

Telebras is a holding company for 28 operating subsidiaries, and is required by law to own more than 50% of the voting stock of each operating subsidiary. Each of the Telebras operating subsidiaries, other than Embratel (which operates on a nationwide basis) has its operations limited to state or territorial borders. Telebras controls each subsidiary, defining growth, investment guidelines and establishing operating rules. All important administrative decisions by the subsidiaries must be approved by Telebras, and as a matter of Brazilian corporate law, the holding company is required to allocate 5% of its net profits to a legal reserve fund, until such fund attains 25% of the capital of the corporation. Corporate law also requires that a dividend of a minimum 25% of annual net profits be paid out to shareholders. Telebras is also in charge of controlling the dividend policy of each of its operating subsidiaries.

Although the Telebras system is the primary supplier of public telecommunications services in Brazil, the following 5 small independent local telephone companies continued to operate in parallel with the 28 monopolistic state-owned companies:

1. CTBC - 280,000 lines in service;
2. CRT - 556,000 lines in service;
3. CETERP - 72,715 lines in service;
4. SERCOMTEL - 63,828 lines in service;
5. CTMBV - 177 lines in service.

2.1.2 Revenues and Rates in Telebras system

The Telebras system provides basic telephone services, consisting of international, interstate and local telephone service. Of the consolidated revenues of the Telebras system in 1991 approximately 13.7% was attributable to international service, 44.8% to national long distance and 23.6% to local service. The balance was from other telephone and telephone related services, such as telex, cellular mobile telephone service and videotext or computer data transmission. The table below gives a breakdown by percentage of the consolidated revenues of the Telebras system by category of services for each of the years from 1987 through 1991: