BALANCE SHEET – LIABILITIES AND SHAREHOLDERS' EQUITY (REAIS THOUSAND)

1 – CODE	2 – DESCRIPTION	3 – 06/30/2004	4- 03/31/2004
2	TOTAL LIABILITIES	28,365,014	27,853,847
2.01	CURRENT LIABILITIES	6,043,660	5,721,809
2.01.01	LOANS AND FINANCING	2,747,807	2,756,618
2.01.02	DEBENTURES	13,997	63,838
2.01.03	SUPPLIERS	1,526,501	1,427,228
2.01.04	TAXES AND CONTRIBUTIONS	979,370	736,897
2.01.04.01	NON-FINANCED TAXES	872,292	633,147
2.01.04.02	FINANCED TAXES (REFIS)	107,078	103,750
2.01.05	DIVIDENDS PAYABLE	335,088	299,066
2.01.06	PROVISIONS	0	0
2.01.07	RELATED PARTIES	0	0
2.01.08	OTHER	440,897	438,162
2.01.08.01	PAYROLL AND RELATED ACCRUALS	278,629	262,980
2.01.08.02	AMOUNT PAYABLE TO ACQUITE PEGASUS	57,479	57,479
2.01.08.03	OTHER IABILITIES	104,789	117,703
2.02	LONG-TERM LIABILITIES	11,549,472	11,399,765
2.02.01	LOANS AND FINANCING	8,231,172	7,977,782
2.02.02	DEBENTURES	1,207,200	1,207,200
2.02.03	PROVISIONS	1,202,990	1,264,607
2.02.04	RELATED PARTIES	0	0
2.02.05	OTHER	908,110	950,176
2.02.05.01	NON-FINANCED TAXES	906	906
2.02.05.02	FINANCED TAXES (REFIS)	861,368	902,247
2.02.05.03	OTHER LIABILITIES	45,836	47,023
2.03	DEFERRED INCOME	53,869	57,136
2.03.01	NEGATIVE GOODWILL ON THE ACQUISITION OF AIX, NET	48,556	51,254
2.03.02	REVENUES RECEIVED IN ADVANCE	5,313	5,882
2.04	MINORITY INTERESTS	1,989,867	2,010,141
2.05	SHAREHOLDERS' EQUITY	8,728,146	8,664,996
2.05.01	PAID-IN CAPITAL	4,536,422	4,551,595
2.05.01.01	CAPITAL	4,812,021	4,812,021
2.05.01.02	TREASURY SHARES	(275,599)	(260,426)
2.05.02	CAPITAL RESERVES	201,487	201,487
2.05.04	REVENUE RESERVES	3,791,551	3,791,551
2.05.04.01	LEGAL RESERVE	60,484	60,484
2.05.04.02	OTHER REVENUE RESERVES	3,731,067	3,731,067
2.05.04.02.01	INVESTMENT RESERVE	3,731,067	3,731,067
2.05.05	RETAINED EARNINGS/ACCUMULATED DEFICIT	198,686	120,363

1 – CVM CODE	2 – COMPANY NAME	3 – CNPJ
01765-5	TELE NORTE LESTE PARTICIPAÇÕES S/A	02.558.134/0001-58

07.01 – CONSOLIDATED STATEMENT OF INCOME (REAIS THOUSAND)

1 – CODE	2 – DESCRIPTION	3 - From 04/01/2004 to 06/30/2004	4 - From 01/01/2004 to 06/30/2004	5 - From 04/01/2003 To 06/ 30/2003	6 - From 01/01/2003 to 06/ 30/2003
3.01	GROSS REVENUES FROM SALES AND/OR SERVICES	5,315,554	10,460,206	4,569,701	9,022,818
3.02	DEDUCTIONS	(1,517,249)	(2,973,022)	(1,226,703)	(2,461,529)
3.03	NET REVENUES FROM SALES AND/OR SERVICES	3,798,305	7,487,184	3,342,998	6,561,289
3.04	COST OF GOODS AND/OF SERVICES SOLD	(2,258,169)	(4,341,262)	(2,076,091)	(4,195,493)
3.05	GROSS PROFIT	1,540,136	3,145,922	1,266,907	2,365,796
3.06	OPERATING EXPENSES/INCOME	(1,333,898)	(2,569,130)	(1,255,426)	(2,270,933)
3.06.01	SELLING	(474,989)	(959,485)	(457,960)	(786,321)
3.06.02	GENERAL AND ADMINISTRATIVE	(243,126)	(460,948)	(206,689)	(435,410)
3.06.03	FINANCIAL	(457,544)	(868,478)	(526,792)	(988,806)
3.06.03.01	FINANCIAL INCOME	161,226	307,577	153,220	290,803
3.06.03.02	FINANCIAL EXPENSES	(618,770)	(1,176,055)	(680,012)	(1,279,609)
3.06.04	OTHER OPERATING INCOME	150,517	316,970	286,910	499,515
3.06.04.01	OTHER	150,517	316,970	286,910	499,515
3.06.05	OTHER OPERATING EXPENSES	(315,354)	(605,379)	(345,429)	(599,355)
3.06.06	EQUITY ACCOUNTING ADJUSTMENTS	6,598	8,190	(5,466)	39,444
3.07	OPERATING RESULT	206,238	576,792	11,481	94,863
3.08	NON-OPERATING RESULT	(10,055)	(1,421)	(75,920)	(98,434)
3.08.01	INCOME	38,061	51,116	71,057	75,848
3.08.02	EXPENSES	(48,116)	(52,537)	(146,977)	(174,282)
3.09	INCOME BEFORE TAXES/INTERESTS	196,183	575,371	(64,439)	(3,571)
3.10	PROVISION FOR INCOME TAX AND SOCIAL CONTRIBUTION	6,034	(5,790)	38,651	(4,710)
3.11	DEFERRED INCOME TAX	(45,241)	(100,220)	(105,576)	(175,726)
3.12	STATUTORY PROFIT SHARING/CONTRIBUTIONS	(51,319)	(99,033)	(41,653)	(52,855)
3.12.01	PROFIT SHARING	(51,319)	(99,033)	(41,653)	(52,855)
3.12.02	CONTRIBUTIONS	0	0	0	0
3.13	REVERSAL OF INTEREST ON OWN CAPITAL	0	0	0	0
3.14	MINORITY INTERESTS	(27,334)	(71,642)	7,516	(40,887)
3.15	NET INCOME/LOSS FOR THE PERIOD	78,323	298,686	(165,501)	(277,749)
	NUMBER OF SHARES, EX-TREASURY (thousand)	385,645,841	385,645.,41	381,776,628	381,776,628
	EARNINGS PER SHARE	0.00020	0.00077		
	LOSS PER SHARE			(0.00043)	(0.00073)

17.01 – REPORT ON SPECIAL REVIEW – UNQUALIFIED

REPORT ON SPECIAL REVIEW

To the Board of Directors and Shareholders
Tele Norte Leste Participações S.A.

1 We have carried out a special review of the Quarterly Information – ITR of Tele Norte Leste Participações S.A. (parent company and consolidated), for the quarter ended June 30, 2004, comprising the balance sheet, statement of income, performance report and relevant information expressed by the accounting principles adopted in Brazil. These financial statements are the respnsibility of the Company management. Our responsibility is to issue a report, without expressing na opinion, on these financial statements. As described in Note 14, the review of the financial statements for the quarter ended June 30, 2004 for the subsidiary TNL Contax S.A. and indirect subsidiaries TNL PCS S.A. (“Oi”) and Pegasus Telecom S.A., used for equity accounting computation and consolidation purposes, was performed by other independent auditors. Our report, with respect to the values of these subsidiaries, is based exclusively on the reports of the other independent auditors.

2 Our review was carried out in accordance with specific standards established by IBRACON - Instituto dos Auditores Independentes do Brasil (Brazilian Institute of Accountants) in conjunction with Conselho Federal de Contabilidade – CFC (Fiscal Accounting Council) and mainly comprised: (a) inquiry of, and discussion with, management responsible for the accounting, financial and operating areas of the Company with regard to the main criteria adopted for the preparation of the quarterly information, and (b) review of the related information and subsequent events which have, or could have, significant effects on the Company’s financial position and operations.

3 Based on our special review and the reports issued by other independent auditors, as mentioned in the first paragraph above, we are not aware of any significant adjustments which should be made to the quarterly information referred to in paragraph 1 for it to be in conformity with the accounting principles adopted in Brazil applicable to the preparation of quarterly information, pursuant to the standards issued by Comissão de Valores Mobiliários – CVM.

4 The Quarterly Information – ITR for the quarter ended June 30, 2004 also provides accounting information relating to the quarter ended March 31, 2004 and the six-month period ended June 30, 2003, presented for comparison purposes, and which were examined by other independent auditors who issued an unqualified opinion on the limited review dated April 28, 2004 and July 28, 2003, respectively.

Rio de Janeiro, July 26, 2004.

Trevisan Auditores Independentes
CRC 2SP013439/O-5 “S” RJ

Luiz Cláudio Fontes
Partner- Contador
CRC 1RJ032470/O-9 "T" PR "S" RJ