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**Zero Hora - Editora
Jornalística S.A.**

**Financial Statements at
December 31, 2002 and 2001
and March 31, 2003 and 2002
and Report of Independent Accountants**

AR/S
12-31-02

Report of Independent Accountants

May 9, 2003

To the Board of Directors and Stockholders
Zero Hora - Editora Jornalística S.A.

- 1 We have audited the accompanying balance sheets of Zero Hora - Editora Jornalística S.A. as of December 31, 2002 and 2001, and the related statements of operations, of changes in stockholders' equity and of changes in financial position for the years then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements.
- 2 We conducted our audits in accordance with Brazilian approved auditing standards which require that we perform the audit to obtain reasonable assurance about whether the financial statements are fairly presented in all material respects. Accordingly, our work included, among other procedures: (a) planning our audits taking into consideration the significance of balances, the volume of transactions and the accounting and internal control systems of the company, (b) examining, on a test basis, evidence and records supporting the amounts and disclosures in the financial statements, and (c) assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements.
- 3 As mentioned in Note 16 to the financial statements, the company decided to defer recognition of the foreign exchange loss for the quarter ended March 31, 1999 and the year ended December 31, 2001. Although permitted by law, the deferred recognition is not in accordance with accounting practices adopted in Brazil, which require the recognition of exchange variations in the period in which they occur. As a consequence, the company's stockholders' equity as of December 31, 2001 is overstated by R\$ 16,900 thousand and the loss for the year then ended is understated by R\$ 4,010 thousand, net of the related tax effects.

May 9, 2003
Zero Hora - Editora Jornalística S.A.

- 4 In our opinion, except for the effects of the matter mentioned in paragraph 3, the financial statements audited by us present fairly, in all material respects, the financial position of Zero Hora - Editora Jornalística S.A. at December 31, 2002 and 2001, and the results of its operations, the changes in stockholders' equity and the changes in its financial position for the years then ended, in conformity with accounting practices adopted in Brazil.
- 5 We have also reviewed the accompanying financial statements of Zero Hora - Editora Jornalística S.A. as of and for the quarters ended March 31, 2003 and 2002. These financial statements are the responsibility of the company's management.
- 6 We conducted our reviews in accordance with standards approved by the Institute of Independent Auditors of Brazil (IBRACON). A review consists, principally, of applying analytical procedures to financial data and making inquires of persons responsible for financial and accounting matters regarding the criteria used to prepare the financial statements. A review does not represent an audit conducted in accordance with Brazilian approved auditing standards, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.
- 7 As mentioned in paragraph 3 above and Note 16 to the financial statements, the company decided to defer recognition of the foreign exchange loss for the quarter ended March 31, 1999 and the year ended December 31, 2001. As a consequence, the company's stockholders' equity as of March 31, 2002 and the loss for the quarter then ended are overstated by R\$ 13,934 thousand and R\$ 2,966 thousand, respectively, net of the related tax effects.
- 8 Based on our reviews, except for the effects of the matter mentioned in paragraph 7, we are not aware of any material modifications that should made to the financial statements mentioned in paragraph 5 for them to be in conformity with accounting practices adopted in Brazil.

May 9, 2003

Zero Hora - Editora Jornalística S.A.

- 9 As described in Note 7 (a), the market value at December 31, 2002 of the company's investment in Net Serviços de Comunicação S.A. is approximately R\$ 1,490 thousand (March 31, 2003 - R\$ 993 thousand), which is less than its carrying value of R\$ 11,276 thousand. Management believes that the difference between the carrying value and the market value of this investment is not permanent, and therefore no additional adjustment to the carrying value is necessary. Management will continue to monitor the situation and will record the necessary adjustment if a loss in value is determined to be permanent.
- 10 As mentioned in Notes 1 and 10, the sharp devaluation of the Brazilian real against the U.S. dollar affected significantly the balance of loans and financings denominated in foreign currency during the six-month period ended December 31, 2002. The management of the RBS Group, which includes the company, has been having some success in renewing its international lines of credit as they fall due, and is in the process of progressively substituting some of these international lines of credit with new lines obtained locally and denominated in local currency. The Company depends on the financial support of other RBS Group companies, together with the plans described in Note 1, to meet its cash needs.



PricewaterhouseCoopers
Auditores Independentes
CRC 2SP000160/O-5 "F" RS



Carlos Alberto de Sousa
Partner
Contador CRC 1RJ056561/S-7 "S" RS

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Balance Sheet

In thousands of Brazilian reais

	December 31		March 31	
	2002	2001	2003 (Unaudited)	2002 (Unaudited)
Assets				
Current assets				
Cash and cash equivalents (Note 4)	9,733	36,952	5,659	38,067
Trade accounts receivable	32,439	32,794	32,031	32,755
Group companies (Note 6)	10,380	6,572	23,858	2,649
Inventories (Note 5)	25,856	11,704	1,407	10,853
Properties for sale	1,452	1,519	9,337	1,472
Taxes recoverable	8,624	6,462	1,233	8,902
Other	2,503	789	73,525	814
	<u>90,987</u>	<u>96,792</u>	<u>73,525</u>	<u>95,512</u>
Long-term receivables				
Deferred income taxes (Note 13 (b))	51,572	21,941	50,971	22,777
Group companies (Note 6)	59,618	638	62,311	638
Judicial deposits and fiscal incentives	6,090	6,428	6,077	5,476
	<u>117,280</u>	<u>29,007</u>	<u>119,359</u>	<u>28,891</u>
Permanent assets				
Investments (Note 7)	14,937	33,744	14,937	33,705
Property, plant and equipment (Note 8)	65,935	70,582	63,510	65,747
Deferred charges (Note 16)	714	26,504	690	21,909
	<u>81,586</u>	<u>130,830</u>	<u>79,137</u>	<u>121,361</u>
Liabilities and stockholders' equity				
Current liabilities				
Trade accounts payable (Note 9)	33,207	16,063	22,581	12,384
Loans (Note 10)	196,016	149,279	154,735	147,486
Salaries and social security contributions	10,709	11,030	8,855	7,290
Provision for income taxes (Note 13 (b))	1,912	1,321	1,396	1,456
Other taxes payable	1,912	1,321	1,827	1,348
Group companies (Note 6)	3,159	2,622	29,409	2,848
Commissions and bonuses payable	10,819	8,029	10,966	8,656
Deferred subscription revenue	2,484	1,329	2,385	2,247
Other	258,306	189,673	235,487	183,715
	<u>3,411</u>	<u>8,179</u>	<u>5,564</u>	<u>5,217</u>
Long-term liabilities				
Loans (Note 10)	622	1,133	494	1,005
Provision for income taxes (Note 13 (b))	3,629	6,496	3,410	5,701
Deferred income taxes (Note 13 (b))	63	511	63	511
Advance for future capital increase (Note 6)	4,681	4,267	4,777	4,712
Provision for contingencies (Note 14)	26	—	26	—
Other	12,432	20,586	14,334	17,146
	<u>102,445</u>	<u>9,223</u>	<u>102,445</u>	<u>9,223</u>
Stockholders' equity (Note 11)				
Capital	29,041	67,502	29,041	67,502
Capital reserves	11,357	17,351	10,479	14,612
Revaluation reserve	(123,728)	(47,706)	(119,765)	(46,434)
Accumulated losses	19,115	46,370	22,200	44,903
	<u>289,853</u>	<u>256,629</u>	<u>272,021</u>	<u>245,764</u>
Total assets				
	<u>289,853</u>	<u>256,629</u>	<u>272,021</u>	<u>245,764</u>

The accompanying notes are an integral part of these financial statements.

Zero Hora - Editora Jornalística S.A.

Statement of Operations

In thousands of Brazilian reais, except per-share data

	Years ended December 31		Quarters ended March 31	
	2002	2001	2003 (Unaudited)	2002 (Unaudited)
Operating revenues				
Advertising	91,184	85,991	19,723	19,256
Classified advertisements	62,111	57,389	15,603	13,679
Circulation	37,297	41,909	9,552	9,736
Subscriptions	71,635	61,584	19,651	15,397
Other	11,062	7,147	2,898	1,678
Taxes on revenues	(10,052)	(9,366)	(3,065)	(2,141)
	<u>263,237</u>	<u>244,654</u>	<u>64,362</u>	<u>57,605</u>
Operating costs				
Raw materials	(47,310)	(58,529)	(13,840)	(9,018)
Personnel	(34,097)	(31,629)	(7,890)	(7,261)
Depreciation	(16,708)	(21,985)	(3,573)	(5,307)
Royalties	(8,501)	(8,343)	(1,865)	(1,938)
Other	(10,213)	(8,494)	(2,282)	(2,112)
	<u>(116,829)</u>	<u>(128,980)</u>	<u>(29,450)</u>	<u>(25,636)</u>
Gross profit	<u>146,408</u>	<u>115,674</u>	<u>34,912</u>	<u>31,969</u>
Operating income (expenses)				
Selling	(95,690)	(92,175)	(23,947)	(20,923)
General and administrative	(37,952)	(34,060)	(9,548)	(7,982)
Financial income (Note 12)	7,817	4,631	9,228	2,110
Financial expenses (Note 12)	(92,151)	(24,722)	(5,935)	(7,192)
Other, net	(18)	(39)	26	(5)
	<u>(217,994)</u>	<u>(146,365)</u>	<u>(30,176)</u>	<u>(33,992)</u>
Operating income (loss)	(71,586)	(30,691)	4,736	(2,023)
Equity in the loss of affiliate (Note 7)	(699)			
Provision for losses on investments (Note 7)	(17,464)	(3,013)		
Non-operating income (expenses), net	387	(317)		279
	<u>(89,362)</u>	<u>(34,021)</u>	<u>4,736</u>	<u>(1,744)</u>
Income (loss) before taxes on income	(89,362)	(34,021)	4,736	(1,744)
Social contribution (Note 13 (a))	6,652	2,193	(438)	232
Income tax (Note 13 (a))	18,438	9,034	(1,213)	678
	<u>(64,272)</u>	<u>(22,794)</u>	<u>3,085</u>	<u>(834)</u>
Net income (loss) for the year/quarter	(64,272)	(22,794)	3,085	(834)
Net income (loss) per share at the end of the year/quarter - R\$	<u>(0.65)</u>	<u>(3.21)</u>	<u>0.03</u>	<u>(0.12)</u>

The accompanying notes are an integral part of these financial statements.

Zero Hora - Editora Jornalística S.A.

Statement of Changes in Stockholders' Equity

In thousands of Brazilian reais

	Capital reserves					Total
	Capital	Fiscal incentives	Share premium	Revaluation reserve	Accumulated losses	
At January 1, 2001	7,057	2,322	65,180	28,307	(33,395)	4,291
Capital increase (Note 11(a))	2,166					67,346
Realization of revaluation reserve				(10,956)	10,956	
Income taxes on realization of revaluation reserve (Note 13 (c))					(2,531)	(2,531)
Reversal of income taxes on the price-level restatement of stockholders' equity (deficit) accounts					58	58
Loss for the year					(22,794)	(22,794)
At December 31, 2001	9,223	2,322	65,180	17,351	(47,706)	46,370
Capital increase through capitalization of reserves (Note 11(a))	67,145	(1,965)	(65,180)			54,761
Capital increase (Note 11(a))	26,077		28,684			(16,900)
Prior year adjustment (Note 16)				(5,994)	5,994	
Realization of revaluation reserve					(844)	(844)
Income taxes on realization of revaluation reserve (Note 13 (c))					(64,272)	(64,272)
Loss for the year						
At December 31, 2002	102,445	357	28,684	11,357	(123,728)	19,115

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Statement of Changes in Stockholders' Equity
In thousands of Brazilian reais

(continued)

	Capital reserves					Total
	Capital	Fiscal incentives	Share premium	Revaluation reserve	Accumulated losses	
At January 1, 2003	102,445	357	28,684	11,357	(123,728)	19,115
Realization of revaluation reserve (Unaudited)				(878)	878	
Net income for the quarter (Unaudited)					3,085	3,085
At March 31, 2003 (Unaudited)	102,445	357	28,684	10,479	(119,765)	22,200
At January 1, 2002	9,223	2,322	65,180	17,351	(47,706)	46,370
Realization of revaluation reserve (Unaudited)				(2,739)	2,739	
Income taxes on realization of revaluation reserve (Note 13 (c)) (Unaudited)					(633)	(633)
Loss for the quarter (Unaudited)					(834)	(834)
At March 31, 2002 (Unaudited)	9,223	2,322	65,180	14,612	(46,434)	44,903

The accompanying notes are an integral part of these financial statements.

Zero Hora - Editora Jornalística S.A.

Statement of Changes in Financial Position In thousands of Brazilian reais

	Years ended December 31		Quarters ended March 31	
	2002	2001	2003 (Unaudited)	2002 (Unaudited)
Financial resources were provided by:				
Net income (loss) for the year/quarter	(64,272)	(22,794)	3,085	(834)
Expenses (income) not affecting working capital:				
Deferred and long-term credit for income taxes	(24,303)	(9,529)	254	(1,759)
Income taxes on realization of revaluation reserve	(844)	(2,531)		(633)
Provision for contingencies	414	894	96	445
Equity in the loss of affiliate	699			
Provision for losses on investments	17,464	3,013		
Depreciation and amortization	16,680	39,818	3,636	9,821
Net book value of permanent asset disposals	1,024	1,834	14	362
	(53,138)	10,705	7,085	7,402
Financial resources used in operations	53,138			
Decrease in long-term receivables				952
Increase in long-term liabilities			2,153	
Share premium	28,684	65,180		
Capital increase	26,077	2,166		
Total funds provided	54,761	78,051	9,238	8,354
Financial resources were used for:				
Operations	53,138			
Decrease in advance for future capital increase	448	39		
Increase in long-term receivables	58,642	1,024	2,680	
Investments	66	31,857		
Property, plant and equipment	12,369	5,860	1,201	714
Deferred charges		25,031		
Decrease in long-term liabilities	4,536	4,866		2,962
Total funds used	129,199	68,677	3,881	3,676
Increase (decrease) in working capital	(74,438)	9,374	5,357	4,678
Current assets				
At the end of the year/quarter	90,987	96,792	73,525	95,512
At the beginning of the year/quarter	96,792	90,703	90,987	96,792
	(5,805)	6,089	(17,462)	(1,280)
Current liabilities				
At the end of the year/quarter	258,306	189,673	235,487	183,715
At the beginning of the year/quarter	189,673	192,958	258,306	189,673
	68,633	(3,285)	(22,819)	(5,958)
Increase (decrease) in working capital	(74,438)	9,374	5,357	4,678

The accompanying notes are an integral part of these financial statements.

Zero Hora - Editora Jornalística S.A.

Notes to the Financial Statements at December 31, 2002 and 2001 and March 31, 2003 and 2002 (Unaudited)

In thousands of Brazilian reais, unless otherwise stated

1 Business

The company is owned by three family groups and is operated, together with other companies, as one integrated unit, the Rede Brasil Sul - RBS. The company is located in Porto Alegre, in the State of Rio Grande do Sul, Brazil, and is engaged in newspaper publishing and distribution (Zero Hora and Diário Gaúcho newspapers in Porto Alegre, Pioneiro newspaper in Caxias do Sul and Diário de Santa Maria newspaper in Santa Maria, all in the State of Rio Grande do Sul; Diário Catarinense newspaper in Florianópolis and Jornal de Santa Catarina newspaper in Blumenau, both in the State of Santa Catarina).

The Rede Brasil Sul - RBS Group includes companies operating in newspaper publishing, television and radio broadcasting, real estate, insurance brokerage, travel agency and other activities.

The Brazilian Federal Constitution establishes that, as from April 2002, foreign shareholders may own a maximum of 30% of the capital of newspaper publishing companies. Until that date, foreign shareholders were not allowed and Brazilian corporations could not own more than 30% of the capital, with no voting shares.

Income and expenses on transactions among the RBS Group companies are allocated among the companies that benefit from or incur the income and expenses using bases that may not necessarily be the same as those that would have been applied if the transactions had been made with unrelated parties.

On December 26, 1996, the company transferred all of its trademarks registered with the *Instituto Nacional de Propriedade Industrial - INPI* (National Industrial Patents Institute) to another RBS Group company, RBS Participações S.A., free of charge. RBS Participações S.A. has been collecting royalties on the company's net operating revenues, calculated at 3.5%.

During the six-month period ended December 31, 2002, because of various reasons, including the reduced availability of international lines of credit to developing markets and political uncertainties relating to the Brazilian presidential elections in October 2002, the Brazilian real devalued sharply (approximately 19%) against the United States dollar. This devaluation affected significantly the balances of the Company's borrowings in foreign currency, most of which fall due within one year. The management of the RBS Group, which includes the Company, in light of the scarcity of trade financing funds available to Brazilian borrowers in general, is gradually either paying down loans coming due or refinancing them in local currency.

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Notes to the Financial Statements at December 31, 2002 and 2001 and March 31, 2003 and 2002 (Unaudited)

In thousands of Brazilian reais, unless otherwise stated

Other cash needs are being supplied to the Company, when necessary, by RBS Administração e Cobranças Ltda., which functions as a treasury department for the companies of the RBS Group, centralizing the financial resources of all RBS Group companies and allocating them in accordance with their needs (Note 6). Additional alternatives to cope with the refinancing risk to which the Company is currently exposed include: the disposal of certain assets of other RBS Group companies, and capital increases, either from new shareholders, as permitted under recent changes in the Brazilian Constitution, or from the current shareholders.

2 Presentation of the Financial Statements

The accounting records of the company are maintained in accordance with Brazilian corporate and tax legislation, and the financial statements have been prepared therefrom, including certain adjustments to conform with accounting principles generally accepted in Brazil ("Brazilian GAAP"), which originally required the presentation of financial statements under the constant currency methodology, as a means of depicting more clearly the impacts of inflation on a company's financial information.

Under the constant currency methodology, all financial statement balances, including comparative balances from prior years, are presented in reais of constant purchasing power using as the basis for restatement the official index *Unidade Fiscal de Referência - UFIR* (Fiscal Unit of Reference) up to December 31, 1995 and the variation of the *Índice Geral de Preços - Mercado - IGP-M* (General Market Price Index) as from that date. The reported amounts of non-monetary assets, such as inventories and permanent assets, and stockholders' equity (deficit) include restatement as from the date of origin.

In 2001, Resolution 900 of the Federal Accountancy Council (CFC) established that the indexation of the accounts under the constant currency methodology should be suspended during periods of low inflation, i.e., when the cumulative inflation rate in a 36-month period is less than 100%. The company has therefore suspended the indexation in its financial statements as from September 30, 2001, and subsequent transactions are recorded at their historical amounts without indexation. Likewise, the comparative balances from prior years have been indexed to inflation only up to September 30, 2001.

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Notes to the Financial Statements at December 31, 2002 and 2001 and March 31, 2003 and 2002 (Unaudited)

In thousands of Brazilian reais, unless otherwise stated

The price-level restatement of financial statements for both statutory and tax purposes was abolished as from January 1, 1996, by Law 9249. Although the company's statutory accounting records as from January 1, 1996 do not reflect any price-level restatements of permanent assets and stockholders' equity (deficit) accounts, pro forma adjustments have been made to the financial statements to reflect these restatements through the constant currency methodology. These restatements no longer have any tax effects, but pro forma tax adjustments have been made to the financial statements to assure consistency with prior periods as well as to reflect future deferred tax effects, as explained in the following paragraph.

As from January 1, 1996, the full tax effect of the net restatement effect taken to income was recognized as a credit to income at the current tax rates, in order to maintain comparability with the prior periods. The deferred tax liability on the restatement of permanent assets has been shown as a long-term liability and is reversed to income as the restatement is realized through the disposal of investments and the depreciation or disposal of property, plant and equipment. On the other hand, the tax credit/debit arising from the restatement of stockholders' equity (deficit) accounts is reversed and charged to retained earnings since this amount does not represent an actual tax benefit (cost).

3 Significant Accounting Policies

(a) Determination of results of operations and current and long-term assets and liabilities

Results of operations are determined on the accrual basis and include gains and losses on monetary items, the restatement of non-monetary items, the adjustment to present value of significant fixed-rate trade accounts receivable and payable and, where applicable, the effects of adjustments of assets to market or net realizable values. Except as described in Note 16, net exchange gains and losses on foreign currency liabilities are recorded in financial expenses.

Revenues from advertising and classified advertisements are recorded when published.

Revenue from circulation relates to sales of newspapers at newsstands and street vendors and is recorded at the time the newspapers are sold to consumers.

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**Notes to the Financial Statements at December 31, 2002
and 2001 and March 31, 2003 and 2002 (Unaudited)**
In thousands of Brazilian reais, unless otherwise stated

Subscription revenue relates to sales of newspapers by subscription. Deferred subscription revenue, which represents amounts billed to customers in advance of newspaper deliveries, is appropriated to revenues over the term of the subscription.

Non-cash exchanges of advertising for services or goods are recorded at market value, both in revenues and expenses.

(b) Inventories

Inventories are stated at the average purchase cost, which is lower than net realizable value.

(c) Permanent assets

The investments in minor associated companies shown in Note 7 are stated at cost.

Property, plant and equipment are stated at cost plus the effects of revaluations of major items of machinery and equipment (Note 8). Depreciation of property, plant and equipment is computed on the straight-line method, at the rates shown in Note 8, which take into consideration the estimated useful lives of the assets.

Deferred charges include mainly the foreign exchange losses for the quarter ended March 31, 1999 and the year ended December 31, 2001 (Note 16), which were being amortized over a four-year period, or recognized upon the payment of the related liabilities, or offset against future foreign exchange gains arising from these liabilities.

(d) Income taxes

Income tax is calculated at the standard rate plus supplementary rates totaling 25%. Social contribution tax is calculated at the current rate of 9% applied to adjusted income before income tax. Deferred income taxes are calculated on temporary differences and tax loss carryforwards. Tax losses do not expire but may be used to offset only up to 30% of future taxable income in any year.

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Notes to the Financial Statements at December 31, 2002 and 2001 and March 31, 2003 and 2002 (Unaudited)

In thousands of Brazilian reais, unless otherwise stated

(e) Statements of operations, of changes in stockholders' equity (deficit) and of changes in financial position

During periods in which the indexation of balances under the constant currency methodology is applicable (see Note 2), the amounts presented in these statements are indexed as from the month they are recorded and are adjusted by purchasing power gains and losses on monetary items.

4 Cash and cash equivalents

Cash and cash equivalents at December 31, 2002 include R\$ 6,549 (December 31, 2001 - R\$ 36,726; March 31, 2003 - R\$ 5,521; March 31, 2002 - R\$ 37,920) of short-term investments.

5 Inventories

	<u>December 31</u>		<u>March 31</u>	
	<u>2002</u>	<u>2001</u>	<u>2003</u>	<u>2002</u>
			(Unaudited)	(Unaudited)
Newsprint	8,558	3,759	14,417	3,078
Maintenance materials	5,473	5,577	5,460	5,307
Fascicles (inserts), video-cassette tapes and compact discs (CD)	685	672	742	715
Provision for losses	(419)	(462)	(379)	(462)
Imports in transit (newsprint)	11,559	2,158	3,618	2,215
	<u>25,856</u>	<u>11,704</u>	<u>23,858</u>	<u>10,853</u>

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Notes to the Financial Statements at December 31, 2002 and 2001 and March 31, 2003 and 2002 (Unaudited)

In thousands of Brazilian reais, unless otherwise stated

6 Related Party Transactions and Balances

	December 31				March 31	
	2002		2001		2002	
	Assets (liabilities)	Income (expenses)	Assets (liabilities)	Income (expenses)	Assets (liabilities)	Income (expenses)
RBS Administração e Cobranças Ltda. Current assets - Group companies	10,380		6,424		2,495	
Televisão Gaúcha S.A. Current assets - Group companies Long-term receivables - Group companies	(44)		(48)	(43)	(26)	
Empresa Jornalística Pioneiro S.A. Current assets - Group companies Long-term receivables - Group companies (advance for future capital increase)			40		29	
			638		638	
Rádio Gaúcha S.A. Long-term receivables - Group companies Financial expense					1	(50)
RBS TV de Florianópolis S.A. Financial expense						(363)
RBS Participações S.A. Current assets - Group companies Long-term receivables - Group companies Financial income	53,308	391	(756)		55,983	1,634
RBS Marketing e Informática Ltda. Current assets - Group companies Long-term receivables - Group companies	5,411		778		778	

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Notes to the Financial Statements at December 31, 2002 and 2001 and March 31, 2003 and 2002 (Unaudited)

In thousands of Brazilian reais, unless otherwise stated

	December 31				March 31	
	2002		2001		2002	
	Assets (liabilities)	Income (expenses)	Assets (liabilities)	Income (expenses)	Assets (liabilities)	Income (expenses)
RBS Corretora de Seguros Ltda.						
Current assets - Group companies			93		95	
Long-term receivables - Group companies	102			104		
Financial income		11				3
Agência RBS de Notícias Ltda.						
Long-term receivables - Group companies	878			878		
Other RBS Group companies						
Current assets - Group companies			41		4	
Long-term receivables - Group companies	(37)			(23)		
General and administrative (reimbursement)		(9)				
Financial expense		(90)				
Stockholders						
Long-term liabilities - Advance for future capital increase	(63)		(511)		(63)	(511)

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Notes to the Financial Statements at December 31, 2002 and 2001 and March 31, 2003 and 2002 (Unaudited)

In thousands of Brazilian reais, unless otherwise stated

- (a) RBS Administração e Cobranças Ltda. is a group company which functions as a treasury department, carrying out all collections and making all payments on behalf of the companies of the RBS Group. The balances with this company bear no interest and are shown in current assets because the funds held by this company on behalf of the group companies are readily available.
- (b) Loans to and from other related companies bear interest calculated at market rates. Advances for future capital increase bear no interest. Loans to RBS Marketing e Informática Ltda. and Agência RBS de Notícias Ltda. bear no interest.
- (c) The company, together with the other three main media companies of the RBS Group, has guaranteed the first and second tranches, amounting to US\$ 50,000,000 and US\$ 125,000,000, respectively, of a US\$ 200,000,000 Global Medium-Term Notes Program issued by RBS Participações S.A. in December 1995 and in March 1997, with final maturity in 2003 and 2007. In connection with this Program, the company is required to observe certain negative covenants. All of these covenants are being observed.

Additionally, on April 25, 2002, the company, together with the other three main media companies of the RBS Group, guaranteed the interest rate swap contracted by RBS Participações S.A. in the notional amount of R\$ 294,600 (equivalent to US\$ 125,000,000 on that date) exchanging the U.S. dollar exchange variation for the interbank certificate of deposit (CDI) interest rate less 6.36% p.a. The due date of such contract is March 29, 2007.

- (d) The company was also guarantor of Televisão Gaúcha S.A.'s lease agreement, with unpaid installments in the amount of US\$ 769,450 at December 31, 2001 (March 31, 2002 - US\$ 649,769) plus interest based on LIBOR plus 1.5% to 2.5% p.a. The lease agreement was fully paid in September 2002.

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Notes to the Financial Statements at December 31, 2002 and 2001 and March 31, 2003 and 2002 (Unaudited)

In thousands of Brazilian reais, unless otherwise stated

7 Investments

	December 31		March 31	
	2002	2001	2003 (Unaudited)	2002 (Unaudited)
Net Serviços de Comunicação S.A.	31,753	31,753	31,753	31,753
Provision for losses	(20,477)	(3,013)	(20,477)	(3,013)
Other investments	3,661	5,004	3,661	4,965
	<u>14,937</u>	<u>33,744</u>	<u>14,937</u>	<u>33,705</u>

- (a) The investment in Net Serviços de Comunicação S.A. (formerly known as Globo Cabo S.A.) consists of 3,548,152 preferred shares, representing approximately 0.2% of the investee's total capital, acquired on August 24, 2001 from RBS Participações S.A. for R\$ 31,753. This investment is stated at cost, less a provision for estimated losses.

Net Serviços de Comunicação S.A. is a holding company for several subsidiary companies which operate cable and microwave TV systems in the main Brazilian cities.

The market value of the investment in Net Serviços de Comunicação S.A. at December 31, 2002, based on the quotation of that company's shares on the stock exchange, was approximately R\$ 1,490 (March 31, 2003 - R\$ 993). A provision for estimated losses in the amount of R\$ 20,477 has been recorded, reducing the carrying amount of this investment to R\$ 11,276. Management believes that the remaining difference between the carrying value and the market value of this investment is not of a permanent nature, considering the recent measures adopted by the investee to extend its debt maturities, increase its paid-in capital, and restructure its administrative processes, as well as historical global trends of fair value per subscriber observed in the market. Because of the uncertainties and volatility in the stock market, management will continue to monitor the market value of this investment and will complement the allowance for loss if a permanent loss of value is observed.

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Notes to the Financial Statements at December 31, 2002 and 2001 and March 31, 2003 and 2002 (Unaudited)

In thousands of Brazilian reais, unless otherwise stated

- (b) On April 18, 2002, the stockholders of the company and of Empresa Jornalística Pioneiro S.A. (Pioneiro) decided to unify the operations of the two companies by merging Pioneiro into the company. The company previously held a 9.31% interest in Pioneiro, recorded under the cost method. The merger was based on an appraisal of statutory book value carried out by independent experts, as follows:

	<u>March 31, 2002</u>
Assets	12,067
Stockholders' equity	4,346

As a result of this transaction, the company recorded a loss of R\$ 699 from the difference between the carrying value of the investment (cost method) and the company's share of Pioneiro's stockholders' equity.

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Notes to the Financial Statements at December 31, 2002 and 2001 and March 31, 2003 and 2002 (Unaudited)

In thousands of Brazilian reais, unless otherwise stated

8 Property, Plant and Equipment

	December 31		March 31		Annual depreciation rates - %
	2002	2001	2003	2002	
	Cost and revaluation	Accumulated depreciation	Net	Net	Net
			(Unaudited)	(Unaudited)	(Unaudited)
Land	599		599	128	128
Buildings and structures	18,916	(11,162)	7,754	7,548	7,424
Installations	10,748	(8,842)	1,906	1,932	1,807
Machinery and equipment	206,841	(156,916)	49,925	54,303	50,646
Vehicles	1,867	(1,547)	320	531	461
Other	5,431		5,431	6,140	5,281
	244,402	(178,467)	65,935	70,582	65,747

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Notes to the Financial Statements at December 31, 2002 and 2001 and March 31, 2003 and 2002 (Unaudited)

In thousands of Brazilian reais, unless otherwise stated

On December 31, 1994, the company decided to revalue the major items of machinery and equipment based on an appraisal carried out by independent experts. Deferred tax effects on the revaluation increment are recorded upon realization of the reserve (Note 13).

On December 31, 1999, the company decided to revalue the printing presses and accessories purchased during the preceding three years, based on an appraisal carried out by independent experts. For tax purposes the revaluation increment was considered as realized, and the tax effects were fully recorded on this date in the 1999 statement of operations, together with the tax effects arising from the normal operations.

The details of this revaluation are shown as follows:

Replacement cost	48,670
Original cost, net of depreciation	<u>(26,775)</u>
Revaluation recorded	<u>21,895</u>
Income tax and social contribution recorded in 1999	<u>7,225</u>

9 Trade Accounts Payable

Trade accounts payable at December 31, 2002 include R\$ 27,430 (December 31, 2001 - R\$ 8,585; March 31, 2003 - R\$ 18,262; March 31, 2002 - R\$ 6,854) payable to foreign suppliers and indexed to the U.S. dollar.

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Notes to the Financial Statements at December 31, 2002 and 2001 and March 31, 2003 and 2002 (Unaudited)

In thousands of Brazilian reais, unless otherwise stated

10 Loans

	Interest	December 31		March 31	
		2002	2001	2003 (Unaudited)	2002 (Unaudited)
Foreign currency					
US\$ 40,360 thousand (December 31, 2001 - US\$ 67,771 thousand; March 31, 2003 - US\$ 32,775 thousand; March 31, 2002 - US\$ 65,621 thousand)	LIBOR plus 0.1% to 3.25 % p.a. and 11.5% p.a.	142,605	157,255	109,897	152,477
Local currency	CDI plus 3% to 4% p.a. and 2.55% to 2.6% p.m. and 120% to 125% of CDI	45,685		45,082	
	125% of CDI	11,137	203	5,320	226
		199,427	157,458	160,299	152,703
Current liabilities		(196,016)	(149,279)	(154,735)	(147,486)
Long-term liabilities		3,411	8,179	5,564	5,217
Long-term loans fall due as follows:					
2003			5,939		2,974
2004		3,411	2,240	4,637	2,243
2005				927	
		3,411	8,179	5,564	5,217

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Notes to the Financial Statements at December 31, 2002 and 2001 and March 31, 2003 and 2002 (Unaudited)

In thousands of Brazilian reais, unless otherwise stated

Loans are backed by sureties from: Maiojama Participações Ltda. (R\$ 42,101), a related company; Televisão Gaúcha S.A. (R\$ 6,832); RBS Administração e Cobranças Ltda. (R\$ 39,348); RBSPar Ltd. (R\$ 36,538); Televisão Gaúcha S.A., Rádio Gaúcha S.A. and RBS TV de Florianópolis S.A. together with a pledge of 4,840 tons of newsprint inventory (R\$ 2,328); Televisão Gaúcha S.A together with RBS Administração e Cobranças Ltda. (R\$ 1,108). Other loans have no guarantees.

11 Stockholders' Equity

(a) Capital comprises common and preferred shares without par value:

	<u>December 31</u>		<u>March 31</u>	
	<u>2002</u>	<u>2001</u>	<u>2003</u>	<u>2002</u>
			(Unaudited)	(Unaudited)
Common shares	69,003,649	4,969,112	69,003,649	4,969,112
Preferred shares	29,572,993	2,129,619	29,572,993	2,129,619
	<u>98,576,642</u>	<u>7,098,731</u>	<u>98,576,642</u>	<u>7,098,731</u>

The stockholders are entitled to an annual dividend of not less than 25% of net income per the statutory financial statements, after appropriation to the legal reserve of an amount equivalent to 5% of the annual net income, up to the limit of 20% of capital, also per the statutory financial statements.

On August 24, 2001, the shareholders authorized another RBS Group company to subscribe 30% of the capital of the company in the amount of R\$ 67,346, including a premium over book value of R\$ 65,180.

On April 30, 2002, the shareholders decided to increase the company's capital through the capitalization of reserves totaling R\$ 67,145.

On December 19, 2002, the shareholders decided to increase the company's capital by the amount of R\$ 54,761, including a premium over book value of R\$ 28,684.

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Notes to the Financial Statements at December 31, 2002 and 2001 and March 31, 2003 and 2002 (Unaudited)

In thousands of Brazilian reais, unless otherwise stated

- (b) Law 9249 introduced as from 1996 an option for companies to calculate a nominal interest charge on capital invested and utilized in operations for the period (defined as total stockholders' equity less revaluation reserves) calculated on a pro rata basis based on the *Taxa de Juros de Longo Prazo - TJLP* (long-term interest rate). This charge, limited to 50% of the net income for the period or of retained earnings, is deductible for income tax purposes and social contribution, but is subject to 15% withholding tax; such interest amounts may be used to increase capital or be paid directly to stockholders either as interest or as prepayment of the minimum statutory dividend.
- (c) The balance of accumulated losses in the company's statutory financial statements is reconciled to the balances in these financial statements as follows:

	<u>December 31</u>		<u>March 31</u>	
	<u>2002</u>	<u>2001</u>	<u>2003</u> (Unaudited)	<u>2002</u> (Unaudited)
Balances per statutory financial statements	(127,921)	(46,672)	(123,443)	(45,021)
Adjustments arising from the constant currency accounting methodology	5,104	9,068	4,628	8,275
Further adjustments to conform the financial statements to accounting principles generally accepted in Brazil	(911)	(10,102)	(950)	(9,688)
Balances in these financial statements	<u>(123,728)</u>	<u>(47,706)</u>	<u>(119,765)</u>	<u>(46,434)</u>

12 Financial Income and Expenses

Financial expenses include R\$ 14,247 (December 31, 2001 - R\$ 12,424; March 31, 2003 - R\$ 5,459; March 31, 2002 - R\$ 2,239) of interest and a loss of R\$ 71,561 (December 31, 2001 - R\$ 687 loss (including R\$ 17,832 referring to the amortization of deferred charges (see Note 16); March 31, 2003 - R\$ 5,837 (gain recorded as financial income); March 31, 2002 - R\$ 4,117 (including R\$3,950 referring to the amortization of deferred charges (see Note 16))) from monetary variations on bank loans. The monetary variation amounts consider the differences between the exchange variations on foreign currency loans and the inflation indices used to prepare the constant currency financial statements, when applicable. Allocation of monetary gains and losses is subject to estimates made by management.

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Notes to the Financial Statements at December 31, 2002 and 2001 and March 31, 2003 and 2002 (Unaudited)

In thousands of Brazilian reais, unless otherwise stated

13 Social Contribution and Income Tax

(a) Reconciliation of income tax and social contribution

	December 31		March 31	
	2002	2001	2003 (Unaudited)	2002 (Unaudited)
(I) Income tax				
Income (loss) before income tax and social contribution	(89,362)	(34,021)	4,736	(1,744)
Rate - %	25	25	25	25
	22,341	8,505	(1,184)	436
Effects of permanent differences:				
Non-deductible expenses	(5,375)	(387)	(187)	(178)
Non-taxable income	225	6,808	160	214
Other	1,247	(5,892)	(2)	206
As per statement of operations	18,438	9,034	(1,213)	678
(II) Social contribution				
Income (loss) before income tax and social contribution	(89,362)	(34,021)	4,736	(1,744)
Rate - %	9	9	9	9
	8,043	3,062	(426)	157
Effects of permanent differences:				
Non-deductible expenses	(1,935)	(140)	(67)	(64)
Non-taxable income	81	2,451	58	77
Other	463	(3,180)	(3)	62
As per statement of operations	6,652	2,193	(438)	232

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Notes to the Financial Statements at December 31, 2002 and 2001 and March 31, 2003 and 2002 (Unaudited)

In thousands of Brazilian reais, unless otherwise stated

(b) Nature of balances

	December 31		March 31	
	2002	2001	2003 (Unaudited)	2002 (Unaudited)
(I) Income tax				
Deferred income taxes				
Long-term receivables				
Tax loss carryforwards	37,657	16,133	37,205	16,748
Long-term liabilities				
Monetary variations of permanent assets	2,986	4,509	2,831	4,191
Other temporary differences	(318)		(324)	
	2,668	4,509	2,507	4,191
Provision for income taxes				
Current liabilities			1,049	1,096
Long-term liabilities - Accelerated depreciation	622	1,133	494	1,005
(II) Social contribution				
Deferred income taxes				
Long-term receivables				
Tax loss carryforwards	13,915	5,808	13,766	6,029
Long-term liabilities				
Monetary variations of permanent assets	1,075	1,987	1,019	1,510
Other temporary differences	(114)		(116)	
	961	1,987	903	1,510
Provision for income taxes				
Current liabilities			347	360

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Notes to the Financial Statements at December 31, 2002 and 2001 and March 31, 2003 and 2002 (Unaudited)

In thousands of Brazilian reais, unless otherwise stated

(c) Deferred tax on revaluation reserve

Accounting practices adopted in Brazil require the recognition of deferred tax liabilities on revaluations recorded as from July 1, 1995. This requirement was not applicable at the time the company recorded the revaluation of certain machinery and equipment in December 1994 (Note 8); the related unrecognized deferred income tax liability at December 31, 2001 amounted to R\$ 807 (March 31, 2002 - R\$ 174).

14 Contingencies

- (a) The company is party to various civil lawsuits that have arisen in the ordinary course of its business, including actions for libel. Based on the opinion of the in-house legal counsel, management does not believe that any litigation pending against the company will have a material adverse effect on its business or financial condition.
- (b) The company is the defendant in certain labor and tax suits. Provisions for estimated probable losses from contingencies have been recorded based on the opinions of external and in-house legal advisors.

15 Pension Fund

The companies in the RBS Group (the "Sponsors") have formed RBS Prev-Sociedade Previdenciária, a private pension fund (the "Fund"), to provide employees with supplementary pension and disability benefits, in addition to those paid by the National Social Security System. The Fund was approved by the Ministry of Social Security in October 1996 and was implemented as from January 1997.

The Fund is a defined contribution plan, with contributions from Sponsors and participants calculated based on variable amounts and percentages at the option of each participant. The normal contributions of the Sponsors are calculated on the basic contribution of the participants at rates of up to 300% depending on the participant's age. Past service benefits will be funded by the Sponsors over twenty years through monthly payments adjusted by the *Índice Nacional de Preços ao Consumidor - INPC* (National Consumer Price Index). These contributions will automatically cease when the participant terminates employment for any reason, reaches retirement age, dies or becomes disabled.

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Notes to the Financial Statements at December 31, 2002 and 2001 and March 31, 2003 and 2002 (Unaudited)

In thousands of Brazilian reais, unless otherwise stated

Furthermore, the Sponsors may opt to make additional contributions at any time, and the normal and additional contributions may be revised by the participants and Sponsors in February of each year. The Sponsors may also temporarily reduce or suspend their contributions, maintaining only those necessary to cover the benefits already accrued to the participants or their beneficiaries.

The sponsors do not have any responsibility to guarantee the minimum level of the benefits to the participants when they terminate their employment.

The company's contributions in the year ended December 31, 2002 amounted to R\$ 1,429 (December 31, 2001 - R\$ 1,450; quarter ended March 31, 2003 - R\$ 368; March 31, 2002 - R\$ 334).

The Fund's financial statements at December 31, 2002 and 2001 were examined by independent accountants, and the actuarial reserves were determined by an actuary. The independent accountants issued unqualified opinions on those financial statements.

16 Deferred Charges

In 1999, the company decided to defer recognition of the R\$ 47,347 foreign exchange loss for the quarter ended March 31, 1999, as permitted by Provisional Measure no. 1818 dated March 25, 1999, which was later converted into Law 9816 dated August 23, 1999, and CVM Deliberation no. 294 dated March 26, 1999. As of December 31, 2001, the exchange loss deferred by the company amounted to R\$ 7,573 (March 31, 2002 - R\$ 4,583), net of the related amortization.

In 2001, the company decided to defer recognition of the R\$ 24,044 foreign exchange loss for the year ended December 31, 2001, as permitted by Provisional Measure no. 3 dated September 21, 2001, later converted into Law 10305 dated November 7, 2001. As of December 31, 2001, the exchange loss deferred by the company amounted to R\$ 18,033 (March 31, 2002 - R\$ 16,529), net of the related amortization.

In 2002, the company decided to fully amortize the remaining balance of these deferred foreign exchange losses, amounting to R\$ 25,606, against accumulated deficit. The adjustment was recorded net of the related tax effect, in the amount of R\$ 8,706.