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**Zero Hora - Editora  
Jornalística S.A.**  
Financial Statements at  
December 31, 2002 and 2001  
and September 30, 2003 and 2002  
and Report of Independent Accountants

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## Report of Independent Accountants

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.

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- 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 nine-month periods ended September 30, 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 inquiries 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' deficit as of September 30, 2002 is understated by R\$ 10,945 thousand and the loss for the nine-month period then ended is overstated by R\$ 5,955 thousand, 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 be made to the financial statements mentioned in paragraph 5 for them to be in conformity with accounting practices adopted in Brazil.

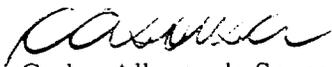
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- 9 As described in Note 7 (a) to the financial statements, the market value at December 31, 2002 of the company's investment in Net Serviços de Comunicação S.A. is approximately R\$ 1,490 thousand (September 30, 2003 - R\$ 2,128 thousand; September 30, 2002 - R\$ 923 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. Notwithstanding the recovery of the Brazilian real in relation to the US dollar during 2003, management of the RBS Group, which includes the company, is in the process of progressively substituting some of these international lines of credit with new lines obtained locally and denominated in local currency, as well as extending its debt maturity profile. 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.

Porto Alegre, October 31, 2003



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



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

# Zero Hora - Editora Jornalística S.A.

## Balance Sheet

In thousands of Brazilian reais

|   | December 31 |         | September 30        |                     |   | December 31 |          | September 30        |                     |
|---|-------------|---------|---------------------|---------------------|---|-------------|----------|---------------------|---------------------|
|   | 2002        | 2001    | 2003<br>(Unaudited) | 2002<br>(Unaudited) |   | 2002        | 2001     | 2003<br>(Unaudited) | 2002<br>(Unaudited) |
| <b>Assets</b>                           |             |         |                     |                     | <b>Liabilities and stockholders' equity (deficit)</b> |             |          |                     |                     |
| Current assets                          |             |         |                     |                     | Current liabilities                                   |             |          |                     |                     |
| Cash and cash equivalents (Note 4)      | 9,733       | 36,952  | 9                   | 22,359              | Trade accounts payable (Note 9)                       | 33,207      | 16,063   | 10,582              | 26,831              |
| Trade accounts receivable               | 32,439      | 32,794  | 32,863              | 32,708              | Loans (Note 10)                                       | 196,016     | 149,279  | 44,379              | 217,325             |
| Group companies (Note 6)                | 10,380      | 6,572   | 14,282              | 22,076              | Salaries and social security contributions            | 10,709      | 11,030   | 12,918              | 11,077              |
| Inventories (Note 5)                    | 25,856      | 11,704  | 2,147               | 18,334              | Provision for income taxes (Note 13 (b))              | 1,912       | 1,321    | 6,434               | 1,663               |
| Properties for sale                     | 1,452       | 1,519   | 6,044               | 1,276               | Other taxes payable                                   | 3,159       | 2,622    | 2,095               | 2,820               |
| Taxes recoverable                       | 8,624       | 6,462   | 670                 | 8,246               | Group companies (Note 6)                              | 10,819      | 8,029    | 3,032               | 2,820               |
| Other                                   | 2,503       | 789     | 56,015              | 1,280               | Commissions and bonuses payable                       | 2,484       | 1,329    | 12,658              | 10,312              |
|   | 90,987      | 96,792  | 111,247             | 106,279             | Deferred subscription revenue                         | 258,306     | 189,673  | 3,130               | 2,595               |
|   |             |         |                     |                     | Other   |             |          | 163,447             | 272,623             |
| Long-term receivables                   |             |         |                     |                     |   |             |          |                     |                     |
| Deferred income taxes (Note 13 (b))     | 51,572      | 21,941  | 49,325              | 52,183              | Long-term liabilities                                 |             |          |                     |                     |
| Group companies (Note 6)                | 59,618      | 638     | 55,400              | 5,882               | Loans (Note 10)                                       | 3,411       | 8,179    | 30,674              | 3,760               |
| Judicial deposits and fiscal incentives | 6,090       | 6,428   | 6,522               | 5,882               | Provision for income taxes (Note 13 (b))              | 622         | 1,133    | 272                 | 749                 |
|   | 117,280     | 29,007  | 111,247             | 58,065              | Deferred income taxes (Note 13 (b))                   | 3,629       | 6,496    | 3,050               | 4,874               |
|   |             |         |                     |                     | Advance for future capital increase (Note 6)          | 63          | 511      | 63                  | 3,635               |
| Permanent assets                        |             |         |                     |                     | Accounts payable to stockholders (Note 6)             | 4,681       | 4,267    | 4,979               | 3,735               |
| Investments (Note 7)                    | 14,937      | 33,744  | 14,937              | 14,979              | Provision for contingencies (Note 14)                 | 26          | 26       | 26                  | 3,997               |
| Property, plant and equipment (Note 8)  | 65,935      | 70,582  | 58,782              | 63,634              | Other   | 12,432      | 20,586   | 39,064              | 20,750              |
| Deferred charges (Note 16)              | 714         | 26,504  | 643                 | 17,330              |   |             |          |                     |                     |
|   | 81,586      | 130,830 | 74,362              | 95,943              | Stockholders' equity (deficit) (Note 11)              |             |          |                     |                     |
|   |             |         |                     |                     | Capital   | 102,445     | 9,223    | 102,445             | 76,368              |
|   |             |         |                     |                     | Capital reserves                                      | 29,041      | 67,502   | 29,041              | 357                 |
|   |             |         |                     |                     | Revaluation reserve                                   | 11,357      | 17,351   | 8,682               | 12,235              |
|   |             |         |                     |                     | Accumulated losses                                    | (123,728)   | (47,706) | (101,055)           | (122,046)           |
|   |             |         |                     |                     |   | 19,115      | 46,370   | 39,113              | (33,086)            |
| Total assets                            | 289,853     | 256,629 | 241,624             | 260,287             | Total liabilities and stockholders' equity (deficit)  | 289,853     | 256,629  | 241,624             | 260,287             |

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

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## Statement of Operations

In thousands of Brazilian reais, except per-share data

|  | Years ended<br>December 31 |                  | Nine-month periods<br>ended September 30 |                     |
|--|----------------------------|------------------|--|---------------------|
|  | 2002                       | 2001             | 2003<br>(Unaudited)                      | 2002<br>(Unaudited) |
| <b>Operating revenues</b>  |                            |                  |  |                     |
| Advertising  | 91,184                     | 85,991           | 70,505                                   | 65,026              |
| Classified advertisements  | 62,111                     | 57,389           | 51,641                                   | 46,163              |
| Circulation  | 37,297                     | 41,909           | 28,462                                   | 28,135              |
| Subscriptions  | 71,635                     | 61,584           | 62,668                                   | 51,736              |
| Other  | 11,062                     | 7,147            | 10,379                                   | 8,178               |
| Taxes on revenues  | <u>(10,052)</u>            | <u>(9,366)</u>   | <u>(8,276)</u>                           | <u>(7,144)</u>      |
|  | <u>263,237</u>             | <u>244,654</u>   | <u>215,379</u>                           | <u>192,094</u>      |
| <b>Operating costs</b>   |                            |                  |  |                     |
| Raw materials  | (47,310)                   | (58,529)         | (41,143)                                 | (32,546)            |
| Personnel  | (34,097)                   | (31,629)         | (25,807)                                 | (24,264)            |
| Depreciation   | (16,708)                   | (21,985)         | (10,263)                                 | (13,200)            |
| Royalties (Note 1)   | (8,501)                    | (8,343)          | (6,144)                                  | (6,454)             |
| Other  | (10,213)                   | (8,494)          | (7,101)                                  | (7,324)             |
|  | <u>(116,829)</u>           | <u>(128,980)</u> | <u>(90,458)</u>                          | <u>(83,788)</u>     |
| <b>Gross profit</b>  | <u>146,408</u>             | <u>115,674</u>   | <u>124,921</u>                           | <u>108,306</u>      |
| <b>Operating income (expenses)</b>                                     |                            |                  |  |                     |
| Selling  | (95,690)                   | (92,175)         | (74,475)                                 | (68,760)            |
| General and administrative   | (37,952)                   | (34,060)         | (32,503)                                 | (26,006)            |
| Financial income (Note 12)   | 7,817                      | 4,631            | 18,680                                   | 6,558               |
| Financial expenses (Note 12)   | (92,151)                   | (24,722)         | (6,369)                                  | (113,484)           |
| Other, net   | (18)                       | (39)             | (37)                                     | (46)                |
|  | <u>(217,994)</u>           | <u>(146,365)</u> | <u>(94,704)</u>                          | <u>(201,738)</u>    |
| <b>Operating income (loss)</b>   | (71,586)                   | (30,691)         | 30,217                                   | (93,432)            |
| Equity in the loss of affiliate (Note 7)                               | (699)                      |                  |  | (699)               |
| Provision for losses on investments (Note 7)                           | (17,464)                   | (3,013)          |  | (17,464)            |
| Non-operating income (expenses), net                                   | <u>387</u>                 | <u>(317)</u>     | <u>30</u>                                | <u>(61)</u>         |
| <b>Income (loss) before taxes on income</b>                            | (89,362)                   | (34,021)         | 30,247                                   | (111,656)           |
| Social contribution (Note 13 (a))                                      | 6,652                      | 2,193            | (2,706)                                  | 8,755               |
| Income tax (Note 13 (a))   | <u>18,438</u>              | <u>9,034</u>     | <u>(7,543)</u>                           | <u>24,289</u>       |
| <b>Net income (loss) for the year/ period</b>                          | <u>(64,272)</u>            | <u>(22,794)</u>  | <u>19,998</u>                            | <u>(78,612)</u>     |
| <b>Net income (loss) per share at the end of the year/ period - RS</b> | <u>(0.65)</u>              | <u>(3.21)</u>    | <u>0.20</u>                              | <u>(1.08)</u>       |

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

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Statement of Changes in Stockholders' Equity (Deficit)

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             |               | 28,307              | (33,395)           | 4,291    |
| Capital increase (Note 11(a))  | 2,166            |                   | 65,180        |                     |                    | 67,346   |
| Realization of revaluation reserve   |                  |                   |               | (10,956)            | 10,956             | (2,531)  |
| Income taxes on realization of revaluation reserve (Note 11 (a))                                   |                  |                   |               |                     |                    |          |
| 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 8 (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              | (844)    |
| Realization of revaluation reserve   |                  |                   |               |                     |                    |          |
| Income taxes on realization of revaluation reserve (Note 8 (a))                                    |                  |                   |               |                     |                    |          |
| Loss for the year  |                  |                   |               |                     | (64,272)           | (64,272) |
| 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 (Deficit)  
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)                                |                  |                   |               | (2,675)             | 2,675              |          |
| Net income for the period (Unaudited)   |                  |                   |               |                     | 19,998             | 19,998   |
| At September 30, 2003 (Unaudited)   | 102,445          | 357               | 28,684        | 8,682               | (101,055)          | 39,113   |
| At January 1, 2002  | 9,223            | 2,322             | 65,180        | 17,351              | (47,706)           | 46,370   |
| Capital increase through capitalization of reserves (Note 11 (a)) (Unaudited) | 67,145           | (1,965)           | (65,180)      | (5,116)             | 5,116              | (844)    |
| Realization of revaluation reserve (Unaudited)                                |                  |                   |               |                     | (844)              |          |
| Income taxes on realization of revaluation reserve (Note 8 (a)) (Unaudited)   |                  |                   |               |                     | (78,612)           | (78,612) |
| Loss for the period (Unaudited)   |                  |                   |               |                     |                    |          |
| At September 30, 2002 (Unaudited)   | 76,368           | 357               |               | 12,235              | (122,046)          | (33,086) |

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<br>December 31 |               | Nine-month periods<br>ended September 30 |                     |
|--|----------------------------|---------------|--|---------------------|
|  | 2002                       | 2001          | 2003<br>(Unaudited)                      | 2002<br>(Unaudited) |
| <b>Financial resources were provided by:</b>       |                            |               |  |                     |
| Net income (loss) for the year/ period             | (64,272)                   | (22,794)      | 19,998                                   | (78,612)            |
| Expenses (income) not affecting working capital:   |                            |               |  |                     |
| Deferred and long-term credit for income taxes     | (24,303)                   | (9,529)       | 1,318                                    | (32,248)            |
| Income taxes on realization of revaluation reserve | (844)                      | (2,531)       |  | (844)               |
| Provision for contingencies                        | 414                        | 894           | 298                                      | (270)               |
| Equity in the loss of affiliate                    | 699                        |               |  | 699                 |
| Provision for losses on investments                | 17,464                     | 3,013         |  | 17,464              |
| Depreciation and amortization                      | 16,680                     | 39,818        | 10,263                                   | 22,194              |
| Net book value of permanent asset disposals        | 1,024                      | 1,834         | 32                                       | 796                 |
|  | (53,138)                   | 10,705        | 31,909                                   | (70,821)            |
| Financial resources used in operations             | 53,138                     |               |  | 70,821              |
| Decrease in long-term receivables                  |                            |               | 3,786                                    | 1,184               |
| Increase in long-term liabilities                  |                            |               | 27,263                                   |                     |
| Increase in advance for future capital increase    |                            |               |  | 3,124               |
| Share premium                                      | 28,684                     | 65,180        |  |                     |
| Capital increase                                   | 26,077                     | 2,166         |  |                     |
| <b>Total funds provided</b>                        | <b>54,761</b>              | <b>78,051</b> | <b>62,958</b>                            | <b>4,308</b>        |
| <b>Financial resources were used for:</b>          |                            |               |  |                     |
| Operations   | 53,138                     |               |  | 70,821              |
| Decrease in advance for future capital increase    | 448                        | 39            |  |                     |
| Increase in long-term receivables                  | 58,642                     | 1,024         |  |                     |
| Investments  | 66                         | 31,857        |  | 66                  |
| Property, plant and equipment                      | 12,369                     | 5,860         | 3,071                                    | 6,406               |
| Deferred charges                                   |                            | 25,031        |  |                     |
| Decrease in long-term liabilities                  | 4,536                      | 4,866         |  | 478                 |
| <b>Total funds used</b>                            | <b>129,199</b>             | <b>68,677</b> | <b>3,071</b>                             | <b>77,771</b>       |
| <b>Increase (decrease) in working capital</b>      | <b>(74,438)</b>            | <b>9,374</b>  | <b>59,887</b>                            | <b>(73,463)</b>     |
| <b>Current assets</b>                              |                            |               |  |                     |
| At the end of the year/ period                     | 90,987                     | 96,792        | 56,015                                   | 106,279             |
| At the beginning of the year/ period               | 96,792                     | 90,703        | 90,987                                   | 96,792              |
|  | (5,805)                    | 6,089         | (34,972)                                 | 9,487               |
| <b>Current liabilities</b>                         |                            |               |  |                     |
| At the end of the year/ period                     | 258,306                    | 189,673       | 163,447                                  | 272,623             |
| At the beginning of the year/ period               | 189,673                    | 192,958       | 258,306                                  | 189,673             |
|  | 68,633                     | (3,285)       | (94,859)                                 | 82,950              |
| <b>Increase (decrease) in working capital</b>      | <b>(74,438)</b>            | <b>9,374</b>  | <b>59,887</b>                            | <b>(73,463)</b>     |

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 September 30, 2003 and 2002 (Unaudited)**  
**In thousands of Brazilian reais, unless otherwise stated**

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### **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.

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

### **Notes to the Financial Statements at December 31, 2002 and 2001 and September 30, 2003 and 2002 (Unaudited) In thousands of Brazilian reais, unless otherwise stated**

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During 2003, exchange rates recovered as a result of the increasing confidence of foreign investors and the increase of the volume of US dollars available in the market arising from higher exports of Brazilian products. As of September 30, 2003, the Brazilian real was traded at R\$ 2.923 = US\$ 1.00, less than the rate at which it was traded on September 30, 2002 (R\$ 3.895 = US\$ 1.00).

Notwithstanding the recovery of the Brazilian currency, management of the RBS Group, which includes the Company, in light of the scarcity of trade financing funds available to Brazilian borrowers in general and the risks associated with the exchange rates, is gradually either paying down loans coming due or refinancing them in local currency, as well as extending its debt maturity profile.

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.

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

### **Notes to the Financial Statements at December 31, 2002 and 2001 and September 30, 2003 and 2002 (Unaudited) In thousands of Brazilian reais, unless otherwise stated**

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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.

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.

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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.

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 associated companies shown in Note 7 are stated at cost, less a provision for losses.

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.

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### (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.

### (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; September 30, 2002 - R\$ 22,151) of short-term investments.

### 5 Inventories

|  | <u>December 31</u> |               | <u>September 30</u> |                    |
|--|--------------------|---------------|---------------------|--------------------|
|  | <u>2002</u>        | <u>2001</u>   | <u>2003</u>         | <u>2002</u>        |
|  |                    |               | <u>(Unaudited)</u>  | <u>(Unaudited)</u> |
| Newsprint  | 8,558              | 3,759         | 4,604               | 6,600              |
| Maintenance materials  | 5,473              | 5,577         | 6,033               | 5,703              |
| Fascicles (inserts), video-cassette tapes and compact discs (CD) | 685                | 672           | 967                 | 969                |
| Provision for losses   | (419)              | (462)         | (379)               | (462)              |
| Imports in transit (newsprint)                                   | <u>11,559</u>      | <u>2,158</u>  | <u>3,057</u>        | <u>5,524</u>       |
|  | <u>25,856</u>      | <u>11,704</u> | <u>14,282</u>       | <u>18,334</u>      |

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**6 Related Party Transactions and Balances**

|  | December 31             |                      |                         |                      | September 30            |                      |
|--|-------------------------|----------------------|-------------------------|----------------------|-------------------------|----------------------|
|  | 2002                    | 2001                 | 2003                    | 2002                 | 2002                    | 2002                 |
|  | Assets<br>(liabilities) | Income<br>(expenses) | Assets<br>(liabilities) | Income<br>(expenses) | Assets<br>(liabilities) | Income<br>(expenses) |
|  |                         |                      | (Unaudited)             | (Unaudited)          | (Unaudited)             | (Unaudited)          |
| RBS Administração e Cobranças Ltda.            |                         |                      |                         |                      |                         |                      |
| Current assets (liabilities) - Group companies | 10,380                  | 6,424                | (68,219)                | 14,787               |                         |                      |
| Televisão Gaúcha S.A.                          |                         |                      |                         |                      |                         |                      |
| Current assets - Group companies               |                         | (48)                 |                         | (44)                 |                         |                      |
| Long-term receivables - Group companies        | (44)                    |                      | (45)                    |                      |                         |                      |
| General and administrative (reimbursement)     |                         | (1,525)              |                         | (2,201)              |                         | (1,973)              |
| Empresa Jornalística Pioneiro S.A.             |                         |                      |                         |                      |                         |                      |
| Current assets - Group companies               |                         | 40                   |                         |                      |                         |                      |
| Long-term receivables - Group companies        |                         | 638                  |                         |                      |                         |                      |
| (advance for future capital increase)          |                         |                      |                         |                      |                         |                      |
| Rádio Gaúcha S.A.                              |                         |                      |                         |                      |                         |                      |
| Financial expense                              |                         | (50)                 |                         |                      |                         |                      |
| RBS TV de Florianópolis S.A.                   |                         |                      |                         |                      |                         |                      |
| Financial expense                              |                         | (363)                |                         |                      |                         |                      |
| RBS Participações S.A.                         |                         |                      |                         |                      |                         |                      |
| Current assets - Group companies               |                         | (756)                |                         |                      | 2,581                   |                      |
| Long-term receivables - Group companies        | 53,308                  |                      | 49,100                  |                      |                         |                      |
| Financial income                               |                         | 391                  |                         |                      |                         | 4,659                |
| RBS Marketing e Informática Ltda.              |                         |                      |                         |                      |                         |                      |
| Current assets - Group companies               |                         | 778                  |                         |                      |                         |                      |
| Long-term receivables - Group companies        | 5,411                   |                      | 5,411                   |                      |                         |                      |

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|  | December 31             |                      | September 30                           |                                     |
|--|-------------------------|----------------------|--|-------------------------------------|
|  | 2002                    | 2001                 | 2003                                   | 2002                                |
|  | Assets<br>(liabilities) | Income<br>(expenses) | Assets<br>(liabilities)<br>(Unaudited) | Income<br>(expenses)<br>(Unaudited) |
| RBS - Comércio e Licenciamento de Marcas Ltda. (formerly known as RBS Correitora de Seguros Ltda.) |                         |                      |  |                                     |
| Current assets - Group companies   | 102                     | 93                   | 110                                    | 100                                 |
| Long-term receivables - Group companies  |                         |                      |  |                                     |
| Financial income   |                         | 11                   |  | 9                                   |
| Agência RBS de Notícias Ltda.  |                         |                      |  |                                     |
| Current assets - Group companies   | 878                     |                      | 878                                    | 878                                 |
| Long-term receivables - Group companies  |                         |                      |  |                                     |
| Other RBS Group companies  |                         |                      |  |                                     |
| Current assets - Group companies   | (37)                    | 41                   | (54)                                   | (4)                                 |
| Long-term receivables - Group companies  |                         |                      |  |                                     |
| General and administrative (reimbursement)   |                         | (9)                  |  |                                     |
| Financial expense  |                         | (90)                 |  |                                     |
| Stockholders   |                         |                      |  |                                     |
| Long-term liabilities - Advance for future capital increase  | (63)                    | (511)                | (63)                                   | (3,635)                             |
| Long-term liabilities - Accounts payable   |                         |                      |  | (3,735)                             |

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- (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 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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### 7 Investments

|                                  | December 31   |               | September 30        |                     |
|----------------------------------|---------------|---------------|---------------------|---------------------|
|                                  | 2002          | 2001          | 2003<br>(Unaudited) | 2002<br>(Unaudited) |
| Net Serviços de Comunicação S.A. | 31,753        | 31,753        | 31,753              | 31,753              |
| Provision for losses             | (20,477)      | (3,013)       | (20,477)            | (20,477)            |
| Other investments                | 3,661         | 5,004         | 3,661               | 3,703               |
|                                  | <u>14,937</u> | <u>33,744</u> | <u>14,937</u>       | <u>14,979</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 (September 30, 2003 - R\$ 2,128; September 30, 2002 - R\$ 923). 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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- (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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**8 Property, Plant and Equipment**

|                          | December 31          |                          | September 30    |                 | Annual depreciation rates - % |
|--------------------------|----------------------|--------------------------|-----------------|-----------------|-------------------------------|
|                          | 2002                 | 2001                     | 2003            | 2002            |                               |
|                          | Cost and revaluation | Accumulated depreciation | Net (Unaudited) | Net (Unaudited) |                               |
| Land                     | 599                  |                          | 599             | 599             |                               |
| Buildings and structures | 18,916               | (11,162)                 | 7,754           | 7,325           | 4 to 10                       |
| Installations            | 10,748               | (8,842)                  | 1,906           | 2,094           | 10 and 20                     |
| Machinery and equipment  | 206,841              | (156,916)                | 49,925          | 43,110          | 10 to 33                      |
| Vehicles                 | 1,867                | (1,547)                  | 320             | 345             | 20 and 33                     |
| Other                    | 5,431                |                          | 5,431           | 5,309           |                               |
|                          | <u>244,402</u>       | <u>(178,467)</u>         | <u>65,935</u>   | <u>58,782</u>   |                               |
|                          |                      |                          |                 | <u>63,634</u>   |                               |

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- (a) 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 (c)).
- (b) 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; September 30, 2003 - R\$ 5,108; September 30, 2002 - R\$ 22,340) payable to foreign suppliers and indexed to the U.S. dollar.

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#### 10 Loans

|   | Interest                                       | December 31 |           | September 30        |                     |
|---|--|-------------|-----------|---------------------|---------------------|
|   |  | 2002        | 2001      | 2003<br>(Unaudited) | 2002<br>(Unaudited) |
| <b>Foreign currency</b>   |  |             |           |                     |                     |
| US\$ 40,360 thousand<br>(December 31, 2001 -<br>US\$ 67,771 thousand;<br>September 30, 2003 -<br>US\$ 15,426 thousand;<br>September 30, 2002 -<br>US\$ 48,655 thousand) | LIBOR plus 0.5% to<br>6.5 % p.a.               | 142,605     | 157,255   | 45,125              | 189,506             |
| <b>Interest rate swap</b>   |  |             |           | 102                 |                     |
| <b>Local currency</b>   |  |             |           |                     |                     |
|   | CDI plus 3% to<br>3.5% p.a. and 120%<br>of CDI | 45,685      |           | 29,657              | 31,058              |
|   |  | 11,137      | 203       | 169                 | 521                 |
|   |  | 199,427     | 157,458   | 75,053              | 221,085             |
| Current liabilities   |  | (196,016)   | (149,279) | (44,379)            | (217,325)           |
| Long-term liabilities   |  | 3,411       | 8,179     | 30,674              | 3,760               |
| Long-term loans fall due as follows:  |  |             |           |                     |                     |
| 2003  |  |             | 5,939     |                     |                     |
| 2004  |  | 3,411       | 2,240     | 3,746               | 3,760               |
| 2005  |  |             |           | 15,234              |                     |
| 2006  |  |             |           | 11,694              |                     |
|   |  | 3,411       | 8,179     | 30,674              | 3,760               |

Loans are backed by sureties from: Televisão Gaúcha S.A. (R\$ 2,978); RBS Administração e Cobranças Ltda. (R\$ 35,122); and RBSPar Ltd. (R\$ 21,239). Other loans have no guarantees.

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In connection with the above loans, the company and certain other RBS Group companies, mainly engaged in TV and radio broadcasting activities, are required to observe certain negative covenants. All of these covenants are being observed.

On August 28, 2003, the company contracted an interest rate swap in the notional amount of R\$ 3,030 (equivalent to US\$ 1,019 thousand) exchanging the U.S. dollar exchange variation for 92.4% of CDI interest. The due date of such contract is March 12, 2004 and its fair value at September 30, 2003 was approximately R\$ 102 loss.

#### 11 Stockholders' Equity

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

|                  | <u>December 31</u> |                  | <u>September 30</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          | 50,750,000        |
| Preferred shares | <u>29,572,993</u>  | <u>2,129,619</u> | <u>29,572,993</u>   | <u>21,750,000</u> |
|                  | <u>98,576,642</u>  | <u>7,098,731</u> | <u>98,576,642</u>   | <u>72,500,000</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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- (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>September 30</u> |                  |
|---|--------------------|-----------------|---------------------|------------------|
|   | <u>2002</u>        | <u>2001</u>     | <u>2003</u>         | <u>2002</u>      |
|   |                    |                 | (Unaudited)         | (Unaudited)      |
| Balances per statutory financial statements   | (127,921)          | (46,672)        | (104,182)           | (126,547)        |
| Adjustments arising from the constant currency accounting methodology   | 5,104              | 9,068           | 4,141               | 6,113            |
| Further adjustments to conform the financial statements to accounting principles generally accepted in Brazil | (911)              | (10,102)        | (1,014)             | (1,612)          |
| Balances in these financial statements  | <u>(123,728)</u>   | <u>(47,706)</u> | <u>(101,055)</u>    | <u>(122,046)</u> |

## 12 Financial Income and Expenses

Financial expenses include R\$ 14,247 (December 31, 2001 - R\$ 12,424; September 30, 2003 - R\$ 13,195; September 30, 2002 - R\$ 9,456) 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)); September 30, 2003 - R\$ 20,602 gain (R\$ 11,763 of which was recorded as financial income); September 30, 2002 - R\$ 95,461 loss (including R\$ 7,397 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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### 13 Social Contribution and Income Tax

#### (a) Reconciliation of income tax and social contribution

|   | December 31 |          | September 30        |                     |
|---|-------------|----------|---------------------|---------------------|
|   | 2002        | 2001     | 2003<br>(Unaudited) | 2002<br>(Unaudited) |
| <b>(I) Income tax</b>                                   |             |          |                     |                     |
| Income (loss) before income tax and social contribution | (89,362)    | (34,021) | 30,247              | (111,656)           |
| Rate - %  | 25          | 25       | 25                  | 25                  |
|   | 22,341      | 8,505    | (7,562)             | 27,914              |
| Effects of permanent differences:                       |             |          |                     |                     |
| Non-deductible expenses                                 | (5,375)     | (387)    | (103)               | (5,277)             |
| Non-taxable income                                      | 225         | 6,808    | 170                 | 214                 |
| Other   | 1,247       | (5,892)  | (48)                | 1,438               |
| As per statement of operations                          | 18,438      | 9,034    | (7,543)             | 24,289              |
| <b>(II) Social contribution</b>                         |             |          |                     |                     |
| Income (loss) before income tax and social contribution | (89,362)    | (34,021) | 30,247              | (111,656)           |
| Rate - %  | 9           | 9        | 9                   | 9                   |
|   | 8,043       | 3,062    | (2,722)             | 10,049              |
| Effects of permanent differences:                       |             |          |                     |                     |
| Non-deductible expenses                                 | (1,935)     | (140)    | (37)                | (1,896)             |
| Non-taxable income                                      | 81          | 2,451    | 62                  | 77                  |
| Other   | 463         | (3,180)  | (9)                 | 525                 |
| As per statement of operations                          | 6,652       | 2,193    | (2,706)             | 8,755               |

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### (b) Nature of balances

|  | <u>December 31</u> |                   | <u>September 30</u>        |                            |
|--|--------------------|-------------------|----------------------------|----------------------------|
|  | <u>2002</u>        | <u>2001</u>       | <u>2003</u><br>(Unaudited) | <u>2002</u><br>(Unaudited) |
| <b>(I) Income tax</b>                            |                    |                   |                            |                            |
| <b>Provision for income taxes</b>                |                    |                   |                            |                            |
| Current liabilities                              |                    |                   | <u>4,753</u>               |                            |
| Long-term liabilities - Accelerated depreciation | <u>622</u>         | <u>1,133</u>      | <u>272</u>                 | <u>749</u>                 |
| <b>Deferred income taxes</b>                     |                    |                   |                            |                            |
| Long-term receivables                            |                    |                   |                            |                            |
| Tax loss carryforwards                           | <u>37,657</u>      | <u>16,133</u>     | <u>35,950</u>              | <u>38,143</u>              |
| Long-term liabilities                            |                    |                   |                            |                            |
| Monetary variations of permanent assets          | 2,986              | 4,509             | 2,572                      | 3,346                      |
| Other temporary differences                      | <u>(318)</u>       | <u>          </u> | <u>(330)</u>               | <u>237</u>                 |
|  | <u>2,668</u>       | <u>4,509</u>      | <u>2,242</u>               | <u>3,583</u>               |
| <b>(II) Social contribution</b>                  |                    |                   |                            |                            |
| Provision for income taxes - current             |                    |                   | <u>1,681</u>               |                            |
| Deferred income taxes                            |                    |                   |                            |                            |
| Long-term receivables                            |                    |                   |                            |                            |
| Tax loss carryforwards                           | <u>13,915</u>      | <u>5,808</u>      | <u>13,375</u>              | <u>14,040</u>              |
| Long-term liabilities                            |                    |                   |                            |                            |
| Monetary variations of permanent assets          | 1,075              | 1,987             | 926                        | 1,205                      |
| Other temporary differences                      | <u>(114)</u>       | <u>          </u> | <u>(118)</u>               | <u>86</u>                  |
|  | <u>961</u>         | <u>1,987</u>      | <u>808</u>                 | <u>1,291</u>               |

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### **(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.

## **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 based 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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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; nine-month period ended September 30, 2003 - R\$ 1,147; September 30, 2002 - R\$ 1,080).

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 (September 30, 2002 - R\$ 3,058), 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 (September 30, 2002 - R\$ 13,525), 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 of R\$ 8,706, as a prior year adjustment.

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### **17 Financial Instruments**

The company has financial assets and liabilities recorded in the balance sheet which are characterized as financial instruments. The market value of the investment in Net Serviços de Comunicação S.A. is described in Note 7 (a). The balances of other financial assets and liabilities are stated based on their contractual conditions, which are equivalent to the respective market values.

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