

Embratel Participações S.A.

Report of Independent Public Accountants on the
Special Review of Quarterly Information

March 31, 2001

Report of Independent Public Accountants on the Special Review

(Translation of the report originally issued in Portuguese.
See Note 23 to the quarterly report.)

To the Shareholders and Board of Directors of

Embratel Participações S.A.:

- (1) We have made a special review of the quarterly report of EMBRATEL PARTICIPAÇÕES S.A. (a Brazilian corporation), which includes the individual and consolidated balance sheets as of March 31, 2001, the related statements of income for the quarter then ended, report on performance and other material information.
- (2) Our review was conducted in accordance with specific standards established by the Brazilian Institute of Accountants - Ibracon, together with the Federal Accounting Council, and comprised: (a) inquiries of and discussions with Company's Management responsible for the accounting, financial and operating areas as to the principal criteria adopted in the preparation of the quarterly information; and (b) review of information and subsequent events that had or might have had significant effects on the financial position and operations of the Company.
- (3) Based on our special review, we are not aware of any material modification that should be made to the information contained in the quarterly report referred to in paragraph (1), for it to be in accordance with accounting practices established by the corporate law in Brazil and presented in accordance with standards laid down by Brazilian Securities Commission (CVM), specifically applicable to the preparation of quarterly information.
- (4) The individual and consolidated balance sheets as of December 31, 2000, presented for comparative purposes, were reviewed by us, and our unqualified opinion report was issued on February 12, 2001. The individual and consolidated statements of income for the quarter ended March 31, 2000, presented for comparative purposes, were reviewed by us, and our unqualified special report was issued on April 20, 2000.

Rio de Janeiro, May 7, 2001.

ARTHUR ANDERSEN S/C

Fernando Marotta
Engagement Partner

EMBRATEL PARTICIPAÇÕES S.A.

BALANCE SHEETS AS OF MARCH 31, 2001 AND DECEMBER 31, 2000

(In thousands of Brazilian reais)

(Translation of the report originally issued in Portuguese.

See Note 23 to the quarterly report.)

A S S E T S

	Notes	Company		Consolidated	
		March 31, 2001	December 31, 2000	March 31, 2001	December 31, 2000
CURRENT ASSETS		242,145	249,202	3,535,608	3,399,485
		-----	-----	-----	-----
Cash and cash equivalents	9	16,534	23,636	390,739	422,614
Trade accounts receivable, net	10	-	-	2,497,936	2,453,235
Deferred and recoverable taxes	11	36,662	36,617	456,523	406,670
Dividends and interest on capital	19	188,911	188,911	-	-
Other current assets		38	38	190,410	116,966
NONCURRENT ASSETS		12,506	5,583	670,631	567,395
		-----	-----	-----	-----
Deferred and recoverable taxes	11	-	-	300,555	268,142
Legal deposits		12,506	5,583	321,239	285,997
Other noncurrent assets		-	-	48,837	13,256
PERMANENT ASSETS		6,050,471	6,074,881	7,816,196	7,795,477
		-----	-----	-----	-----
Investments	12	6,050,471	6,074,881	351,886	328,352
Property, plant and equipment	13	-	-	7,464,310	7,467,125
		-----	-----	-----	-----
Total assets		6,305,122	6,329,666	12,022,435	11,762,357
		=====	=====	=====	=====

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

EMBRATEL PARTICIPAÇÕES S.A.

BALANCE SHEETS AS OF MARCH 31, 2001 AND DECEMBER 31, 2000

(In thousands of Brazilian reais)

(Translation of the report originally issued in Portuguese.

See Note 23 to the quarterly report.)

LIABILITIES AND SHAREHOLDERS' EQUITY

	Notes	Company		Consolidated	
		March 31, 2001	December 31, 2000	March 31, 2001	December 31, 2000
CURRENT LIABILITIES		246,562	246,581	3,666,495	3,611,961
Personnel, charges and social benefits		2	2	108,576	100,921
Accounts payable and accrued expenses	14	257	124	1,313,525	1,405,084
Taxes and contributions	15	42,441	42,435	567,189	709,446
Dividends and interest payable on capital	19	14,940	14,964	15,064	14,964
Proposed dividends and interest on capital	19	188,911	188,911	191,440	191,440
Loans and financing	16	-	-	1,184,301	881,899
Provision for contingencies	17	-	-	23,843	27,335
Employees' profit sharing		-	-	39,865	28,306
Pension plan – Telos	18	-	-	61,948	61,725
Related party liabilities	20	-	100	10,083	18,615
Other current liabilities		11	45	150,661	172,226
NONCURRENT LIABILITIES		915	915	1,926,818	1,745,721
Loans and financing	16	-	-	1,527,522	1,364,390
Pension plan – Telos	18	-	-	201,218	211,103
Taxes and contributions	15	-	-	197,163	169,313
Sundry credits		915	915	915	915
DEFERRED INCOME		-	-	121,495	110,627
MINORITY INTEREST		-	-	249,982	211,878
SHAREHOLDERS' EQUITY	19	6,057,645	6,082,170	6,057,645	6,082,170
Capital stock - paid-in		2,134,427	2,134,427	2,134,427	2,134,427
Income reserves		1,912,113	1,912,113	1,921,028	1,912,113
Treasury share		(41,101)	(41,475)	(41,101)	(41,475)
Retained earnings		2,052,206	2,077,105	2,043,291	2,077,105
Total liabilities and shareholders' equity		6,305,122	6,329,666	12,022,435	11,762,357

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

EMBRATEL PARTICIPAÇÕES S.A.

STATEMENTS OF INCOME

FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2001 AND 2000

(In thousands of Brazilian reais, except for net earnings per thousand shares)

(Translation of the report originally issued in Portuguese.

See Note 23 to the quarterly report.)

	Notes	Company		Consolidated	
		March 31		March 31	
		2001	2000	2001	2000
GROSS OPERATING REVENUE:					
Telecommunications services		-	-	2,481,005	2,019,347
Gross revenue deductions		-	-	(638,279)	(488,569)
		-----	-----	-----	-----
Net operating revenue	5	-	-	1,842,726	1,530,778
Cost of services	6	-	-	(1,208,099)	(1,032,277)
		-----	-----	-----	-----
Gross profit		-	-	634,627	498,501
		-----	-----	-----	-----
OPERATING REVENUES (EXPENSES)					
		(25,153)	150,393	(462,260)	(268,901)
		-----	-----	-----	-----
Commercialization of services		-	-	(261,633)	(111,772)
General and administrative		(872)	(1,001)	(211,621)	(140,439)
Other operating revenue (expenses)		-	(140)	9,027	(16,690)
Equity method results		(24,281)	151,534	1,967	-
		-----	-----	-----	-----
OPERATING INCOME BEFORE INTEREST					
		(25,153)	150,393	172,367	229,600
		-----	-----	-----	-----
Interest income (expense)	7	348	(374)	(201,114)	11,226
		-----	-----	-----	-----
OPERATING INCOME					
		(24,805)	150,019	(28,747)	240,826
		-----	-----	-----	-----
Nonoperating income (expense)		(28)	-	451	12,129
		-----	-----	-----	-----
NET INCOME (LOSS) BEFORE TAXES AND PARTICIPATIONS					
		(24,833)	150,019	(28,296)	252,955
		-----	-----	-----	-----
Income tax and social contribution on profits	8	-	-	8,094	(93,377)
Employees' profit share		-	-	(11,556)	(7,710)
Minority interest		-	-	(1,989)	(1,885)
		-----	-----	-----	-----
NET INCOME (LOSS) FOR THE YEAR					
		(24,833)	150,019	(33,747)	149,983
		=====	=====	=====	=====
QUANTITY OF OUTSTANDING SHARES (IN THOUSANDS)					
		332,932,361	332,915,828	332,932,361	332,915,828
		=====	=====	=====	=====
NET EARNINGS (LOSS) PER THOUSAND SHARES					
		(0.07)	0.45	(0.10)	0.45
		===	===	===	===

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

EMBRATEL PARTICIPAÇÕES S.A.

NOTES TO THE FINANCIAL STATEMENTS

AS OF AND FOR THE FIRST QUARTER OF 2001

(In thousands of Brazilian reais, except as indicated)

(Translation of the report originally issued in Portuguese.
See Note 23 to the quarterly report.)

1. OPERATIONAL OVERVIEW

Embratel Participações S.A. was incorporated in accordance with article 189 of Law no. 9,472/97 - General Telecommunications Law - based on Decree no. 2,546 of April 14, 1998. The Company resulted from the spin-off from Telecomunicações Brasileiras S.A. - Telebrás, as approved at the May 22, 1998 Shareholders' General Meeting. The spin-off was based on an appraisal report as of February 28, 1998.

The Federal Government sold its interest of 19.26% in Embratel Participações S.A., at a public auction at the Rio de Janeiro Stock Exchange held on July 29, 1998, to Startel Participações Ltda. (WorldCom).

Embratel Participações S.A. holds 98.8% of the capital of Empresa Brasileira de Telecomunicações S.A. - Embratel. Embratel provides international and domestic long-distance telecommunications services in Brazil, under the terms of the concession authorized by the Federal Government, which will expire on December 31, 2005, and may be renewed for an additional 20-year term.

The businesses of the subsidiary companies, Empresa Brasileira de Telecomunicações - Embratel and Star One S.A., including the services rendered and the tariffs charged, are regulated by Agência Nacional de Telecomunicações (Anatel), the regulatory authority for the Brazilian telecommunications industry, pursuant to Law no. 9,472, of July 16, 1997 and related regulations, decrees, decisions and plans.

2. PRESENTATION OF FINANCIAL STATEMENTS

The individual and consolidated financial statements as of March 31, 2001 were prepared in accordance with accounting practices established by the Brazilian corporate law, instructions applicable to telecommunications concessionaires and rules and accounting procedures established by the Brazilian Securities Commission (CVM - Comissão de Valores Mobiliários).

3. SUMMARY OF PRINCIPAL ACCOUNTING PRACTICES

a. Cash and Cash Equivalents

Cash and cash equivalents are highly liquid temporary investments which will be maintained until their maturity dates and are recorded at cost, plus interest earned through the balance sheet date, limited to market value, when applicable.

b. Trade Accounts Receivable

Trade Accounts Receivable refer, primarily, to the amounts receivable from long distance national and international telecommunication services, billed and/or unbilled at the closing dates of the financial statements, through operating telecommunications companies. Trade accounts receivable also include billings to customers for services related to data and other services.

Allowances for doubtful accounts are accrued for receivables for which recoverability is considered doubtful.

c. Foreign Currency Transactions

Assets and liabilities in foreign currency are stated at the exchange rate prevailing at the closing dates of the financial statements. Exchange gains or losses are recorded in the income statement, classified as Financial Income (Expense) when incurred. The effects of exchange rate differences are detailed in Note 7.

d. Investments

Investments in subsidiaries and international satellite consortia are recorded under the equity method, recognizing the exchange variations as incurred. Other investments are recorded at cost less a provision for losses, when applicable.

e. Property, Plant and Equipment

Property, plant and equipment are recorded at cost of acquisition and/or construction, less the accumulated depreciation, monetarily restated up to December 31, 1995.

The current annual depreciation rates used are calculated on the straight-line method based on the expected useful life of the assets. The main rates used are shown in Note 13,

Expenses for maintenance and repair are expensed as incurred. Expenditures for betterment to fixed assets (which increase the utility of the asset or extend the physical life) are capitalized. The financial charges arising from financing of construction in progress are recorded in Property, Plant and Equipment.

f. Income Tax and Social Contribution

The corporate income tax and social contribution on net income are recorded on an accrual basis. Deferred taxes are provided on temporary differences, as described in Notes 8, 11 and 15.

g. Provision for Contingencies

Provision for contingencies are updated through the closing dates of the financial statements based on the probable loss, according to the nature of each contingency. The basis and nature of the provisions are described in Note 17.

h. Deferred Income

This amount is related to the sale of the rights of ways primarily for optical fiber cables to Brazilian telecommunications companies and other international companies with activities in the Mercosul region, and is reflected in results according to the terms of the contracts.

i. Revenue Recognition

Revenues from services are recognized using the accrual method of accounting, after deducting an estimate for billing errors or disputes. Revenues from international services also include revenues earned under bilateral agreements between the subsidiary Embratel and overseas telecommunications companies. These agreements govern tariffs paid by the subsidiary to the foreign entities for the use of their facilities in connecting international calls billed outside Brazil. Revenues from international calls are recognized monthly as they are made, as are the cost of services rendered by overseas telecommunications companies.

j. Financial Income (Expense)

This represents interest and monetary and exchange variations resulting from financial applications and loans and financing obtained, which are recognized on an accrual basis.

k. Pension Plan - Telos

The subsidiary Embratel sponsors a separate entity that provides pensions and other post-retirement benefits for its employees (Note 18). Contributions for the defined benefit plan and defined contribution plan are recorded on an accrual basis. Contributions for the defined benefit plan are actuarially determined.

I. Employees' Profit Sharing

The subsidiary Embratel has provided for employee's profit sharing, payment of which is subject to approval by the Shareholders' General Meeting.

m. Net Earnings per Thousand Shares

Net earnings per thousand shares are calculated based on the number of shares outstanding at the balance sheet date.

4. CONSOLIDATION PROCEDURES

For consolidation purposes, intercompany balances and transactions were eliminated, including items such as intercompany investments, unrealized profits, when applicable, equity adjustments, intercompany income and expense accounts and intercompany balances under short and long-term assets and liabilities. The intercompany investments were eliminated against the respective intercompany shareholders' equity. Minority interests in the results and shareholders' equity are also separately reported.

The consolidated financial statements include the financial statements of Embratel Participações S.A. and of its subsidiaries, directly or indirectly, as follows:

	Direct and/or indirect participation (%)	
	March 31, 2001	December 31, 2000
	Capital/ Voting Stock	Capital/ Voting Stock
Empresa Brasileira de Telecomunicações S.A. - Embratel	98.8	98.8
BrasilCenter Comunicações Ltda.	100.0	98.8
Embratel Soluções Ltda.	100.0	100.0
Embratel Americas, Inc. (1)	100.0	-
Star One S.A. (2)	80.0	-
Ponape Telecomunicações Ltda. (3)	100.0	-
Oroluk Telecomunicações Ltda. (4)	100.0	-
Palau Telecomunicações Ltda. (5)	100.0	-
Acessonet Ltda. (6)	100.0	-

(1) Beginning operations in May 2000.

(2) Beginning operations in November 2000.

(3), (4) and (5) Beginning operations in December 2000.

(6) Beginning operations in December 2000.

On March 29, 2001, the subsidiary Embratel acquired Keshara Empreendimentos Ltda., a company controlling 100% of the capital stock of Acessonet Ltda., which provides access to internet, and Star Sat S.A., owner of 80% of Star One S.A. capital stock.

5. NET OPERATING REVENUES

	Consolidated	
	Three-month period ended	
	March 31, 2001	March 31, 2000
Voice-		
Domestic long-distance	1,107,993	902,359
International long-distance	220,086	218,937
	-----	-----
	1,328,079	1,121,296
Data	459,652	350,709
Other services	54,995	58,773
	-----	-----
Net operating revenue	1,842,726	1,530,778
	=====	=====

6. COST OF SERVICES

	Consolidated	
	Three-month period ended	
	March 31, 2001	March 31, 2000
Interconnection/facilities	(883,869)	(752,272)
Depreciation	(221,056)	(191,964)
Personnel	(50,296)	(52,237)
Third-party services	(38,409)	(27,917)
Other	(14,469)	(7,887)
	-----	-----
Total	(1,208,099)	(1,032,277)
	=====	=====

The interconnection costs represent charges by the local fixed-line telephone companies for the use of private-circuit lines, and interconnection charges paid by the subsidiary Embratel to the three regional fixed-line companies in accordance with the regime for interconnection, under Resolution no. 33, effective since April 1, 1998.

7. FINANCIAL INCOME (EXPENSE)

	Company		Consolidated	
	Three-month period ended		Three-month period ended	
	March 31, 2001	March 31, 2000	March 31, 2001	March 31, 2000
Financial income-				
Interest on temporary investments	348	468	17,645	16,650
Monetary variation - credit	-	-	280	(2,333)
Exchange variation - credit	-	-	30,781	(10,015)
	-----	-----	-----	-----
	348	468	48,706	4,302
	-----	-----	-----	-----
Financial expenses-				
Interest charges	-	(842)	(64,828)	(22,451)
Monetary variation – charge	-	-	(4,880)	(12,565)
Exchange variation - charge	-	-	(180,112)	41,940
	-----	-----	-----	-----
	-	(842)	(249,820)	6,924
	-----	-----	-----	-----
Total	348	(374)	(201,114)	11,226
	=====	=====	=====	=====

In the first quarter of 2001, the Brazilian real devalued by 10.6% against to the US dollar, resulting in an exchange variation expense in the amount of R\$180,112 in the period, net of gains from hedge contracts.

8. INCOME TAX AND SOCIAL CONTRIBUTION

The Company and its subsidiaries accrue the income tax and social contribution on a monthly basis even when prepaying taxes based on monthly estimates. The amounts of the prepaid Income Tax and Social Contribution are recorded as Income Tax - Estimated and Social Contribution - Estimated, and are shown as a deduction from the taxes payable (see Note 15).

Tax legislation introduced in 1995 (Law no. 8,981) limited the offset of accumulated tax losses and negative calculation basis for social contribution to 30% (thirty percent) of taxable income produced in each fiscal period. On March 31, 2001, the subsidiary had R\$173,024 of tax losses and R\$61,722 of negative basis of social contribution available for offset against future taxable income (on March 31, 2000 - R\$172,305 of tax losses and R\$252,478 negative basis of social contribution).

8.1 – Income Tax and Social Contribution Income (Expenses)

The income tax and social contribution expense is comprised of current expense of the year computed in accordance with current tax legislation, and of deferred expense, corresponding to the effects of the taxes on the temporary differences originated or realized in the year. The deferred income tax and social contribution for the three-month periods ended March 31, 2001 and 2000 totals R\$12,968 and R\$19,548 respectively, and was calculated on the allowance for doubtful accounts, accelerated depreciation, tax losses, temporarily nondeductible taxes, and other temporarily taxable and deductible revenues and expenses.

Composition of Income Tax and Social Contribution Income (Expenses)

	Consolidated	
	Three-month period ended	
	March 31, 2001	March 31, 2000
Current-		
Social Contribution	(1,292)	(19,549)
Income Tax	(3,582)	(54,280)
	-----	-----
Total current expenses	(4,874)	(73,829)
	-----	-----
Deferred-		
Social contribution	5,101	(6,222)
Income Tax	7,867	(13,326)
	-----	-----
Total deferred income (expenses)	12,968	(19,548)
	-----	-----
Total income tax and social contribution	8,094	(93,377)
	=====	=====

8.2 - Reconciliation of Tax Income (Expenses) with the Nominal Rates

The reconciliation between the income tax and the social contribution, calculated based on the nominal tax rates, and the amounts recorded as expense/income for income tax and social contribution is shown below:

	Consolidated	
	Three-month period ended	
	March 31, 2001	March 31, 2000
Income before taxes and participation	(28,296)	252,955
Employee's profit sharing	(11,556)	(7,710)
	-----	-----
Net income (loss) before taxes	(39,852)	245,245
Social contribution expense at nominal rate	1,859	(30,049)
Rate adjustment to obtain the effective rate-		
Social contribution credit constitution over the		
Exempt international income	2,261	7,450
Other	(310)	(3,173)
	-----	-----
Social contribution benefit (expense) on		
income statement	3,810	(25,772)
	-----	-----
Income tax expense at the nominal rate – 25%	5,164	(61,704)
Rate adjustment to obtain the effective rate-		
Permanent additions	(5,931)	(2,716)
Permanent deductions (*)	4,701	25
Other	350	(4,519)
Fiscal incentives	-	1,309
	-----	-----
Corporate income tax credit (expense) on		
statement of income	4,284	(67,605)
	-----	-----
Total (corporate income tax + social contribution)	8,094	(93,377)
	=====	=====

(*) Permanent deductions substantially regarding equity method.

The provision for income tax was accrued based on taxable income at the rate of 15%, plus the additional 10% foreseen in the law. The social contribution was calculated at the rate of 12% until January 2000 (alteration established in Normative Instruction 81/99, of June 30, 1999), and 9% starting February 2000 (alteration in accordance with Provisional Measure 1991-12 of December 14, 1999).

9. CASH AND CASH EQUIVALENTS

	Company		Consolidated	
	March 31, 2001	December 31, 2000	March 31, 2001	December 31, 2000
Cash and bank deposits	15,744	15,570	110,195	147,991
Foreign short-term investments	-	-	101,105	105,872
Marketable securities	790	8,066	179,439	168,751
	-----	-----	-----	-----
Total	16,534	23,636	390,739	422,614
	=====	=====	=====	=====

Marketable securities are represented, primarily, by fixed income bonds. The investments abroad are funded from mutual traffic revenues received from international operators and invested in short-term financial applications.

10. TRADE ACCOUNTS RECEIVABLE

	Consolidated	
	March 31, 2001	December 31, 2000
National entities/clients	2,888,700	2,759,616
Foreign administrators	272,961	244,555
	-----	-----
Subtotal	3,161,661	3,004,171
Allowance for doubtful accounts	(663,725)	(550,936)
	-----	-----
Total	2,497,936	2,453,235
	=====	=====

11. DEFERRED AND RECOVERABLE TAXES

	Company		Consolidated	
	March 31, 2001	December 31, 2000	March 31, 2001	December 31, 2000
Income tax withheld at source	34,677	36,008	35,243	36,895
Recoverable income tax/social contribution	113	609	5,668	654
Deferred tax assets-				
Provision for write-off of property, plant and equipment	-	-	27,238	28,855
Accelerated depreciation	-	-	68,692	77,287
Tax losses	-	-	43,256	27,850
Allowance for doubtful accounts	-	-	225,360	187,318
Cofins/PIS - temporarily nondeductible	1,872	-	85,928	74,010
Other deferred taxes (provisions)	-	-	135,899	148,317
ICMS	-	-	81,486	88,438
Other	-	-	48,308	5,188
	-----	-----	-----	-----
Total	36,662	36,617	757,078	674,812
	=====	=====	=====	=====
Current	36,662	36,617	456,523	406,670
	=====	=====	=====	=====
Noncurrent	-	-	300,555	268,142
	=====	=====	=====	=====

12. INVESTMENTS

	Company	
	March 31, 2001	December 31, 2000
Investments - at equity-		
Empresa Brasileira de Telecomunicações S.A.	6,050,410	6,074,714
Embratel Soluções Ltda.	51	57
Ponape Telecomunicações Ltda.	10	10
Other investments - at cost	-	100
	-----	-----
Total	6,050,471	6,074,881
	=====	=====

The consolidated investment balances on March 31, 2001 and December 31, 2000, of R\$351,886 and R\$328,352, respectively, refer substantially to interest in international joint ventures.

13. PROPERTY, PLANT AND EQUIPMENT

	Annual depreciation rates (%)	Consolidated			
		March 31, 2001		December 31, 2000	
		Cost	Accumulated depreciation	Net book value	
Construction in progress	-	1,369,673	-	1,369,673	1,222,094
Switching equipment	7.69	1,541,172	(768,934)	772,238	791,568
Transmission equipment	10.00 to 20.00	6,952,112	(2,912,166)	4,039,946	4,170,015
Buildings and ducts	4.00	1,227,450	(570,916)	656,534	662,244
Other assets	5.00 to 20.00 (*)	1,463,656	(837,737)	625,919	621,204
Total		12,554,063	(5,089,753)	7,464,310	7,467,125

(*) Except for land, which on March 31, 2001 and December 31, 2000 amount to R\$165,528 and R\$165.918, respectively.

Fully depreciated assets on March 31, 2001 and December 31, 2000 amount to R\$1,587,223 and R\$1,523,714, respectively.

14. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	Consolidated	
	March 31, 2001	December 31, 2000
Suppliers	949,546	1,060,645
Foreign companies	256,495	234,817
Consignment for third-parties/other	107,484	109,622
Total	1,313,525	1,405,084

15. TAXES AND CONTRIBUTIONS

	Company		Consolidated	
	March 31, 2001	December 31, 2000	March 31, 2001	December 31, 2000
Indirect taxes-				
ICMS	-	-	190,858	274,807
PIS/Cofins	12,504	12,498	48,602	40,452
PIS/Pasep - in suspension	-	-	91,162	88,338
Cofins - judicial deposit (increase of tax rate from 2% to 3%)	-	-	154,036	125,918
ISS	-	-	4,479	7,069
Other	-	-	13,246	8,821
Income taxes-				
Income tax on interest on capital	22,601	22,601	22,601	51,154
Income tax in suspension - Federal Senate Resolution no. 82/92	-	-	170,166	165,140
Income tax – estimate	7,336	7,336	18,120	55,513
Social contribution – estimate	-	-	4,123	13,522
Deferred taxes – liabilities-				
Law no. 8,200/91 – supplementary Monetary restatement	-	-	46,959	48,025
	-----	-----	-----	-----
Total	42,441	42,435	764,352	878,759
	=====	=====	=====	=====
Current	42,441	42,435	567,189	709,446
	=====	=====	=====	=====
Noncurrent	-	-	197,163	169,313
	=====	=====	=====	=====

16. LOANS AND FINANCING

	Consolidated			
	March 31, 2001			December 31, 2000
	Principal	Interest	Total	Total
Financial Institutions	2,590,633	52,953	2,643,586	2,160,130
Suppliers	63,454	4,783	68,237	86,159
	-----	-----	-----	-----
Total	2,654,087	57,736	2,711,823	2,246,289
	=====	=====	=====	=====
Current	1,126,565	57,736	1,184,301	881,899
	=====	=====	=====	=====
Noncurrent	1,527,522	-	1,527,522	1,364,390
	=====	=====	=====	=====

The loans and financing with financial institutions were primarily denominated in foreign currency. The average effective interest rate ("all in") of the total debt is equivalent to US dollars plus 9.62% per annum.

The suppliers' financing is foreign currency denominated and refers to purchase of materials and equipment used to enhance domestic and international telecommunication services.

a. Mode/Objective

	March 31, 2001	December 31, 2000
Local currency-		
Working capital-		
Permanent assets financing-		
Financial institutions	25,179	28,631
	-----	-----
Total in local currency	25,179	28,631
	=====	=====
Foreign currency-		
Working capital	1,204,649	1,120,366
Permanent assets financing-		
Financial institutions	1,413,759	1,011,133
Suppliers	68,236	86,159
	-----	-----
Total in foreign currency	2,686,644	2,217,658
	=====	=====

b. Repayment Schedule

Noncurrent debt is scheduled to be repaid as follows:

Year	March 31, 2001	December 31, 2000
2002	333,698	539,381
2003	305,939	236,570
2004	292,115	224,140
2005 and after	595,770	364,299
	-----	-----
Total	1,527,522	1,364,390
	=====	=====

c. Breakdown by Foreign Currency

Up-dated by	Exchange rate as of March 31, 2001 (in R\$)	March 31, 2001	December 31, 2000
Real	-	25,180	28,631
US Dollar	2.161600	2,179,884	1,718,922
French-Franc	0.289904	181,004	172,561
German Marc	0.972297	11,468	10,947
Japanese Yen	0.017122	314,287	315,228
		-----	-----
Total		2,711,823	2,246,289
		=====	=====

d. Guarantees

Loans and financing operations are guaranteed primarily by promissory notes.

17. PROVISION FOR CONTINGENCIES

In the normal course of business, the subsidiary Embratel is party to legal proceedings and potential discussions, including among others, labor, social security, tax, administrative and civil issues.

A significant portion of the contingencies discussed below involve complex issues, with unique characteristics applying either to Embratel itself or the telecommunications industry, and arise from different interpretations of the laws in effect, which are not yet covered by consolidated jurisprudence.

It should also be noted that most issues discussed below result from procedures followed prior to the Company's privatization, based on instructions issued by government entities at the time.

Based on the facts currently available and on the legal advisors' opinion, Embratel's Management believes that the outcome of a significant portion of present and future claims will be favorable to the Company.

Details of the key legal disputes currently in progress are described below:

a. Labor Claims

The provision for loss on labor claims amounted to R\$23,843 on March 31, 2001 (R\$27,335 in December 31, 2000). Such amount represents Management's estimate, based on legal advice of probable loss on numerous suits filed by current and former employees.

b. Tax Contingencies

b.1 - Withholding Income Tax on Remittances to Foreign Telecommunications Companies

The subsidiary Embratel regularly makes payments to foreign telecommunications companies to complete international calls that originate in Brazil and terminate in a foreign country (outbound traffic). The Brazilian income tax law generally requires Brazilian recipients of services from foreign companies to withhold 25% from payments to such foreign companies for such services. However, based on decisions in 1952 and 1953, of both the Brazilian Finance Ministry and the Taxpayers' Council, the Company has never withheld Brazilian income tax from such payments.

In addition, the International Telecommunications Convention of Nairobi, Kenya (Nairobi Treaty), dated November 6, 1982, is in force in Brazil, having been approved by Decree Law no. 55, of October 4, 1989, ratified by Presidential letter of January 21, 1990, and promulgated by Presidential Decree no. 70, of March 26, 1991. As a result, the subsidiary Embratel is required to comply with the Administrative Regulation of the International Telecommunication Union (ITU), of which Brazil is a member. Accordingly, Management believes that the subsidiary Embratel is under no obligation to withhold income tax on the remittances abroad to telephone operators for payment of international calls originating from Brazil, as established in the International Telecommunications Regulations approved in Melbourne, Australia, on December 9, 1988.

On February 8, 1999, the Company made a formal consultation on the matter to the Brazilian Income Tax authorities. In their September 3, 1999 reply, the tax authorities claimed that the exemption from the withholding income tax on remittances abroad is applicable only as from October 19, 1998, based on Decree no. 2,962/99, which approved the Constitution and Convention of the ITU. In their reply, the tax authorities also recognized that the withholding income tax on remittances made by the Company to foreign telecommunication operators should comply with article 7 of the OECD Model. These guidelines are followed by Brazil for bilateral treaties on avoidance of double taxation, wherever doing so does not result in breaches of specific treaties or of additional protocol.

The Company decided to request a writ of mandamus from the 14th Federal Court of Rio de Janeiro, and, on September 30, 1999, obtained a preliminary court decision suspending the ability of the tax authorities to demand payment of the tax which is the subject of the above-mentioned consultation.

On December 23, 1999, the Company was assessed by the Federal Revenue Agency in the amount of R\$410,697 for not withholding the 25% income tax on payments made from December 1994 to October 1998. Such taxation did not take into consideration the analysis of bilateral double taxation treaties, which was specifically mentioned in the income tax authorities response to the formal consultation made. The Company also challenged this assessment and submitted its administrative defense, which is being analyzed by the tax authorities.

The Federal Union appealed the decision of the 14th Federal Court and, on April 10, 2000, the 2nd Federal Region suspended the effects of the above-mentioned court decision, which was confirmed by the Federal Authorities.

In relation to the main proceedings, where the litigation involves discussing the legitimacy of the request, the proceedings are concluded and awaiting sentence, to be issued by the Judge of the 14th Federal Court of Rio de Janeiro.

Responding to a request from the Ministry of Communications, the Federal Attorney General's Office issued on October 31, 2000, an expert opinion on the tax divergences in this matter and about income tax on inbound international revenues (item b.2 below). This opinion argues for the legitimacy of the payment and reflects the federal government's position, against the Company. However, the Company's Management and its legal counsel understand that this opinion does not introduce any new facts or arguments that could change the evaluation of the issue when the final decision is issued by the competent authorities.

Based on the understanding of the Company's Management and Legal Counsel, that consider the possibility of loss to be minimal, no loss provision was made in the financial statements with respect to this dispute.

b.2 - Income Tax on Inbound International Income

Based on its legal advisors' opinion, the subsidiary Embratel believes that the foreign operating income from telecommunications services (inbound traffic) is not subject to taxation, inasmuch as Law no. 9,249, of December 26, 1995, did not revoke the exemption established by specific legislation.

In connection with this matter, in late March 1999, the Federal Revenue Agency assessed the Company in the amount of R\$287,239 for failing to pay the related income tax for the years 1996 and 1997. In late April 1999, the subsidiary Embratel filed an administrative defense against this assessment which is pending judgement at the first level of the judicial system.

The Company, however, decided to pay such income tax for the period from August to December 1998, in the amount of R\$34,320 (including interest) and to continue paying such tax in the subsequent months until this issue is resolved. This practice avoids penalties and ensures the Company's right to claim, at the appropriate time, the amount of the taxes paid in excess. Such amount was paid in the first quarter of 1999 and recorded as an expense of that period.

On June 17, 1999, the Company was further assessed for nonpayment of income tax on net foreign source income for the year 1998 amounting to R\$64,396. The Company will continue paying income tax on the net foreign source income until the tax dispute is solved. The subsidiary Embratel also contested this assessment, filing an administrative defense, which was judged partially favorable due to the amount already paid as discussed above, and has appealed to the taxpayers' council, which, on July 12, 2000, ruled against the Company. Due to this decision, the Company appealed to the Higher Chamber on March 16, 2001.

The expert opinion of the Federal Attorney General's Office (Advocacia Geral da União - AGU) issued on October 31, 2000 (refer to item b.1 above) also expresses the position of the executive branch of the federal government, against the Company's position. However, the Company's Management and their legal advisors understand that this opinion does not introduce any new facts or arguments of any nature that would alter the issue.

The Company's Management and its legal counsel consider that the probability of loss in this case is only reasonably possible and consequently no loss provision was recorded in the financial statements.

b.3 - ICMS for Services Provided

Until the introduction of Complementary Law no. 87 of September 13, 1996 (Official Gazette of September 16, 1996), the Local Telecommunication Operating Companies invoiced and collected State Value-added Tax ("ICMS") on Fixed Line Telecommunication Services, on a reduced basis equivalent to an effective rate of 13%, in accordance with ICMS Convention no. 27, of March 29, 1994.

With the above-mentioned Complementary Law entering into effect on September 16, 1996, the telecommunications operating companies of the Telebrás System were instructed by Telebrás to no longer invoice and collect such tax on international outbound telephone traffic.

Currently, certain state tax authorities are fining local telecommunications carriers for non-payment of ICMS related to international traffic.

The subsidiary Embratel received a number of fines for non-payment of ICMS for services provided, including international services and others, also considered by the Company as exempt or non-taxable. The Company's Management, based on the facts currently available, considered the probability of loss on this issue to be remote. The fines concerning facts that may lead to losses, according to the legal counsel, represent a total of approximately R\$115 million as of March 31, 2001. As a result of this evaluation, no provision was recorded in the financial statements.

Currently, the subsidiary is participating in efforts to demonstrate the detrimental economic effects to the industry and to the States of any such tax being charged on the mentioned services.

c - Other Taxes

The determination of the manner in which Federal, State and Municipal taxes apply to the operations of the Company is subject to several interpretations due to the unique nature of such operations. Management believes that its interpretation of the Company's tax obligations is substantially in compliance with the current legislation. Accordingly, any changes in the tax treatment of these operations will result in new legislation or interpretative rulings on the part of the tax authorities.

d - Contingencies Related to Anatel and the State Government of São Paulo

As a result of the inconveniences caused to the telephony system users by the telecommunications carriers, on July 3, 1999, the implementation date for the new national dialing system, Embratel was officially notified by Anatel about its responsibility in the above mentioned inconveniences.

Anatel established that Embratel would pay a fine related to the period when the carriers implemented the change in dialing codes.

The Company filed suit contesting the validity of the fine, and was granted a temporary injunction for non-payment of the fine and a favorable opinion from Public Ministry. Nevertheless, on April 24, 2001, the first instance decision was announced, ordering the Company to pay the fine, but favoring the Company's request for lowering the amount to be paid from R\$55 million to R\$50 million. The Company will appeal against this decision and will try to obtain judicial instruments which may guarantee the non-payment of the fine while discussing this matter at the court of Justice.

Based on the same facts, the State of São Paulo and the Procon Foundation filed a public civil action at the 14th Court of Public Finances of the State of São Paulo. On March 30, 2000, a first instance decision was announced, ordering the Company and the local carrier to pay a fine of R\$30 million and to reimburse the users of telephony services in the State of São Paulo for the phone calls made from July 3 to 12, 1999. The Company appealed against this decision.

The Company's Management and its legal counsel consider that the probability of loss in these cases is only reasonably possible and consequently no loss provision was recorded in the financial statements.

18. PENSION PLAN - TELOS

Telos - Fundação Embratel de Seguridade Social, a closed private pension entity, is a legal entity under private law, with the objectives of providing pensions, assistance and not-for-profit activities, with administrative and financial independence, based in Rio de Janeiro. It was founded by the subsidiary Embratel on August 1, 1975.

Embratel sponsors two benefit plans: a defined benefit plan and a defined contribution plan, both managed by Telos. The rate of contribution to the first plan (the defined benefit plan) for the year of 2000, which is the same as that forecast for the year of 2001, is 19.8% of the active participants' salary.

Subsequent to the privatization, the subsidiary created a defined contribution plan, through Telos, which was reviewed and approved by the Brazilian Federal Government on November 19, 1998. All newly hired employees automatically adhere to the new plan, no further admittances to the defined benefit plan being allowed. For the defined contribution plan, the sponsor's contribution ranges from 3% to 8% of the participants' salary, in addition to the extraordinary contribution, foreseen in the plan's regulation, for financing administrative expenses, and the balance of the account designed for cases of incapacity and death.

On September 1, 1999, a statement of recognition, acknowledgement of debt, acceptance and amortization of actuarial insufficiency was signed between the subsidiary and Telos, and approved by Brazilian pensions regulator ("Secretaria de Previdência Complementar"). In accordance with this statement, the actuarial insufficiency recognized in favor of Telos will be paid over the next 20 years, based on the monthly flow of benefits to the employees covered by the defined contribution plan. The unamortized balance of the liability is increased monthly at the rate of remuneration of Telos assets. As of March 31, 2001, the outstanding balance payable to Telos amounts to R\$263,166 (R\$272,828 on December 31, 2000), which is not included in the total assets of the plans reported below.

As of March 31, 2001, Telos shows the following estimated balances (unaudited):

Technical reserves-	
Mathematical reserves	1,413,056
Defined benefit plan-	
Benefits provided	675,062
Benefits to be provided	13,569
Defined contribution plan-	
Benefits provided	128,785
Benefits to be provided	595,640
Technical surplus	27,029

Total reserves	1,440,085
	=====
Assets of the plans-	
Fixed-income market	1,093,180
Variable-income market	253,566
Real state market	68,819
Operations with participants	27,849

Total assets of the plans	1,443,414
	=====
Sponsor contributions in the period	6,529
	=====

The above mentioned pension plans sponsored by the subsidiary Embratel represent the main post-employment benefits granted to employees.

Upon the issuance of CVM Deliberation number 371, on December 13, 2000 which approved the IBRACON pronouncement on accounting for employee benefits, new accounting guidelines were instituted for recording and disclosure of employee benefit plans. These guidelines are mandatorily applicable for all accounting periods starting on or after January 1, 2002. The effects of these new guidelines, if any, must be disclosed in the financial statements of the fiscal year ending December 31, 2001. The effects of applying these new guidelines must be recorded as an adjustment of shareholder equity at December 31, 2001 or they may be recognized in results on a prospective basis over a five-year period, or, over the average period of service or the estimated remaining life of the employees, whichever is lower.

Considering the agreement signed with Telos on September 1, 1999 which acknowledged the pension liability and accepted the amortization of the actuarial deficiency, the Company does not believe that the compliance with the referred CVM Deliberation number 371 will have a material effect on the financial statements. Nevertheless, the Company, along with its actuaries, are examining this matter to determine whether there are effects resulting from it. As soon as this analysis is concluded, the Company will choose one of the above-referenced accounting alternatives to recognize this change.

19. SHAREHOLDERS' EQUITY

a. Capital Stock

The authorized capital on March 31, 2001 and December 31, 2000 is comprised of 700 billion common or preferred shares. The capital, subscribed and fully paid, amounts to R\$2,134,427 as of March 31, 2001. It is comprised of 334,399,028 thousand shares of no-par value, held (in-groups of one thousand shares) as follows: 124,369,031 common shares and 210,029,997 preferred shares. The book value per share (groups of one thousand shares, expressed in reais) as of March 31, 2001 and December 31, 2000, amounts to R\$18.12 and R\$18.19, respectively.

b. Income Reserves

Legal Reserve

The constitution of this reserve is mandatory based on 5% of net annual income up to the limit of 20% of the paid-in capital, or 30% of the capital stock taken together with capital reserves. After this limit, no further appropriation of this reserve is mandatory. The legal reserve may only be used for future capital increase or to offset accumulated deficits.

Unrealized Earnings Reserve

This reserve originates from the Telebrás spin-off (Note 1), and results from net gains on the monetary restatement of the balance sheet and from the equity pick up of investments. The reserve is realized when dividends are received from the subsidiaries, or to complement minimum dividends due to preferred shareholders.

c. Treasury Shares

On March 31, 2001 and December 31, 2000, the Holding Company held 1,466,667 thousand and 1,480,000 thousand, respectively, of its own preferred shares in treasury, at a weighted average cost, per thousand shares, expressed in reais, of R\$28.02 and R\$28.02, respectively.

In the three-month period ended March 31, 2001, the Company sold 13,333 thousand shares at an average price of R\$23.13 per lot of thousand shares, resulting in a discount of R\$65 thousand charged to retained earnings

The sale of treasury shares was carried out privately to meet the requirements of the share purchase option plan (see Note 19.e), in conformity with CVM Authorization CVM/GEA No. 213/99.

d. Dividends

The preferred shares are non-voting, except under certain limited circumstances. They are entitled to a minimum non-cumulative dividend of 6% per annum on the amount resulting from the division of the subscribed capital by the number of shares of the Company, and have priority in relation to the common shares in the event of liquidation of the Company.

According to the Company's by-laws, dividends must be distributed for each fiscal year ended December 31, as long as there are cash funds available. These dividends must be at least 25% of the adjusted net income. Dividends are calculated according to the Company's by-laws and in accordance with the corporate law. The proposed dividends are appropriated at year-end.

e. Stock Option Plan

The plan, approved at the Shareholders' General Meeting held on December 17, 1998, granted to the directors and employees the option of acquiring preferred shares in the proportion of 33% in each annual period, as from the granting date. The options must be exercised within 10 years of the grant date. The acquired shares will maintain all of the rights pertaining to the shares of equal class and type, including dividends. The summarized information on the plan is as follows:

Number of preferred share purchase options (thousands of shares)-	
Options offered up to December 31, 1998	1,635,000
Options offered in 1999	355,000
Options exercised in 1999	(173,333)
Options sold in 1999	(9,000)
Options cancelled in 1999	(45,000)

Open options as of December 31, 1999	1,762,667
Options offered in 2000	2,048,265
Options exercised in 2000	(122,700)
Options sold in 2000	(4,800)
Options cancelled in 2000	(130,000)

Open options as of December 31, 2000	3,553,432
Options sold in 2001	(13,333)
Options cancelled in 2001	(168,951)

Open options as of March 31, 2001	3,371,148
	=====
Weighted average price of the purchase option updated to	
March 31, 2001, based on IGP-M (per thousand	
Shares, expressed in reais) - as follows-	
Options granted in December, 1998	23.31
	=====
Options granted in March, 1999	35.45
	=====
Options granted in July, 1999	27.37
	=====
Options granted in September, 1999	26.92
	=====

f. Retained Earnings

The Company's Management will propose at the next Shareholders' Meeting the use of Retained Earnings for a capital increase by an amount sufficient to qualify for article 199 of Law no. 6,404/76.

g. Reconciliation of Shareholders' Equity and Net Income of the Company to those of the Consolidated Financial Statements

As of March 31, 2001, the reconciliation between the Company's net loss for the period and the Consolidated net loss is as follows:

	Net loss for the three-month period ended <u>March 31, 2001</u>
Company	(24,833)

Deferred income tax reserve – Goodwill on Star One	(8,914)

Consolidated	(33,747)
	=====

20. TRANSACTIONS WITH RELATED PARTIES

After the privatization, the main transactions with related parties were carried out with WordCom, according to usual market conditions for these types of operations. Balances receivable and payable as of March 31, 2001 and December 31, 2000, resulting from such transactions are as follows:

	Company		Consolidated	
	March 31, 2001	December 31, 2000	March 31, 2001	December 31, 2000
ASSETS:				
Current-				
Foreign telecommunications operators	-	-	55,415	59,206
Proposed dividends	60,845	60,845	-	-
Interest on capital – Embratel	128,066	128,066	-	-
LIABILITIES:				
Current-				
Foreign telecommunications operators	-	-	30,129	25,438
Interest on capital – Startel	24,775	24,775	24,775	24,775
Proposed dividends – Startel	11,771	11,771	11,771	11,771
Other liabilities	-	100	10,083	18,615

Under the terms of the concession contract with Anatel and in accordance with the shareholders' approval on November 18, 1998, in the three-month periods ended March 31, 2001 and 2000, the amounts of R\$9,375 and R\$15,569, respectively, were charged to General and Administrative Expenses for consulting services rendered by WorldCom International, Inc., a subsidiary of WorldCom.

21. INSURANCE (UNAUDITED)

The Company's Management considers that all assets and responsibilities of relevant values and risks are covered by insurance policies.

22. FINANCIAL INSTRUMENTS

a. Miscellaneous

The subsidiary Embratel carries out transactions with financial instruments designed to reduce the exposure to risks of fluctuation in currency and interest rates, which usually involve swap of indexes and/or earnings/interest rates of cash equivalents and marketable securities and loans. The management of such risks is conducted by means of operation strategies and determination of limits.

b. Swap - Interest and Currency

The subsidiary Embratel used derivative operations to protect against the variation of foreign currency loan principals and interest against the Real. The par values of such operations, at the end of the first quarter of 2001, totaled R\$796,039 (R\$804,905 in 2000) and were not recorded in the balance sheet.

The gains and losses on such operations result from differences of variations in contracted indices, and are recorded on an accrual basis under Financial Results.

c. Criteria, Assumptions and Limitations in of the Market Value Calculation

Cash and Cash Equivalents, Trade Accounts Receivable
and Accounts Payable - Current

The balances per books approximate market value because of the high turnover of these instruments.

Deferred Taxes - Assets and Liabilities

The market value was calculated through the discount of projected cash flows, indexed by the TJLP (a Brazilian benchmark long-term interest rate).

Loans and Financing

The market value is calculated through the present value of the projected cash flows related to each instrument, using actual interest rates for similar instruments and maturity dates.

Limitations

The market values are calculated on a specific date, based on relevant market information and financial instrument information. The changes in assumptions may significantly impact such estimates.

The financial instruments, including short-term amounts, which are recorded at amounts different from market values, are summarized below:

	Consolidated	
	March 31, 2001	
	Accounting value	Market value
Deferred and recoverable taxes	757,078	680,769
	-----	-----
Assets	757,078	680,769
	=====	=====
Taxes and contributions	764,352	714,339
Loans and financing	2,711,823	2,558,234
	-----	-----
Liabilities	3,476,175	3,272,573
	=====	=====

23. TRANSLATION OF THE REPORT ORIGINALLY ISSUED IN PORTUGUESE

The accompanying financial statements are presented on the basis of accounting practices established by the corporate law in Brazil. Certain accounting practices applied by the Company and its subsidiaries that conform with those accounting practices in Brazil may not conform with generally accepted accounting principles in other countries.

EMBRATEL PARTICIPAÇÕES S.A.

COMMENTS ON THE CONSOLIDATED PERFORMANCE IN THE FIRST QUARTER OF 2001 COMPARED TO THE MAIN VARIATIONS OCCURRED IN THE SAME PERIOD LAST YEAR

DATA AND INTERNET SERVICES

Data revenues rose to R\$460 million in the first quarter of 2001, representing a 31.1 percent increase when compared to the corresponding 2000 quarter. Internet, frame relay and dedicated networks were the leading services driving this growth.

During the first quarter of 2001, Embratel observed a softer data demand resulting from a variety of reasons. Economic uncertainty and repositioning of "dot-com" companies were among them. Competition intensified leading to more price pressure. As previously advised, the Company continues to see reductions in wholesale revenues resulting from the termination of short-term leases. Embratel expects this weakness to continue throughout the second quarter and believes it may impact the overall annual data revenue growth. As a result, Embratel currently expects annual data revenue growth to be within the 20-35 percent range.

DOMESTIC LONG DISTANCE VOICE SERVICES

Domestic long distance voice revenues reached R\$1.1 billion in the first quarter of 2001 compared to R\$902 million in the first quarter of 2000, representing a 22.8 percent growth year-over-year. Growth in the number of lines, fixed-to-cellular and advanced voice revenues have contributed to this growth. During the past two quarters, Embratel conducted successful regional marketing campaigns that further accelerated revenue growth.

Compared to the previous quarter, domestic long distance voice revenues were flat. This outcome is consistent with the summer holiday and Carnival season.

INTERNATIONAL LONG DISTANCE VOICE SERVICES

International long distance revenues in the first quarter of 2001 were R\$220 million compared to R\$219 million in the corresponding 2000 quarter. Embratel has been able to maintain international revenues despite price reductions. Efforts to inhibit call back activity and illegal bypass have contributed to this result.

NET INCOME

The net loss for the first quarter of 2001 was R\$34 million. The loss was created by the effect of the devaluation of the Real vis-a-vis the US dollar (10.6 percent in the quarter) on the

Company's foreign currency debt (see Financial Position below). Excluding the foreign exchange losses net income would have been R\$64 million in the quarter.

FINANCIAL POSITION

Embratel Participações ended the quarter with a cash position of R\$391 million. Total debt outstanding as of March 31, 2001 was R\$2.7 billion of which R\$1.5 billion is long term. Ninety-nine percent of Embratel's debt is denominated in foreign currencies. The average interest on this debt is US dollar plus 9.6 percent p.a.. On March 31, 2001, Embratel's debt/equity ratio was 0.45. The increase in leverage was primarily caused by the devaluation of the currency. New debt acquired in the period - R\$341 million - was obtained from export credit agencies (ECAs) for long term investment purposes and enjoys average maturity of 8 years. At the end of the first quarter of 2001, approximately R\$796 million of (notional amount) debt was hedged against currency fluctuations.

The pre-tax effect of the negative exchange variation in the quarter was R\$180 million (net of the gains resulting from hedging transactions). R\$215 million of negative exchange variation was related to long term debt and did not represent cash disbursements during the period.

ACCOUNTS RECEIVABLES

The Company's net receivable position on March 31, 2001 was R\$2.5 billion -- a slight increase relative to the previous 2000 quarter. Days receivables improved slightly. The accumulated provision for doubtful receivables at the end of the first quarter of 2001 was R\$664 million. The company anticipates that as a result of several collection actions days receivables will continue to improve.

Embratel is implementing several measures to improve the billing process and reduce the level of uncollectibles. In addition to working with Anatel to establish minimum customer file standards (information quality, process, timing, etc.), Embratel uses its own call centers to update information. The Company has its own dedicated teams calling on non-paying customers and is blocking an increasingly higher amount of delinquent users. Systems are being enhanced for greater collections capabilities and more sophisticated managerial information allowing speedier decision making. Embratel believes that the combination of these and various other measures will work towards reducing the overall level of receivables and uncollectibles in the second half of 2001.

CAPITAL EXPENDITURES

During the quarter, capital expenditures were R\$243 million. The breakout of this expenditure is the following: local infrastructure and access - 26.7 percent; data and Internet services - 19.8 percent; network infrastructure - 10.1 percent and others, a substantial amount of which was information technology - 43.4 percent.

EXPANSION INTO ARGENTINA

During the quarter, Embratel announced several services it will be providing in the Argentine market. These on-net services include - IPL Embratel (dedicated) and Global Fastnet (frame relay) and are the first services being offered after being awarded a broad data, Internet and

international voice license in that country. Embratel's activities in Argentina, in conjunction with WorldCom Latin America, will initially support the business of Brazilian clients with interests in that country.

STAR ONE

Star One will soon be launching broadband Internet services via satellite. The product is in its final testing phase. With only a small antenna, the customer will be able to have continuous two way access to the Internet via satellite without blocking their telephone line. Star One is also developing a multimedia IP platform capable of providing several broadband services such as Internet data and image transmission. This service is anticipated to be available for businesses around mid year.

Embratel is the premier communications provider in Brazil offering a wide array of advanced communications services over its own state of the art network. It is the leading provider of data and Internet services in the country. Service offerings include: advanced voice, high-speed data communication services, Internet, satellite data communications and corporate networks. Embratel is uniquely positioned to be the all-distance telecommunications network of South America. The Company's network is has countrywide coverage with 28,388 km of fiber cables comprising 1,045,617 km of optic fibers.

* * * * *

STATEMENTS OF INCOME OF SUBSIDIARIES/AFFILIATES

EMPRESA BRASILEIRA DE TELECOMUNICAÇÕES S.A. - EMBRATEL

STATEMENTS OF INCOME

FOR THE THREE-MONTH PERIODS ENDED MARCH 31, 2001 AND MARCH 31, 2000

(In thousands of Brazilian reais, except for net earnings per thousand shares)

(Translation of the report originally issued in Portuguese.
See Note 23 to the financial statements.)

	March 31	
	2001	2000
GROSS OPERATING REVENUE:		
Telecommunications services	2,481,005	2,019,347
Gross revenue deductions	(638,279)	(488,523)
	-----	-----
Net operating revenue	1,842,726	1,530,824
Cost of services	(1,208,099)	(1,032,277)
	-----	-----
Gross profit	634,627	498,547
	-----	-----
OPERATING REVENUES (EXPENSES)	(461,381)	(267,784)
	-----	-----
Commercialization of services	(261,634)	(111,772)
General and administrative	(210,742)	(139,462)
Other operating revenue (expenses)	9,028	(16,550)
Equity method results	1,967	-
	-----	-----
OPERATING INCOME BEFORE INTEREST	173,246	230,763
Interest income (expense)	(201,463)	11,598
	-----	-----
OPERATING INCOME	(28,217)	242,361
Nonoperating income	479	12,129
	-----	-----
NET INCOME (LOSS) BEFORE TAXES AND PARTICIPATIONS	(27,738)	254,490
Income tax and social contribution on profits	8,094	(93,377)
Employees' profit share	(11,556)	(7,710)
Minority interest	(2,401)	-
	-----	-----
NET INCOME (LOSS) FOR THE YEAR	(33,601)	153,403
	=====	=====
QUANTITY OF OUTSTANDING SHARES (IN THOUSANDS)	4,723,844	4,723,844
	=====	=====
NET EARNINGS (LOSS) PER THOUSAND SHARES	(0.01)	0.03
	===	===

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

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