

Embratel
Participações S.A.

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

Deloitte Touche Tohmatsu Auditores Independentes

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS ON THE SPECIAL REVIEW

(Translation of the report originally issued in Portuguese.
See Note 26 to the quarterly report.)

To the Shareholders and Board of Directors of
Embratel Participações S.A.:
Rio de Janeiro - RJ

1. We have made a special review of the quarterly report of EMBRATEL PARTICIPAÇÕES S.A. (a Brazilian corporation) and subsidiaries (company and consolidated), for the quarter and nine-month period ended September 30, 2002, prepared under the responsibility of the Company's management, in accordance with accounting practices emanating from Brazilian corporate law, which includes the balance sheets, the related statements of income and the report on performance.
2. Our review was conducted in accordance with specific standards established by the Brazilian Institute of Independent Auditors - 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 Brazilian corporate law and presented in accordance with standards laid down by Brazilian Securities Commission (CVM), specifically applicable to the preparation of quarterly information.
4. The balance sheets (company and consolidated) as of June 30, 2002, presented for comparative purposes, were reviewed by us, and our unqualified opinion report was issued on August 08, 2002. The statements of income (company and consolidated) for the nine-month period ended September 30, 2001, presented for comparative purposes, were reviewed by other independent public accountants, and an unqualified special report was issued on October 29, 2001.

Rio de Janeiro, November 11, 2002

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

Francisco Papellás Filho
Engagement Partner

EMBRATEL PARTICIPAÇÕES S.A.

BALANCE SHEETS AS OF SEPTEMBER 30 AND JUNE 30, 2002

(In thousands of Brazilian reais)

(Translation of the report originally issued in Portuguese.
See Note 26 to the financial statements)

A S S E T S

	Notes	Company		Consolidated	
		September 30, 2002	June 30, 2002	September 30, 2002	June 30, 2002
CURRENT ASSETS		48,206	49,373	3,356,691	3,440,019
		-----	-----	-----	-----
Cash and cash equivalents	11	19,440	20,675	756,693	617,436
Trade accounts receivable	12	-	-	1,831,701	1,974,994
Deferred and recoverable taxes	13	28,766	28,628	563,547	575,053
Other current assets		-	70	204,750	272,536
NONCURRENT ASSETS		12,516	12,516	1,427,550	1,250,669
		-----	-----	-----	-----
Deferred and recoverable taxes	13	-	-	1,182,126	853,232
Deposits in court		12,516	12,516	197,954	343,974
Other noncurrent assets		-	-	47,470	53,463
PERMANENT ASSETS		4,606,779	5,155,622	8,131,766	8,219,943
		-----	-----	-----	-----
Investments	14	4,606,779	5,155,622	256,437	207,847
Property, plant and equipment	15	-	-	7,743,393	7,870,012
Deferred assets	16	-	-	131,936	142,084
		-----	-----	-----	-----
Total assets		4,667,501	5,217,511	12,916,007	12,910,631
		=====	=====	=====	=====

The accompanying notes are an integral
part of these balance sheets.

EMBRATEL PARTICIPAÇÕES S.A.

BALANCE SHEETS AS OF SEPTEMBER 30 AND JUNE 30, 2002

(In thousands of Brazilian reais)

(Translation of the report originally issued in Portuguese.
See Note 26 to the financial statements)

LIABILITIES AND SHAREHOLDERS' EQUITY

	Notes	Company		Consolidated	
		September 30, 2002	June 30, 2002	September 30, 2002	June 30, 2002
CURRENT LIABILITIES		46,270	46,210	4,732,509	3,867,025
Personnel, charges and social benefits		-	-	121,284	115,299
Accounts payable and accrued expenses	17	2	1	1,554,899	1,618,007
Taxes and contributions	18	22,575	22,561	289,102	346,216
Dividends and interest payable on capital	22	23,483	23,505	23,483	23,505
Loans and financing	19	-	-	2,360,183	1,441,770
Provision for contingencies	20	-	-	57,965	47,868
Employees' profit sharing		-	-	34,000	25,803
Actuarial liabilities – Telos	21	-	-	58,219	61,410
Related party liabilities	23	-	83	107,548	70,665
Other current liabilities		210	60	125,826	116,482
NONCURRENT LIABILITIES		13,431	13,431	3,219,171	3,510,089
Loans and financing	19	-	-	2,823,267	2,936,839
Actuarial liabilities – Telos	21	-	-	339,368	342,873
Taxes and contributions	18	12,516	12,516	55,621	229,462
Sundry credits		915	915	915	915
DEFERRED INCOME		-	-	119,343	134,579
MINORITY INTEREST		-	-	237,184	241,068
SHAREHOLDERS' EQUITY	22	4,607,800	5,157,870	4,607,800	5,157,870
Capital stock paid-in		2,273,913	2,273,913	2,273,913	2,273,913
Revenue reserves		1,912,113	1,912,113	1,912,113	1,912,113
Treasury stock		(41,635)	(41,101)	(41,635)	(41,101)
Retained earnings		463,409	1,012,945	463,409	1,012,945
Total liabilities and shareholders' equity		4,667,501	5,217,511	12,916,007	12,910,631

The accompanying notes are an integral
part of these balance sheets.

EMBRATEL PARTICIPAÇÕES S.A.

STATEMENTS OF INCOME

FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2002 AND 2001

(In thousands of Brazilian reais, except share data)

(Translation of the report originally issued in Portuguese.

See Note 26 to the financial statements)

	Notes	Company		Consolidated	
		September 30		September 30	
		2002	2001	2002	2001
GROSS OPERATING REVENUE:					
Telecommunications services		-	-	7,030,455	7,601,923
Gross revenue deductions		-	-	(1,643,760)	(1,986,848)
		-----	-----		
Net operating revenue	5	-	-	5,386,695	5,615,075
Cost of services	6	-	-	(3,553,361)	(3,721,045)
		-----	-----		
Gross profit		-	-	1,833,334	1,894,030
		-----	-----		
OPERATING REVENUES (EXPENSES)		(740,809)	(255,488)	(1,609,543)	(1,458,163)
		-----	-----		
Selling expenses	7	-	-	(806,242)	(797,307)
General and administrative expenses	8	(3,109)	(2,449)	(817,964)	(680,112)
Other operating revenues (expenses), net		-	-	14,663	19,256
Equity method results		(737,700)	(253,039)	-	-
		-----	-----	-----	-----
OPERATING INCOME (LOSS)					
BEFORE INTEREST		(740,809)	(255,488)	223,791	435,867
		-----	-----	-----	-----
Interest income (expense)	9	2,528	1,079	(1,622,956)	(745,769)
		-----	-----	-----	-----
OPERATING LOSS		(738,281)	(254,409)	(1,399,165)	(309,902)
		-----	-----	-----	-----
Extraordinary nonoperating income - ILL	10	-	-	198,131	-
Nonoperating income (expense), net		(57)	(29)	11,572	(14,693)
		-----	-----	-----	-----
NET LOSS BEFORE TAXES, PROFIT					
SHARING AND MINORITY INTEREST		(738,338)	(254,438)	(1,189,462)	(324,595)
		-----	-----	-----	-----
Income tax and social contribution on profits	10	-	(4,059)	475,107	89,326
Employees' profit sharing		-	-	(23,189)	(27,740)
Minority interest		-	-	(740)	(4,402)
		-----	-----	-----	-----
NET LOSS FOR THE YEAR	22	(738,338)	(258,497)	(738,284)	(267,411)
		=====	=====	=====	=====
QUANTITY OF OUTSTANDING SHARES					
(IN THOUSANDS)		332,629,361	332,932,361		
		=====	=====		
NET LOSS PER THOUSAND SHARES IN R\$		(2.22)	(0.78)		
		====	====		

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 THIRD QUARTER OF 2002

(In thousands of Brazilian reais, except as indicated otherwise)

(Translation of the report originally issued in Portuguese.
See Note 26 to the financial statements)

1. OPERATING 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 General Meeting of Shareholders. 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 a 20-year term.

On November 1, 2000, the subsidiary Embratel incorporated Star One S.A. to manage satellite operations, becoming the main Brazilian provider of transponders for radio-communication services such as: (i) network services; (ii) end-to-end telecommunications services; and (iii) transmission of radio and television broadcasting. On the date of incorporation, all terms and conditions related to Brazilian satellite rights and obligations were transferred to Star One, which became the licensee for providing these services until December 31, 2005, free of any burden, except when indicated, renewable for a 15-year term.

The businesses of the subsidiaries, Embratel and Star One S.A., are regulated by the regulatory authority for the Brazilian telecommunications industry ANATEL (Agência Nacional de Telecomunicações), 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 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 that will be held until maturity and are recorded at cost, plus interest earned through the balance sheet date, limited to market value.

b. Trade Accounts Receivable

Trade Accounts Receivable refer primarily to the amounts receivable from long distance domestic and international telecommunication and data services, billed and/or unbilled at the closing dates of the financial statements, through operating telecommunications companies.

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

c. Foreign Currency Transactions

Assets and liabilities denominated 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 Interest Income (Expense) when incurred. The effects of exchange rate differences are detailed in Note 9.

d. Investments

This account refers substantially to investments in subsidiaries, recorded under the equity method. Other investments refer mainly to equity in satellite companies Intelsat, Inmarsat and New Skies, recorded at acquisition cost, adjusted for any exchange gains or losses and net of provisions for probable losses, when applicable.

e. Property, Plant and Equipment

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

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 interest charges arising from financing of construction in progress are recorded in Property, Plant and Equipment.

As described in Note 15, fixed assets acquired through leasing contracts are capitalized and the corresponding lease finance reported as a liability. The liabilities arising from such transactions bear interest and, where applicable, exchange variations.

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 are shown in Note 15.

f. Deferred Assets

This represents the goodwill associated with the acquisition of Acessionet Ltda., which is being amortized over 5 (five) years (Note 16).

g. 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, tax losses and negative basis for social contribution purposes, as described in Notes 10, 13 and 18.

h. Provision for Contingencies

The provision for contingencies is 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 20.

i. Actuarial Liabilities - Telos

The subsidiaries Embratel and Star One sponsor a separate entity that provides pensions and other post-retirement benefits for their employees (Note 21). Contributions to the defined benefits plan, defined contributions plan and health care plan for retired employees are recorded on the accrual basis. Contributions to the defined benefits plan are determined according to actuarial calculations.

Actuarial liabilities were calculated and recognized in financial statements as of December 31, 2001, according to CVM Deliberation No. 371 issued on December 13, 2000.

j. Deferred Income

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

k. 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, net of the cost of services rendered by overseas telecommunications companies.

l. Interest Income (Expense)

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

m. Employees' Profit Sharing

The subsidiaries Embratel and Star One have provided for employee's profit sharing, which is calculated based on corporate and individual goals, and its payment is subject to approval by the General Meeting of Shareholders.

n. Minority Interests

Refers to the minority shareholder interests in the Embratel and Star One subsidiaries.

o. Net Loss per Thousand Shares

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

p. Use of Estimates

The preparation of the consolidated financial statements requires Management to make use of estimates and assumptions related to the recording of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the consolidated financial statements, and the reported amounts of income and expenses throughout the period. Actual results may differ from estimates and assumptions used.

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 statement as of September 30 and June 30, 2002 include the financial statements of Embratel Participações S.A. and of its direct and indirect subsidiaries, as follows:

	<u>Voting capital stock</u>
	<u>Direct and/or</u>
	<u>indirect share (%)</u>
Empresa Brasileira de Telecomunicações S.A. – Embratel	98.8
BrasilCenter Comunicações Ltda.	100.0
Embratel Americas, Inc.	100.0
Star One S.A.	80.0
Ponape Telecomunicações Ltda.	100.0
Palau Telecomunicações Ltda.	100.0
Embratel Clearinghouse Ltda.	100.0
Embratel Internacional S.A.	100.0
Embratel Uruguay S.A.	100.0

5. NET OPERATING REVENUE

	<u>Consolidated</u>	
	<u>Nine-month period ended</u>	
	<u>September 30</u>	
	<u>2002</u>	<u>2001</u>
Voice-		
Domestic long-distance	3,345,954	3,414,312
International long-distance	499,209	674,262
	-----	-----
	3,845,163	4,088,574
Data & Internet-		
Corporate and other	1,305,186	1,254,439
Telecommunications companies	56,629	98,637
	-----	-----
	1,361,815	1,353,076
Other services	179,717	173,425
	-----	-----
Total	5,386,695	5,615,075
	=====	=====

6. COST OF SERVICES

	Consolidated	
	Nine-month period ended	
	September 30	
	2002	2001
Interconnection/facilities	(2,500,402)	(2,681,540)
Depreciation and amortization	(720,016)	(682,600)
Personnel	(149,723)	(182,837)
Third-party services	(150,146)	(120,804)
Other	(33,074)	(53,264)
	-----	-----
Total	(3,553,361)	(3,721,045)
	=====	=====

The facilities 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 interconnection regime under Anatel Resolution No. 33, effective since April 1, 1998.

7. SELLING EXPENSES

	Consolidated	
	Nine-month period ended	
	September 30	
	2002	2001
Allowance for doubtful accounts	(489,677)	(490,091)
Personnel	(175,216)	(167,705)
Other	(141,349)	(139,511)
	-----	-----
Total	(806,242)	(797,307)
	=====	=====

8. GENERAL AND ADMINISTRATIVE EXPENSES

	Consolidated	
	Nine-month period ended September 30	
	2002	2001
Third-party, advisory and consulting services	(423,937)	(295,773)
Taxes	(136,457)	(155,445)
Personnel	(115,044)	(111,132)
Depreciation and amortization	(119,035)	(93,971)
Other	(23,491)	(23,791)
	-----	-----
Total	(817,964)	(680,112)
	=====	=====

9. INTEREST INCOME (EXPENSE)

	Company		Consolidated	
	Nine-month period ended September 30			
	2002	2001	2002	2001
Interest income-				
Interest on temporary investments	2,528	1,293	127,041	66,556
Exchange variation – credit	-	-	327,253	180,442
	-----	-----	-----	-----
Subtotal	2,528	1,293	454,294	246,998
	-----	-----	-----	-----
Interest expense-				
Interest charges	-	(214)	(279,766)	(243,396)
Exchange variation – charge	-	-	(1,797,484)	(749,371)
	-----	-----	-----	-----
Subtotal	-	(214)	(2,077,250)	(992,767)
	-----	-----	-----	-----
Total	2,528	1,079	(1,622,956)	(745,769)
	=====	=====	=====	=====

In the nine-month period ended September 30, 2002, the Brazilian real devalued by 67.85% (36.61% in 2001) against the US dollar, resulting in an exchange variation expense in the amount of R\$1,797,484 in the period (R\$749,371 in 2001), net of gain on hedge contracts recorded during the period, in the amount of R\$933,427 (R\$335,939 in 2001).

10. INCOME TAX AND SOCIAL CONTRIBUTION

The Company and its subsidiaries accrue income tax (IRPJ) and social contribution on profits (CSSL) on a monthly basis, paying such taxes on monthly estimates of taxable income based on the related interim financial statements, as provided in current tax legislation. 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 18).

Tax legislation introduced in 1995 (Law No. 8,981) limited the offset of accumulated tax losses and negative calculation basis for social contribution on profits to 30% (thirty percent) of taxable income in each fiscal year. On September 30, 2002, the subsidiary Embratel had R\$1,682,243 of tax losses and R\$1,552,696 of negative basis of social contribution available for offset against future taxable income.

10.1 Income Tax and Social Contribution Income (Expenses)

The income tax and social contribution expense is comprised of the current expense for the quarter, computed in accordance with current tax legislation, and of the deferred expense, corresponding to the effects of the taxes on the temporary differences arising or realized in the quarter. The deferred income tax and social contribution for the nine-month periods ended September 30, 2002 and 2001 totals R\$496,533 and R\$109,947, respectively (consolidated), and were calculated on the allowance for doubtful accounts, accelerated depreciation, tax losses, temporarily nondeductible taxes, and other temporarily taxable and non deductible revenues and expenses (Note 13).

Breakdown of Income Tax and Social Contribution Income (Expenses)

	Consolidated	
	Nine-month period ended September 30	
	2002	2001
Current-		
Social Contribution	(5,680)	(8,447)
Income Tax	(15,746)	(12,174)
	-----	-----
Total current expense	(21,426)	(20,621)
	-----	-----
Deferred-		
Social Contribution	131,471	30,775
Income Tax	365,062	79,172
	-----	-----
Total deferred income	496,533	109,947
	-----	-----
Total	475,107	89,326
	=====	=====

The current expense on income tax and social contribution, presented in the income statement of the nine-month periods ended September 30, 2002 and 2001, arises substantially from the subsidiary Star One.

10.2 Reconciliation of Tax Income (Expenses) with Nominal Rates

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

	Consolidated	
	Nine-month period ended September 30	
	2002	2001
Income before taxes and profit-sharing	(1,189,462)	(324,595)
Employee's profit sharing	(23,189)	(27,740)
	-----	-----
Net loss before taxes	(1,212,651)	(352,335)
	-----	-----
Social contribution income at nominal rate	109,139	31,710
Rate adjustment to obtain effective rate-		
Social contribution credit set up on exempt international income	-	2,261
Amortization of social contribution on goodwill from merger	(1,785)	(1,785)
Financial charges	4,981	(3,929)
Favorable decision on ILL lawsuit (note 10.2.a)	12,961	-
Other	495	(5,929)
	-----	-----
Social contribution benefit on statement of income	125,791	22,328
	=====	=====
Income tax income at nominal rate (25%)	303,163	88,084
Rate adjustment to obtain effective rate-		
Amortization of income tax on goodwill from merger	(4,958)	(4,958)
Financial charges	13,837	(10,914)
Favorable decision on ILL lawsuit (note 10.2.a)	36,002	-
Other	1,272	(5,214)
	-----	-----
Corporate income tax credit on statement of income	349,316	66,998
	-----	-----
Total	475,107	89,326
	=====	=====

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 9% in accordance with Provisional Measure No. 1991-12 of December 14, 1999.

a. Recovery of Tax on Net Income (ILL)

From 1989 through 1992, the Federal Government imposed a tax on profit distributions (ILL – Imposto sobre o Lucro Líquido). During this period, the Company regularly paid this tax in accordance with the provisions of tax legislation. In 1996, in a specific lawsuit, the Brazilian Supreme Court ruled that ILL was unconstitutional, since undistributed profits do not represent a taxable event. This decision created jurisprudence on the issue, stimulating other tax payers to go to court. In 1999 the Company filed a lawsuit, and obtained an injunction in order to get a tax credit. This amount was offset against income tax that Embratel would have paid from May 1999 to July 2001. Upon making this offset, Embratel did not credit the amounts offset to income statement as the offset was still subject to final decision by a higher court. In May, 2001, the second judicial level (Tribunal Regional Federal) further confirmed the right of offset. In May, 2002, the Administrative Tax Court further ruled that ILL recovery was not subject to Income Tax as it had not been treated as a tax deductible expense when paid between 1989 and 1992. Considering that the Supreme Court is no longer accepting appeals on this issue, the Company decided to recognize in 2002 as extraordinary income the related amounts described below.

	<u>Consolidated</u> <u>Nine-month</u> <u>period ended</u> <u>September 30, 2002</u>
Reversal due to favorable decision on ILL suit	144,006
Financial income – monetary variation	54,125

Total	198,131
	=====

11. CASH AND CASH EQUIVALENTS

	<u>Company</u>		<u>Consolidated</u>	
	<u>September</u> <u>30, 2002</u>	<u>June 30,</u> <u>2002</u>	<u>September</u> <u>30, 2002</u>	<u>June 30,</u> <u>2002</u>
Cash and bank deposits	88	79	184,052	224,737
Foreign short-term investments	-	-	276,203	140,490
Marketable securities	19,352	20,596	296,438	252,209
	-----	-----	-----	-----
Total	19,440	20,675	756,693	617,436
	=====	=====	=====	=====

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.

12. TRADE ACCOUNTS RECEIVABLE

	Consolidated	
	September 30, 2002	June 30, 2002
Voice services	2,685,158	2,650,175
Data, telecom operators and other services	625,486	699,382
Foreign administrators	387,543	339,678
	-----	-----
Subtotal	3,698,187	3,689,235
Allowance for doubtful accounts	(1,866,486)	(1,714,241)
	-----	-----
Total	1,831,701	1,974,994
	=====	=====

During the year of 2001, the Company experienced a significant deterioration in the collection of past due receivables. This resulted in a provision for doubtful accounts in the amount of R\$1,155,498, representing a substantial increase, as compared to the R\$362,878 recorded in 2000.

By the end of 2001, the subsidiary Embratel faced significant hurdles in canceling services to those persons or entities that did not pay their accounts on a timely basis. The subsidiary had very limited capabilities to implement a comprehensive program that would prevent non-payers from accessing the Company's network. In late 2001, the subsidiary Embratel was finally able to obtain the necessary capability and instituted measures to prevent such abuses. As a result, in March 2001, the Company could prevent only 30,000 non-paying lines from utilizing its services, and by the end of the year the number had increased to 1.8 million. While some of these non-payers started to pay their accounts, many others did not. The subsidiary Embratel had assumed that, when faced with the inability to use long-distance voice services, non-payers would quickly seek to settle their debts. However, this expectation did not materialize. As a result, it was necessary for the subsidiary Embratel to revise its estimates of bad debt and increase the provisions for 2001.

The following factors contributed to the significant increase in bad debt expenses:

- a) Increase in fixed-line and cellular phone lines, which increased the number of users and likelihood of bad debt expense;
- b) No pre-registration of customers for long-distance telephone usage – any user may access and utilize long-distance services from the carrier of their choice on a per-call basis by dialing the carrier selection code “PIC” code. There is no verification of a user's credit history and no registration of the customer's name, address or social security number prior to granting access

to the Company's network. While fixed-line companies are obligated to provide such information to the Company, the quality of the information is often inconsistent and limits its ability to accurately bill and collect from users. As a result, customers are provided access to its network without any assurance that they are legitimate, paying users. Only upon billing the customer and initiating collection procedures is the Company able to determine the creditworthiness of the user. Blocking procedures are then implemented along with other measures to recover the amounts billed;

- c) Marked deterioration in consumer creditworthiness during 2001 - from 2000 to 2001, the incidence of consumer credit failure increased throughout Brazil by 15% according to a report by SERASA; and
- d) Significant amount of gross receipt taxes in Brazil - for long distance voice services, the tax burden is approximately 42% of the total cost to customers, which includes ICMS, the state value-added taxes, along with federal taxes of PIS and COFINS. The government collects these taxes from the Company whether or not the user pays for the call. There is no provision in the existing law for the government to refund such taxes on uncollected accounts. Accordingly, approximately 42% of the bad debt expense in 2001 represents tax amounts that have already been paid to the state and federal governments.

The Company is making significant investments in measures to improve its collection rate in 2002. The Company continues to more aggressively manage calls to ensure that non-payers are prevented from using its network.

At the end of the first quarter, the number of blocked lines had increased to 3.1 million. The Company has also completed installation of a new collections system, known as "CACs", that will provide the Company with better information on collections and past due accounts. The Company anticipates that a new call management system, known as "Infusion", will improve its ability to filter calls. All calls passing through its switches are now filtered by a centralized database that instructs the switch how to treat the call. Both outbound and collect calls to a non-paying number may be interrupted. In addition, such calls may now be selectively routed to a call center so that the Company may request additional information from the customer prior to completion of calls. This routing is fully automated.

13. DEFERRED AND RECOVERABLE TAXES

	Company		Consolidated	
	September 30, 2002	June 30, 2002	September 30, 2002	June 30, 2002
Deferred tax assets-				
Provision for write-off of property, plant and equipment	-	-	8,624	10,007
Accelerated depreciation	-	-	14,092	19,648
Tax losses	-	-	420,561	150,230
Negative basis of social contribution purposes	-	-	139,743	44,076
Allowance for doubtful accounts	-	-	632,011	580,248
Goodwill on the acquisition of investment	-	-	29,222	31,469
Cofins/PIS - temporarily non-deductible	1,872	1,872	30,402	89,295
Other deferred taxes (provisions)	-	-	137,433	136,158
Withholding income tax (IRRF)	3,331	3,193	28,166	50,131
Recoverable income tax/social contribution	23,563	23,563	60,017	61,349
Value-added goods and services tax - ICMS	-	-	229,635	241,811
Other	-	-	15,767	13,863
	-----	-----	-----	-----
Total	28,766	28,628	1,745,673	1,428,285
	=====	=====	=====	=====
Current	28,766	28,628	563,547	575,053
	=====	=====	=====	=====
Noncurrent	-	-	1,182,126	853,232
	=====	=====	=====	=====

As part of the agreement for the admission of a new partner in the subsidiary Star One S.A., in January 2001, SES Participações Ltda. (the Brazilian subsidiary of the new partner) was merged into Star One S.A. Deferred Income Tax and Social Contribution credits (Assets), in the amount of R\$29,222 as of September 30, 2002 and R\$31,469 as of June 30, 2002, result from that merger, and were recognized in Star One S.A.'s financial statements against a corresponding credit to a special reserve for goodwill in the shareholders' equity of the referred subsidiary, as foreseen in article 6 of CVM Instruction No. 319/99.

Deferred taxes were recorded based on the assumption of future realization, as follows:

- a. Tax losses and negative basis will be compensated at the limit of 30% of the taxable income in each period.
- b. Goodwill on investment: The recovery will occur proportionally to the amortization of the goodwill from the subsidiary Star One, in a 5-year term.
- c. Other temporary differences: the realization will occur with the payment of the provisions and the actual loss with the doubtful accounts.

In July 2002, Instruction CVM 371 was issued, establishing cumulative conditions for recording and maintenance of deferred assets arising from temporary differences and tax losses and negative basis of social contribution, as follows:

- Presentation of historical profitability through generation of taxable income in, at least, three of five tax periods, or presentation of actions implemented for generation of taxable income in the future; and
- Presentation of expectation of generation of taxable income in the future. The projected income has to be discounted to present value based on the expected term for realization, supported by a study which demonstrates the realization of the deferred tax assets over a maximum term of ten years.

Additionally, this Instruction determines that the maintenance of the capitalized amounts must be supported by updated financial projections.

The Company's financial projections, which were approved by the Company's Board of Directors and are subject to review by the Company's Fiscal Counsel, indicate the full recovery of the amounts recognized by the subsidiary Embratel within the period defined by this Instruction.

The referred financial projections correspond to the best Management estimates on the future conditions of the Company. Due to the nature of prospective information and the inherent uncertainties of information based on future events, mainly considering the market which the Company operates, there may be significant differences between the actual results and those shown by the financial projections.

The table below shows the schedule for realization of deferred fiscal assets recorded in the subsidiary Embratel:

Year	
Until December 2003	357,371
2004	133,049
2005	196,173
2006	129,866
2007	204,339
2008 to 2010	354,930

The Company's Management is monitoring the evolution of deferred assets arising from temporary differences and tax losses and negative basis of social contribution. Hence, the Company is aware that, should future analysis and forecasts indicate that profitability will not be enough to recover the full amount of the assets, it may be forced to write off part of the credit recorded.

14. INVESTMENTS

	Company	
	September 30, 2002	June 30, 2002
Investments - at equity-		
Empresa Brasileira de Telecomunicações S.A.	4,606,798	5,155,641
Ponape Telecomunicações Ltda.	10	10
Other	(29)	(29)
	-----	-----
Total	4,606,779	5,155,622
	=====	=====

The consolidated balance of investments as of September 30 and June 30, 2002, R\$256,437 and R\$207,847, respectively, refers substantially to interest in international satellite companies.

15. PROPERTY, PLANT AND EQUIPMENT

	Annual depreciation rates (%)	Consolidated			
		September 30, 2002	June 30, 2002	June 30, 2002	
		Cost	Accumulated depreciation	Net book value	Net book value
Construction in progress	-	869,734	-	869,734	1,244,321
Switching equipment	7.69	1,714,329	(670,622)	1,043,707	1,058,294
Transmission equipment	10.00 to 20.00	7,432,117	(3,332,680)	4,099,437	3,956,931
Buildings and ducts	4.00	1,261,640	(633,573)	628,067	627,579
Other assets	5.00 to 20.00 (*)	2,361,392	(1,258,944)	1,102,448	982,887
		-----	-----	-----	-----
Total		13,639,212	(5,895,819)	7,743,393	7,870,012
		=====	=====	=====	=====

(*) Except for land, which on September and June 30, 2002 amount to R\$189,870 and R\$189,657, respectively.

On September 30, 2002, fully depreciated assets amount to R\$1,523,054 (R\$1,466,183 on June 30, 2002).

Certain fixed assets are allocated for use in services provided under concession, which prevents their removal, disposal, assignment or use as guarantee in mortgages without the express prior authorization of the regulatory authority.

On July 17, 2002, the subsidiary Embratel exchanged the judicial deposit related to the assessment of the Income Tax on Inbound International Income (Note 20 c.2), in the amount of R\$22,925, for real estate given as warrant to the Regional Federal Court. The net book value of this real estate, on September 30, 2002, amount to R\$70,115.

In the first quarter of 2002, the Company decided to start capitalizing the assets acquired through financial leasing contracts and to treat the corresponding obligations as liabilities. Therefore, on the date of the adoption of this practice, the accumulated cost of the leased assets was identified, the related accumulated depreciation calculated according to the estimated useful life of the assets, the amount of the corresponding liabilities was determined, and the amounts recorded. The adoption of this practice has not significantly impacted the financial statements.

16. DEFERRED ASSETS

On July 23, 2001, the subsidiary Acessionet Ltda. was merged into the subsidiary Embratel. As required by CVM Instruction No. 319/99 for cases when goodwill paid is economically supported by forecast future profits, the subsidiary Embratel transferred the goodwill paid upon the acquisition of Acessionet, in December 2000, to a specific account in deferred charges.

17. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	Consolidated	
	September 30, 2002	June 30, 2002
Suppliers	1,089,424	1,176,027
Foreign administrators	364,076	340,217
Consignment for third-parties/other	101,399	101,763
	-----	-----
Total	1,554,899	1,618,007
	=====	=====

18. TAXES AND CONTRIBUTIONS

	Company		Consolidated	
	September 30, 2002	June 30, 2002	September 30, 2002	June 30, 2002
Indirect taxes-				
ICMS (value-added goods and service tax)	-	-	17,942	110,757
PIS/Cofins (social/finance contributions)	10	9	30,775	39,735
PIS/Pasep - in suspension	2,229	2,229	107,704	98,710
Cofins – judicial deposit in court (increase of tax rate from 2% to 3%)	10,287	10,287	12,801	185,923
ISS (municipal service tax)	-	-	6,814	5,268
Other	-	-	5,321	8,723
Income taxes-				
Income tax on interest on capital	22,627	22,600	22,627	22,600
Income tax – estimated	(45)	(38)	1,063	(914)
Social contribution – estimated	(17)	(10)	100	(50)
Deferred taxes – liabilities-				
Income tax on international inbound traffic	-	-	72,584	45,706
Social contribution on international inbound traffic	-	-	26,130	16,054
Law No. 8200/91 – supplementary monetary restatement	-	-	40,862	43,166
Total	35,091	35,077	344,723	575,678
Current	22,575	22,561	289,102	346,216
Noncurrent	12,516	12,516	55,621	229,462

In 1999, the subsidiary Embratel challenged the changes caused by Law 9,718/99 which increased: (a) the taxable revenues for calculation of PIS and COFINS, including financial income and exchange variation and (b) the COFINS rate from 2% to 3%. Despite this challenge, the subsidiary Embratel continued to accrue the total amount of the tax liability and made judicial deposits in the period from August 1999 through April 2001. Since May 2001, based on jurisprudence, the Company decided to cease making deposits and started paying PIS and COFINS. On August 29, 2002, Provisional Measure (PM) number 66 was issued, which permitted the liquidation of fiscal liabilities which were being challenged in court without the incidence of fines. The subsidiary Embratel then decided, based on this PM, to liquidate this liability, writing off taxes and social contributions provisioned, in the amount of R\$173 million, and the corresponding judicial deposits in the same amount.

19. LOANS AND FINANCING

	Consolidated			
	September 30, 2002			June 30, 2002
	Principal	Interest	Total	Total
Financial institutions	5,043,694	121,863	5,165,557	4,354,490
Suppliers	17,642	251	17,893	24,119
	-----	-----	-----	-----
Total	5,061,336	122,114	5,183,450	4,378,609
	=====	=====	=====	=====
Current	2,238,847	121,336	2,360,183	1,441,770
	=====	=====	=====	=====
Noncurrent	2,822,489	778	2,823,267	2,936,839
	=====	=====	=====	=====

Loans and financing with financial institutions are primarily denominated in foreign currency. Part of the debt is hedged against devaluation of the Brazilian Real through "swap" operations (Note 25), as described below:

	Amounts	%	Average cost of debt	Maturity
Current-				
Hedged debt (notional amount)	1,552,614	65.8	99.30% CDI p.a.	Up to 12 months
Unhedged debt	807,569	34.2	8.28% p.a. in foreign currency (*)	Up to 12 months
	-----	-----		
Total short term debt	2,360,183	100.0		
	=====	=====		
Noncurrent-				
Hedged debt (notional amount)	241,691	8.6	86.53% CDI p.a.	Up to 1.90 years
Unhedged debt	2,581,576	91.4	8.16% p.a. in foreign currency (*)	Up to 8.04 years
	-----	-----		
Total long term debt	2,823,267	100.0		
	=====	=====		
Total-				
Hedged debt	1,794,305	34.6		
Unhedged debt	3,389,145	65.4		
	-----	-----		
Total debt	5,183,450	100.0		
	=====	=====		

(*) Various interest rates in different currencies expressed in US Dollar equivalents as if all loans were US\$ denominated. The breakdown of debt by currency appears in item (c) of this note.

The Company's policy is to hedge all new debt with maturity of less than three years. This policy seeks to achieve a balance between preserving cash and protecting results from significant variations on exchange rates.

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

a. Mode/Objective

	September 30, 2002	June 30, 2002
	<u> </u>	<u> </u>
Local currency-		
Permanent assets financing-		
Financial institutions	32,791	33,280
	-----	-----
Total in local currency	32,791	33,280
	=====	=====
Foreign currency-		
Working capital	2,802,162	2,452,458
Permanent assets financing-		
Financial institutions	2,330,604	1,868,752
Suppliers	17,893	24,119
	-----	-----
Total in foreign currency	5,150,659	4,345,329
	=====	=====

b. Repayment Schedule

Noncurrent debt is scheduled to be repaid as follows:

Year	September 30, 2002	June 30, 2002
<u> </u>	<u> </u>	<u> </u>
2003	359,763	1,008,453
2004	1,118,255	919,612
2005	590,907	443,058
2006	358,205	268,633
2007 and after	396,137	297,083
	-----	-----
Total	2,823,267	2,936,839
	=====	=====

c. Breakdown by Currency

Updated by	September 30, 2002		June 30, 2002	
	Exchange rate as of (in R\$)	Amount	Exchange rate as of (in R\$)	Amount
Real	-	32,791	-	33,280
US Dollar	3.894900	3,188,714	2.844400	2,662,239
French Franc	0.590314	282,463	0.432669	210,062
German Mark	1.979832	16,632	1.451113	13,493
Japanese Yen	0.032018	1,662,850	0.023787	1,459,535
		-----		-----
Total		5,183,450		4,378,609
		=====		=====

d. Guarantees

Loans and financing operations are guaranteed primarily by promissory notes.

e. Star One

On April 19, 2002 the subsidiary Star One entered into a financial agreement with BNP Paribas in order to finance 85% of C1 satellite construction costs and 100% of the insurance premium to be paid to COFACE ("Compagnie Française d'Assurance pour le Commerce Extérieur"). The total amount is equivalent to US\$122,337, with 36 months of grace period and 14 equal and consecutive semi-annual installments, resulting in a 9.5 year contract. During the grace period, the interest rate will be at the sum of the six-month LIBOR plus a margin of 0.75% per annum and during the repayment period, 5.96% per annum. The first draw of this credit line is expected to occur in November 2002.

20. PROVISION FOR CONTINGENCIES

In the normal course of business, the subsidiary Embratel is party to legal proceedings and potential discussions, which were or may be raised by competent Authorities, 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.

Contingencies which have been evaluated as probable losses are provisioned in the financial statements, as follows:

	September 30, 2002	June 30, 2002
	<u> </u>	<u> </u>
Commercial disputes with third parties (item a)	21,718	14,572
Labor claims (item b)	29,747	26,796
Other judicial claims (item f)	6,500	6,500
	-----	-----
Total provision for contingencies	57,965	47,868
	=====	=====

a. Commercial Disputes with Third Parties

Subsidiary Embratel was notified of a decision in an arbitration case administrated by the International Court of Arbitration - ICA, Paris, where Embratel and another company were discussing credits and rights deriving from contractual infringements.

Since the arbitrators decided in favor of the other company, the Company accrued a provision in the amount of R\$21,718 in its financial statements.

b. Labor Claims

The provision for loss on labor claims amounted to R\$29,747 on September 30, 2002 (R\$26,796 on June 30, 2002). Such amount represents Management's estimate, based on legal advice of probable loss on numerous suits filed by current and former employees. Additionally, the Company had unaccrued labor contingencies, on September 30, 2002, in the amount of, approximately, R\$22,015 related to those claims for which the probability of loss was estimated as possible by legal counsel, thus no provision was recorded in the financial statements.

b.1 - INSS (Brazilian Social Security Institute)

On September 5, 2001, the subsidiary Embratel became aware of an unfavorable decision of the Social Security Council of Appeal on a claim regarding the applicability of Social Security charges (INSS) to certain fringe benefits, such as vacation bonus, life insurance, etc. The total amount of the INSS assessment is R\$55,000. Having exhausted appeals at the administrative levels, the Company immediately filed a court appeal seeking to cancel this assessment. Based on this initial appeal, more than 70% of the credit is currently in suspension, without any requirement for a deposit or guarantee, by force of early relief granted by the Court. The amount which was not covered by the initial appeal is currently deposited in court. In light of the good chances of success on the judicial appeal and in view of analyses conducted internally and by external counsel, which have identified a series of mistakes in the calculations of the claims made by INSS, no loss provision was recorded relating to this assessment.

c. Tax Contingencies

c.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 tax law generally requires Brazilian recipients of services from foreign companies to withhold income tax from payments to such foreign companies for such services.

However, the Company has never withheld Brazilian income tax from such payments, based on the International Telecommunications Convention of Nairobi, Kenya (Nairobi Treaty), dated November 6, 1982, which 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.

Hence, 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. In October 2000, responding to a request from the Ministry of Communications, the Federal Attorney General's Office issued an expert opinion against the applicability of the Melbourne Treaty. More recently, in August 2002, the Federal Revenue Agency (SRF), responding to a consultation made by another tax payer, reiterated its opinion on the non incidence of income tax on outbound traffic.

Upon the aforementioned opinion of the SRF, providing that the non incidence of the withholding income tax would be valid only after October, 19, 1998, on December 23, 1999, the Company was assessed by the Federal Revenue Agency (SRF) in the amount of R\$410,697 for not withholding 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.

Accordingly, the Company challenged this assessment and submitted its administrative defense, due to the errors presented in the assessment (basis for the calculation of the assessment), and also questioned the applicability of the tax assessment, seeking to obtain a favorable decision from the court.

Regarding the administrative defense, on September 10, 2002, the SRF issued a sentence reducing the assessment to R\$12,975, due to errors in the amounts presented in the assessment, as well as the exclusion of payments made to countries supported by bilateral double taxation treaties, according to the orientation given by the SRF itself in response to the formal consultation made. The Company made the administrative deposit and awaits a decision in the second administrative level.

Regarding the court claim filed with the 14th Federal Court of Rio de Janeiro on January 14, 2002, a sentence was issued which revoked the writ of mandamus. However, a fiduciary bank guarantee was presented and the payment of the credit will remain in suspension until the final decision is made. The Company is currently challenging that sentence.

Based on the interpretation of the Company's Management and Legal Counsel, which considers that the possibility of loss is minimal, no loss provision has been set up in the financial statements with respect to this dispute.

c.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 (SRF) 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 that is pending judgment at the first level of the judicial system. In

October 24, 2002, the Company was summoned of the decision in the first administrative level which kept the assessment. The Company will appeal from this decision before the Taxpayers' Council.

On June 17, 1999, the Company was further assessed for nonpayment of income tax on net foreign source income for a part of the year 1998 amounting to R\$64,396. The subsidiary Embratel filed an administrative defense contesting this assessment, but it was maintained in the administrative level. The Company requested a writ of mandamus, which was later revoked on September 25, 2002. The Company filed suit to challenge this decision.

The Company has been paying income tax on the net foreign source income since 1998 until the tax dispute is solved.

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.

c.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 partially or entirely exempt or non-taxable. Based on the facts currently available, the Company's Management 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\$350 million as of September 30, 2002. As a result of this evaluation, no provision was recorded in the financial statements.

On July 2002, the subsidiary Star One was assessed by the ICMS (Value Added Tax) tax authorities, in the state of Rio de Janeiro, in the amount of R\$218 million. These assessments refer to the ICMS tax on the rental of transponders and on broadband internet services. Star One understands that there is no ICMS obligation on the referred services. In addition, the assessments were made considering the total amount of the revenue in the trial balance. The tax authorities did not consider a number of facts that would reduce the tax base, even if the ICMS

was indeed levied on such activities. The subsidiary Star One filed an administrative defense against these assessments whose decisions are still pending. In view of the fiscalization work done and the nature of those services, the Company understands it has good formal arguments and merit to invalidate them.

Meanwhile, the Company is participating in efforts to demonstrate the detrimental economic effects of any such tax being charged on the mentioned services, as well as the indispensability of establishing a tax system more appropriate to the sector.

c.4 - PIS/Cofins Taxes

On August 21, 2001, the subsidiary Embratel received two tax claims from the Federal Revenue Service (SRF), totaling R\$501 million, including fines and interest, for prior years' PIS/Cofins taxes.

The first claim, in the amount of R\$159 million, is related to PIS charges prior to 1995, which were offset according to Complementary Law No. 7/70. In similar cases, both the Taxpayers' Council, and more recently the Federal Court of Justice (STJ), in a decision of its First Section, were favorable to the offset made by the Company. The Company filed an administrative defense against this assessment in the first administrative level, but the decision by the SRF branch in Rio de Janeiro maintained the assessment. Therefore, the Company appealed this decision before the Taxpayers' Council in August 2002.

The second claim, in the amount of R\$342 million, is related to Cofins exemption on the exportation of telecommunication services for revenues through the end of 1999. The subsidiary Embratel believes that these revenues were exempt, based on legal opinions on the legislation in effect at that time. As disclosed in prior periods, there were substantial mistakes in the calculations of the tax auditor. As of July 26, 2002, the decision in the first administrative level, the Company's understanding in relation to those mistakes was confirmed, thus the fine was reduced by R\$220 million. In view of this event, the actual remaining amount is R\$122 million. Such a decision is being challenged to a higher administrative level. Additionally, contradictory arguments were made in support of the claim, which demonstrate the lack of basis for the assessment, facilitating the Company's legal defense and making it likely that the entire case will be dismissed.

Based on facts and arguments provided, and also on the opinion of its external counsel, the Company's Management evaluated the probability of loss in this assessments as remote. Accordingly, no provision was recorded in the financial statements for this matter.

d. Other Taxes

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.

e. Contingencies Related to Anatel and the State Government of São Paulo

As a result of the inconveniences caused to the telephone system users by the telecommunications carriers, on July 3, 1999, the implementation date for the new domestic dialing system, Embratel was officially notified by Anatel to 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, on April 24, 2001, despite the favorable opinion from the prosecutor's office, the lower court 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 appealed to the Court against this decision and obtained a preliminary judicial injunction which may guarantee the non-payment of the fine while discussing this matter at the second court level.

Based on the same facts, the State of São Paulo and the Consumer Protection Foundation (Procon) filed a public civil action at the 14th Court of Public Finances of the State of São Paulo. On March 30, 2000, a lower court decision was announced, ordering the Company and the local carrier to pay a fine of R\$30 million and to reimburse the users of telephone services in the State of São Paulo for the phone calls made from July 3 to 12, 1999. The Company filed an appeal against this decision and is currently awaiting the outcome.

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.

f. Other judicial claims

The subsidiary Embratel is a defendant in two judicial claims against the Company for payment of indemnities for alleged unsettled contractual charges.

Considering the current status of the lawsuits and the arguments presented by legal counsel, the Company evaluates the probability of loss in such claims as probable and has recorded a loss provision in the amount of R\$6,500 in the financial statements.

The subsidiary Embratel is also a defendant in two judicial claims against the Company for payment of amounts arising from interconnection agreements with two local operators, which totaled, approximately, R\$500,000. This amount relates to disputed amounts from prior periods.

Regarding the lawsuit filed in Rio de Janeiro, any current disputed amounts are now being deposited in court. The Company has already deposited the total of R\$17,400 related to the

months of September and October of 2002. In the judicial claim filed by the other local operator, the Court has still not evaluated the request made to force the Company to pay currently disputed amounts, and the only deposit made was of R\$47,000 concerning the invoices which were due last October.

Considering the terms of the agreements and legal arguments that support the Company's position, as well as the counter-claims that the Company has against these companies, and also considering the initial phase of both claims, the Company evaluates the probability of loss in these causes as possible, thus no provision was recorded in the financial statements.

21. ACTUARIAL LIABILITIES - TELOS

Telos - Fundação Embratel de Seguridade Social, a closed private pension fund, is a legal entity under private law, with the objective of providing pensions, assistance and non-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 benefits plan and a defined contributions plan, as well as a medical health care plan for retired employees who are participants of the defined benefits plan, all managed by Telos. The rate of contribution to the first plan (the defined benefits plan) for the year of 2001, which is the same as that forecast for the year of 2002, is 19.8% of the salary of the active participants in this plan (39 participants).

Subsequent to the privatization, the Company created a defined contributions plan, through Telos, which was reviewed and approved by the Brazilian Federal Government on November 19, 1998. Subsidiary Star One also became a sponsor effective November 1, 2000. All newly hired employees automatically adhere to the new plan and no further admittance to the defined benefits plan is allowed. For the defined contributions 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 by-laws, for financing administrative expenses, and the balance of the account intended to cover cases of disability 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 the Brazilian pensions regulatory authority ("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 contributions plan. The unamortized balance of the liability is increased monthly at the rate of remuneration of Telos assets. As of September 30, 2002, the outstanding balance payable to Telos amounts to R\$188,838 (R\$200,642 on June 30, 2002), which is included in the total assets of the plans reported below.

The above mentioned pension and medical health care plans sponsored by subsidiaries Embratel and Star One are the only post-employment benefits granted to employees.

Upon the issuance of CVM Deliberation No. 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 the effects arising from employee benefit plans.

Consequently, on December 31, 2001, the subsidiary Embratel recorded a liability in the amount of R\$193,424 against shareholders' equity in the form of a prior period adjustment.

Statement of changes in actuarial liabilities:

Beginning balance - unsecured liabilities (defined contributions plan, as of December 31, 2001)	226,425
Actuarial liabilities from CVM Deliberation 371 (medical assistance plan)	193,424

Actuarial liabilities as of December 31, 2001	419,849

Charges and interests on actuarial liabilities	18,470
Actuarial liabilities provision CVM Deliberation 371	15,324
Payments made in the period (defined contribution plan)	(56,056)

Actuarial liabilities as of September 30, 2002	397,587
	=====
Current	58,219
	=====
Noncurrent	339,368
	=====

Main actuarial assumptions used at balance sheet date:

(i) Discount rate for present value of actuarial liabilities	Inflation + 6.0% p.a.
(ii) Profitability rate expected for plan assets	Inflation + 9.0% p.a.
(iii) Average growth in salary, INSS benefit growth and plan benefit readjustment	Inflation + 0.0% p.a.
(iv) Long term annual inflation rate	5.0% p.a.
(v) Medical cost increase	Inflation + 5.54% p.a.

From an equity point of view, Telos' financial statements as of September 30, 2002, show the following balances (estimated and unaudited amounts):

Technical reserves-	
Actuarial reserves	1,757,049
Defined benefits plan-	
Benefits provided	818,789
Benefits to be provided	7,225
Defined contributions plan-	
Benefits provided	330,037
Benefits to be provided	600,998
Technical surplus	1,386

Total reserves	1,758,435
	=====
Assets of the plans-	
Fixed-income market	1,266,409
Variable-income market	184,721
Real estate market	80,372
Operations with participants	39,413
Other assets	199,976

Total assets of the plans	1,770,891
	=====
Sponsors contributions in the period	18,685
	=====

22. SHAREHOLDERS' EQUITY

a. Capital Stock

The authorized capital on September 30 and June 30, 2002 is comprised of 700 billion common or preferred shares. The subscribed and fully paid-in capital stock amounts to R\$2,273,913 as of September 30, 2002. It is comprised of 334,399,028 thousand shares without par value, held (in-batches of one thousand shares) as follows: 124,369,031 common shares and 210,029,997 preferred shares. The book value per share (batches of one thousand shares, expressed in reais) as of September 30 and June 30, 2002, amounts to R\$13.78 and R\$15.42, respectively.

As of June 29, 2001, Startel Participações Ltda., which held 19.3% of the Company's capital stock, transferred 2,350,575 common shares (in thousands of shares) to a new shareholder, New Startel Participações Ltda., which now holds 0.7% of the Company's capital stock.

b. Income Reserves

Legal Reserve

The setting up of this reserve is compulsory 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

As of September 30, 2002, the Holding Company held 1.769.667 thousand of its own preferred shares in treasury, at a weighted average cost of R\$23.53 per thousand shares. During the nine-month period ended September 2002, there were no sales of treasury shares.

The market value per lot of 1,000 preferred shares at the end of the third quarter of 2002, expressed in reais, was R\$2.31.

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 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. 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 stock option plan was approved at the General Meeting of Shareholders held on December 17, 1998 and is regulated by the Management Commission on stock option plan, within the limits of its authority. The plan grants directors and employees the option of acquiring preferred shares at market value on the grant date in the proportion of 25% in each annual period, the first being after an eight-month period from the date the option was granted, and the other every January after 2003. The options must be exercised within 10 years of the grant date. Until the third quarter of 2001, the market value at grant date was restated by the General Market Price Index (IGP-M) until the exercise date, with exercise proportional to 33.33% in each base-period, after one year as from the grant date, also within the limit of 10 years.

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)-	
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 offered in 2001	3,106,904
Options sold in 2001	(13,333)
Options cancelled in 2001	(382,292)

Open options as of December 31, 2001	6,264,711
Options cancelled in 2002	(385,290)
	=====
Open options as of September 30, 2002	5,879,421
	=====
Weighted average exercise price of the purchase options on September 30, 2002 (per thousand shares, expressed in reais)-	6.53
	====

f. Reconciliation of Net Income of the Company to those
of the Consolidated Financial Statements

As of September 30, 2002 and 2001, the reconciliation between the Company's net loss for the period and the Consolidated net loss is as follows:

	Nine-month period ended	
	September 30	
	2002	2001
Company	(738,338)	(258,497)
Recognition of the effects from the merging process which occurred in the subsidiary Star One (Note 13)	-	(8,914)
Recognition of the effects from other subsidiaries in subsidiary Embratel)	54	-
Consolidated	(738,284)	(267,411)

23. TRANSACTIONS WITH RELATED PARTIES

After the privatization, the main transactions with related parties started being carried out with WorldCom, according to usual market conditions for these types of operations. Balances receivable and payable as of September 30 and June 30, 2002, resulting from such transactions, are as follows:

	Consolidated	
	September 30, 2002	June 30, 2002
ASSETS:		
Current-		
Foreign telecommunications operators (telephony traffic)- WorldCom	119,249	113,417
LIABILITIES:		
Current-		
Foreign telecommunications operators (telephony traffic)- WorldCom	66,560	60,152
Proceda	265	425
Other telecom companies	1,650	1,163
Mangement fee – WorldCom	107,548	70,665

	Consolidated	
	September 30, 2002	September 30, 2001
INCOME STATEMENTS:		
Net operating revenues-		
International traffic WorldCom	94,183	102,511
Cost of services-		
International traffic WorldCom	(56,495)	(54,504)
Proceda	(12,184)	(3,674)
Other	(2,702)	(12,370)
General and administrative expenses-		
Management fee - WorldCom	(27,560)	(28,601)

Under the terms of the concession contract with Anatel and as approved by the shareholders on November 18, 1998, in the nine-month periods ended September 30, 2002 and 2001, the amounts of R\$27.560 and R\$28.601, respectively, were charged to General and Administrative Expenses for consulting services rendered by WorldCom International, Inc., a subsidiary of WorldCom.

24. INSURANCE

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

25. 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 indices and/or earnings/interest rates of cash equivalents and marketable securities and loans. The management of such risks is conducted by means of operating strategies and determination of limits.

b. Swap - Interest and Currency

The subsidiary Embratel used derivative operations to protect mainly, against the variation of foreign currency loan principal against the Real. The par values of such operations, at the end of the third quarter of 2002, totaled R\$1,520,443 (R\$1,639,322 in the second quarter) 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 Interest Income (Expense).

c. Criteria, Assumptions and Limitations in Market Value Calculations

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 current interest rates for similar instruments and maturity dates.

Limitations

The market values are calculated on a specific date, based on relevant market 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			
	September 30, 2002		June 30, 2002	
	Book value	Market value	Book value	Market value
Deferred and recoverable taxes	1,745,673	1,254,024	1,428,285	1,307,322
Assets	1,745,673	1,254,024	1,428,285	1,307,322
Taxes and contributions	344,723	336,781	575,678	543,999
Loans and financing	5,914,665	4,651,429	4,552,174	3,895,124
Swap/Hedge	(731,215)	(309,307)	(173,565)	(66,812)
Liabilities	5,528,173	4,678,903	4,954,287	4,372,311

26. 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 to those accounting practices in Brazil may not conform to accounting principles generally accepted in other countries.

* * * * *

EMBRATEL PARTICIPAÇÕES S.A.

COMMENTS ON THE CONSOLIDATED PERFORMANCE

AS OF AND FOR THE THIRD QUARTER OF 2002 COMPARED TO THE MAIN

VARIATIONS OCCURRED IN THE SAME PERIOD LAST YEAR

NET REVENUES

R\$ thousands	3Q01	2Q02	3Q02	% Var YoY	% Var QoQ	9M01	9M02	% Var YoY
Net Revenues	1,911,869	1,811,021	1,778,719	-7.0%	-1.8%	5,615,075	5,386,695	-4.1%
Voice Services	1,392,985	1,296,338	1,256,809	-9.8%	-3.0%	4,088,574	3,845,163	-6.0%
Data Services	458,644	456,273	455,409	-0.7%	-0.2%	1,353,076	1,361,815	0.6%
Other	60,240	58,410	66,501	10.4%	13.9%	173,425	179,717	3.6%

VOICE SERVICES

R\$ thousands	3Q01	2Q02	3Q02	% Var YoY	% Var QoQ	9M01	9M02	% Var YoY
Total Voice	1,392,985	1,296,338	1,256,809	-9.8%	-3.0%	4,088,574	3,845,163	-6.0%
Domestic Long Distance	1,174,637	1,134,346	1,092,271	-7.0%	-3.7%	3,414,312	3,345,954	-2.0%
International Long Distance	218,348	161,992	164,538	-24.6%	1.6%	674,262	499,209	-26.0%

Domestic Long Distance

Impact of new competition on mass markets was expected

Domestic long distance revenues were R\$1.1 billion in the third quarter of 2002. This represented a 7.0 percent decline relative to the third quarter 2001 and a 3.7 percent decline quarter-over-quarter. While the year-over-year reduction is primarily attributable to call management activity, the quarter-over-quarter reduction resulted not only from the growth in blocked lines but also from new competition in the inter-regional market which began in July 2002.

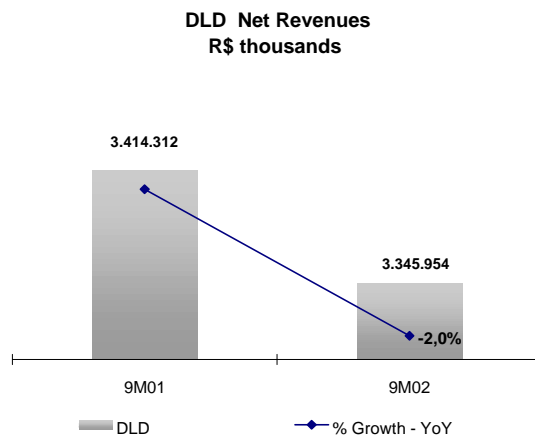
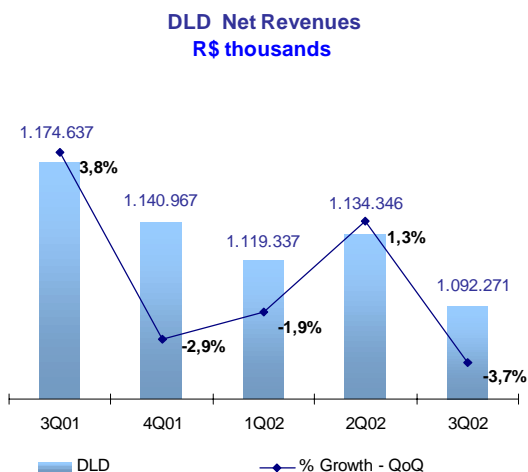
Revenues from advanced voice services such as ViPphone continue to grow at rates above 45 percent on a year-over-year basis. ViPphone is a service that requires a direct link from the companies' premises to Embratel's network to make long distance calls. In addition to cost advantages, the service ensures higher quality (faster call completion) at call origination because calls do not go through the public network.

As expected new competition led to traffic declines mainly in the residential market. Embratel's average revenue per minute continued to rise in the third quarter. Also, network remuneration revenues from traffic resulting from the completion of long distance calls originated by Tele's 0800 services was redirected to their respective networks. This revenue item represented a minor portion of Embratel's domestic long distance revenues.

Year-to-date, domestic long distance revenues were R\$3.3 billion, representing a 2 percent decrease from the comparable 2001 nine month period. This revenue performance reflects

primarily the company's efforts to manage non-performing calls as well as the opening of the inter-region market to two additional competitors.

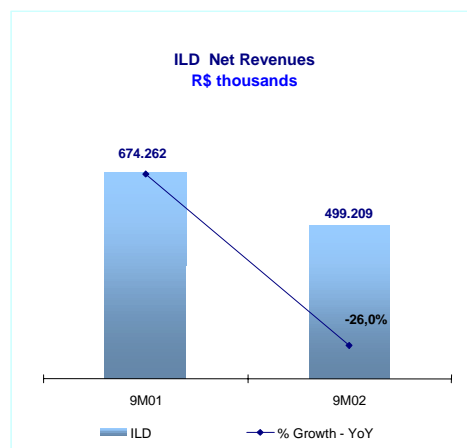
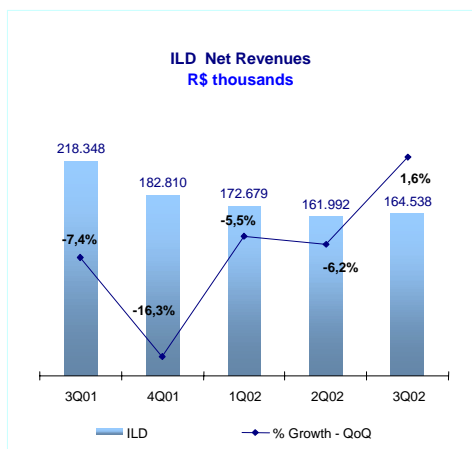
We expect domestic long distance revenues to decline due to competition in certain market segments.



International Long Distance

International long distance revenues rose by 1.6 percent to R\$165 million quarter-over-quarter. Year-over-year, international long distance revenues fell 24.6 percent due to both price and traffic declines.

On an year-to-date basis, international long distance revenues were R\$499 million compared to R\$674 million in the first nine months of 2001. International revenues represented 9.3 percent of the company's total revenues compared to 12.0 percent in the first nine months of 2001.



Data Communications Services

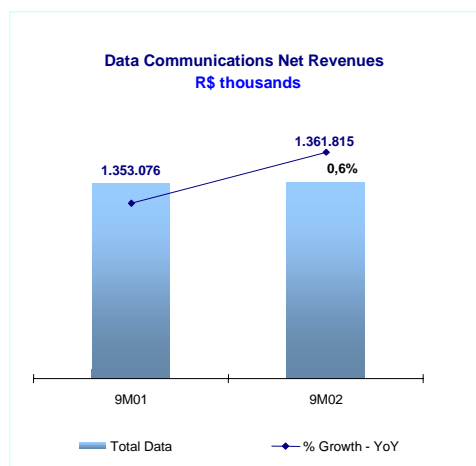
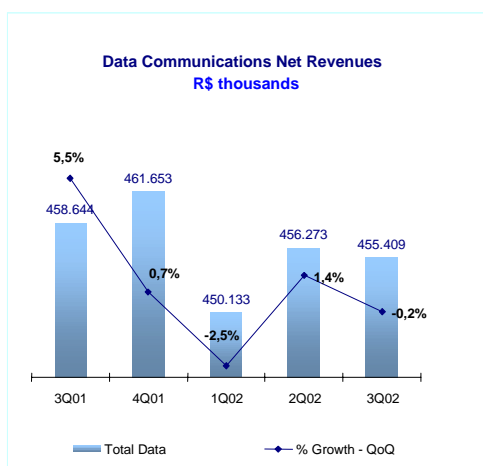
Revenues maintained despite economic slowdown

R\$ thousands				% Var	% Var			% Var
	3Q01	2Q02	3Q02	YoY	QoQ	9M01	9M02	YoY
Total Data	458,644	456,273	455,409	-0.7%	-0.2%	1,353,076	1,361,815	0.6%
Data & Internet	430,136	437,522	437,676	1.8%	0.0%	1,254,439	1,305,186	4.0%
Wholesale	28,508	18,751	17,733	-37.8%	-5.4%	98,637	56,629	-42.6%

Embratel's data communications revenues were R\$455 million, flat relative to the second quarter of 2002 and the year ago 2001 quarter. The company was able to maintain data revenues in the third quarter of 2002 despite the fact that customers were postponing investment plans due to economic uncertainty and some prices continued to decline. Switched data and satellite revenues grew while Internet revenues were impacted by price reductions as contracts were renewed.

Client base continues to grow as does the number of installed circuits.

In the nine month period ending September 30, 2002, data revenues were R\$1.4 billion representing a 0.6 percent increase relative to the 2001 nine month period. Compared to September 2001 the number of installed circuits rose by approximately 40 percent evidencing that underlying demand for bandwidth has existed, but slowed down in the past quarter due to economic uncertainty.



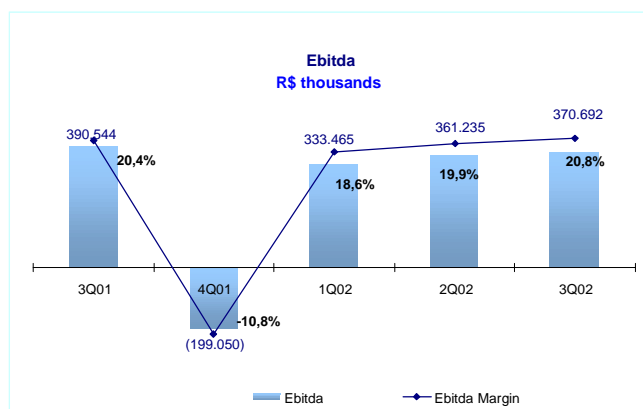
EBITDA

R\$ thousands				% Var	% Var			% Var
	3Q01	2Q02	3Q02	YoY	QoQ	9M01	9M02	YoY
Net Revenue	1,911,869	1,811,021	1,778,719	-7.0%	-1.8%	5,615,075	5,386,695	-4.1%
Cost of Services	(1,273,249)	(1,189,023)	(1,170,528)	-8.1%	-1.6%	(3,721,045)	(3,553,361)	-4.5%
Operating Income (Expense)	(517,037)	(541,324)	(526,086)	1.8%	-2.8%	(1,458,163)	(1,609,543)	10.4%
Operating Income before Interest	121,583	80,674	82,105	-32.5%	1.8%	435,867	223,791	-48.7%
Depreciation/Amortization	268,961	280,561	288,587	7.3%	2.9%	778,617	841,601	8.1%
Operating Income before Interest, Depreciation and Amortization (Ebitda)	390,544	361,235	370,692	-5.1%	2.6%	1,214,484	1,065,392	-12.3%
Margin (Ebitda/Net Revenue)	20.4%	19.9%	20.8%	0.4 p.p	0.9 p.p	21.6%	19.8%	-1.9 p.p

EBITDA was R\$371 million in the third quarter of 2002. EBITDA margin rose by another percentage point to 20.8 percent for the second consecutive quarter. Comparing to the average 2001 EBITDA margin of 13.6 percent, there was a 7.2 percentage point increase in EBITDA margin. This was the result of lower interconnection costs and declining provisions for doubtful accounts.

Embratel continued to install points-of-presence for interconnection (PPI) in the third quarter of 2002 totaling 112 new PPIs since the beginning of the year. Embratel's 2002 PPIs program is well advanced but additional opportunities still exist. The growth in the number of PPIs has contributed to the reduction in TU-RIU costs and was largely responsible for the reduction in overall interconnection costs. Total line costs dropped to 45.3 percent of net revenues in the third quarter of 2002 compared to 46.4 percent in the second quarter of this year.

Active call management continued to contribute to the improved operating performance and productivity. Embratel increased blocked lines due to delinquency by approximately 300,000. Total delinquent lines blocked at the end of the quarter was 2.9 million. The provision for doubtful receivables was R\$153 million in the quarter, or 8.6 percent of net revenues (6.5 percent of gross revenues) representing the third consecutive quarter of improvement. Provision for doubtful receivables was 9.0 percent in the second quarter of 2002, 9.7 percent in the first quarter of 2002 and 15.5 percent in FY2001.



DEPRECIATION & AMORTIZATION

Depreciation and amortization expense increased to R\$289 million in the third quarter from R\$281 million in the second quarter and R\$269 million in the year-earlier quarter. This increase is a result of new assets becoming operational during the past year. In addition to increased installations of PPIs in the quarter, continued upgrades to collection and fraud systems were completed. These investments have been resulting in improved operating performance throughout the year. In addition, a new system was implemented to provide greater efficiency in installing new customers and to improve management of data access equipment. It is expected that depreciation will continue to trend upwards during the fourth quarter as a result of investments made in prior periods that are now entering an operational phase.

EBIT

Operating income (EBIT) was R\$82 million in the third quarter of 2002 a slight quarter-over-quarter increase resulting from the reduction in interconnection costs and in provisions for doubtful accounts.

Year-to-date, EBIT was R\$224 million compared to R\$436 million in the first nine months of 2001.

INCOME TAXES

Embratel recorded a net tax benefit of R\$309 million on its net operating loss during the third quarter. The high FX volatility in the current year and the related financial expenses have increased Embratel's net losses before taxes and consequently, the income and social contribution benefit related to these net losses. This creates an asset for Embratel, or a type of receivable that will be realized in future periods as the company generates income. In the current year, the total amount of such deferred tax assets for Embratel has increased by R\$598 million from R\$785 million at the end of 2001 to R\$1,383 million. Embratel has performed an analysis of projected future profits based on the requirements of CVM 371 and has demonstrated the recoverability of this deferred tax asset. Embratel will continue to analyze this asset based on changing economic conditions.

NET INCOME

	3Q01	2Q02	3Q02	% Var YoY	% Var QoQ	9M01	9M02	% Var YoY
Net Income/(Loss) (R\$ thousands)	(194,835)	(152,200)	(549,644)	-182.1%	-261.1%	(267,411)	(738,284)	-176.1%
Shares Outstanding (million shares)	332,932	332,932	332,629			332,932	332,629	
Earnings per 1000 shares (R\$)	(0.59)	(0.46)	(1.65)			(0.80)	(2.22)	

The net loss for the third quarter of 2002 was R\$550 million. The loss was the result of the effect of the devaluation of the Real vis-a-vis the US dollar (36.9 percent in the quarter) which exceeded the hedged portion of the Company's foreign currency debt (see Financial Position below).

The net loss reached R\$738 million in the first nine months of 2002 compared to a net loss of R\$267 million in the first nine months of 2001.

FINANCIAL POSITION

During the third quarter of 2002 Embratel reduced total outstanding debt by US\$208 million to US\$1.3 billion from US\$1.5 billion at the end of the second quarter of 2002. Approximately US\$71 million of debt was retired in the quarter. This debt reduction resulted from an improvement in operating cash and hedging activity. Cash position at the end of the third quarter was R\$757 million, an increase of 22.6 percent from the second quarter 2002 cash position. Net debt outstanding as of September 30, 2002 was R\$4.4 billion (total debt of R\$5.2 billion). Short term debt was R\$2.4 billion. Since short term debt includes all principal maturing in the next 12 months, in addition to short term debt per se and accrued interest, the increase is explained by the principal maturing in the third quarter of 2003 becoming current. The devaluation of the Real increased Embratel's overall debt position by R\$994 million, net of hedging income. Had hedging not been done, total debt would have increased by almost R\$1.6 billion.

The Company's short-term hedged position is 66 percent. The company's hedged debt and respective average debt cost are in table 15 below.

Embratel Participações S.A.	Sep 30, 2002			
	Amounts in R\$ thousands	%	Average Cost of Debt	Average Maturity
Hedged short term debt (notional amount)	1,552,615	65.8%	99.30% CDI	up to 12 months
Unhedged short term debt	807,568	34.2%	US + 8.28% pa.	up to 12 months
Total short term debt	2,360,183	100.0%		
Hedged long term debt (notional amount)	241,691	8.6%	86.53% CDI	up to 1.90 years
Unhedged long term debt	2,581,576	91.4%	US + 8.16% pa.	up to 8.04 years
Total long term debt	2,823,267	100.0%		
Total hedged debt	1,794,306	34.6%		
Total unhedged debt	3,389,144	65.4%		
Total debt (net of hedge gains)	5,183,450	100.0%		

In the past several weeks Embratel has been discussing refinancing alternatives for certain upcoming 2003 and other debt maturities. Embratel received several ideas to proactively address funding requirements under current market uncertainties, reduce refinancing risks to both the company and its lenders through the first half of 2004, convert some foreign currency debt to Reais and implement a debt structure that improves credit quality. To implement this program, Embratel is being supported by Banc of America Securities as financial advisors and MS & CR2 as general advisors. We are currently in the process of analyzing different financing alternatives as well as different economic scenarios.

Principal maturing in 2003 is approximately US\$790 million (see table 16 for maturity)

Debt Principal 2003	Hedged Portion	Debt principal maturing per quarter
First quarter	88.5%	38.8%
Second quarter	75.3%	14.5%
Third quarter	58.3%	34.1%
Fourth quarter	7.5%	12.6%
Total	66.1%	100.0%

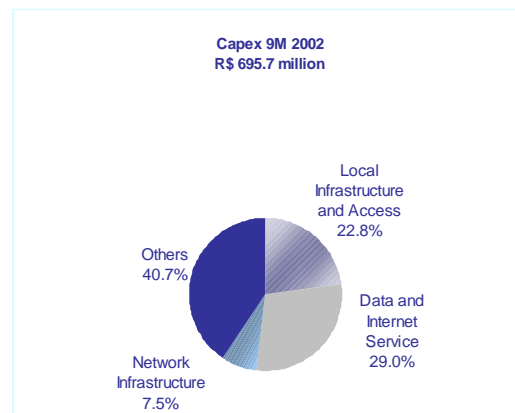
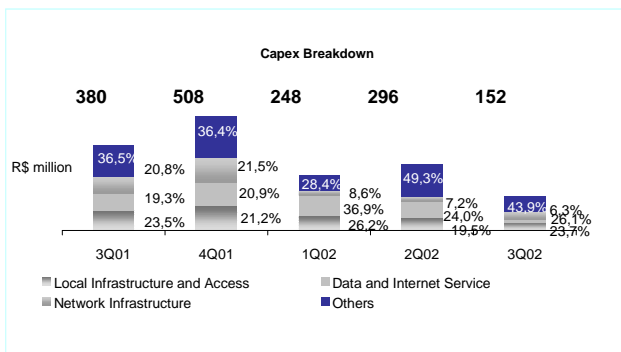
ACCOUNTS RECEIVABLES

The company's net receivable position on September 30, 2002 was R\$1.8 billion a reduction of more than R\$140 million relative to the previous 2002 quarter. This decline was the result of an improvement in collections overall which offset the impact of the devaluation of the Real on receivables from foreign administrators. Basic telephony voice receivables DSO fell to 72 days in the third quarter of 2002 from 75 days in the previous 2002 quarter and from 82 days at the end of 2001. Receivables from foreign administration in US dollar terms actually fell to US\$100 million in the third quarter of 2002 from US\$119 million in the second quarter of 2002 (payables were adjusted accordingly).

Embratel Participações SA R\$ thousands	Gross Receivables		Embratel Participações SA R\$ thousands	Net Account Receivables	
	Sep 30,2002	Jun 30,2002		Sep 30,2002	Jun 30,2002
Accounts Receivables			Voice Service	918,593	1,027,576
Voice Services	2,685,158	2,650,175	Current	61.4%	64.2%
Data, Telco and Other Services	625,486	699,382	1-60 days	29.3%	26.9%
Foreign Administrations	387,543	339,678	61-120 days	9.4%	8.9%
Gross Receivables	3,698,187	3,689,234	> 120 days	0	0
Allowance for Doubtful Accounts	(1,866,486)	(1,714,240)			
Net Receivables	1,831,701	1,974,994			

CAPEX

During the third quarter, capital expenditures were R\$152 million (almost half of the R\$296 million spent in the previous 2002 quarter). The company is analyzing ways to optimize the use of Capex and the amount spent in the third quarter of 2003 is consistent with Embratel's ongoing investment needs with the exception of Star One's investment in satellite-C1 which will require higher payments at certain intervals. The breakout of the third quarter 2002 expenditure is the following: local infrastructure and access – 23.7 percent (including PPIs); data and Internet services – 26.1 percent; network infrastructure – 6.3 percent and others - 43.9 percent (Approximately 1/3 of other expenditure refers to the new satellite and the remaining portion refers to various items such as IT and other satellite investments). Cumulative capital expenditure was R\$696 million in 2002.



TAX CONTINGENCIES

Outbound withholding tax - With respect to the R\$411 million assessment against Embratel on withholding income taxes on outbound payments, the Administrative Court has issued a decision in September 2002 reducing the amount of the liability to R\$12.9 million. This decision reflects, among other things, the effect of payments made to countries which have tax treaties with Brazil. Embratel has made a judicial deposit for the reduced amount of R\$35 million (including interest) in the third quarter pending a review of the matter at the second judicial level. Notwithstanding this favorable decision, it is still possible that this matter could be decided against Embratel and could result in the aforementioned possible loss.

Judicial Deposit - COFINS - In 1999 Embratel challenged the change introduced by Law no. 9,718/99 that: (a) increased the revenue base on which PIS and COFINS are paid to include financial revenues and exchange variations, and (b) increased the rate of COFINS from 2% to 3%. Despite the challenge, Embratel continued accruing the full amount of the tax liability and paid this as a judicial deposit from August of 1999 to April of 2001. From May 2001 and forward, based on jurisprudence, the company decided to discontinue the legal challenge prospectively. On August 29, 2002, provisional measure 66 was published allowing the liquidation of such legal deposits without any incidence of penalties. Embratel decided to use the provisional measure and pay this liability. The net effect was to reduce accrued taxes and contributions by R\$173 million with a corresponding decrease in judicial deposits. Since the expense was already recorded, there was no impact on current period results. Since funds were already deposited, there was no impact on cash flows. Embratel simply liquidated this liability against the judicial deposit asset.

LOCAL SERVICES

Local interconnection negotiations are progressing and Embratel expects to launch local services in two cities- Recife and Fortaleza in November as scheduled. Network tests are being conducted with Telemar. Embratel has initiated sales and already signed contracts with clients. Service start in another 27 cities is planned for late December and January 2003. In addition, Embratel began booking local interconnection revenues relative to the local portion of its own 0800 services. This amount was previously passed to Teles and partially offsets the loss of long distance Teles 0800 service long distance interconnection revenues to them.

One major client who will certainly use Embratel's services, is Embratel itself. The company will begin to use its own local service as it is deployed in various cities. In addition to testing services, Embratel expects to save on telephony costs.

STAR ONE

In September Star One was awarded an orbital slot by Anatel which will allow the company to increase its resources including Ku and Ka frequency band which will permit more flexibility, better coverage and optimization of its future satellite fleet. In addition, Star One launched Easyband Corporate, a new family of products designed specifically for the corporate segment which leverages the Easyband platform for residential users.

REGULATORY DEVELOPMENTS AND INTERCONNECTION COSTS/INTERCONNECTION AGREEMENT CLARIFICATION

It has now been six months since Embratel submitted, together with Intelig, a petition to Anatel indicating local Teles were engaged in anti-competitive practices. It is Embratel's understanding that all necessary investigations have been completed. The company expects Anatel to announce its conclusion very soon. Embratel trusts Anatel will exercise its power and responsibility to enforce existing competitive legislation and preserve one of the pillars over which the Brazilian telecommunications model was built - competition.

INTERCONNECTION COSTS/INTERCONNECTION AGREEMENT CLARIFICATION

Recently Embratel was sued by one of the local operators for the non-payment of interconnection costs. In order to settle such disputes *call detail records* (CDR) which include the time of the call, the origination and termination location, the duration of the call, among others, need to be reconciled. The local operator involved has not yet agreed to reconcile records.

Why do discrepancies arise? Here are some examples:

- charges may have been made for types of calls for which no interconnection costs are associated, e.g. data;
- discrepancies in call duration might cause access fees to have been charged for calls with less than the minimum regulatory duration liable for charging either the customer or the corresponding interconnection;
- charges may have been made for calls arising from disconnected lines;
- charges from calls arising from non activated numbers (possibly created by fraud)
- charges may be inflated by system duplication

Interconnection agreements provide for the invoiced party to pay the undisputed amount and follow the contractual procedures to solve the disputed amounts.

In order to settle disputes, records need to be reconciled: all call records need to be categorized, pricing procedures and rules need to be strictly the same, etc.. This will be a requirement whether settlement is voluntary between parties, whether Anatel acts as intermediary, or when justice requires proof. Given the amount of records - typically in a single month Embratel will record approximately 600 million calls, and the fact that switches of the different companies involved are not necessarily synchronized - registering different start and ending times for each call, it is obvious that the matching process is not trivial and will necessarily take experts to determine the final settlement amounts.

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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 has countrywide coverage with 28,868 km of fiber cables comprising 1,068,657 km of optic fibers.

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STATEMENTS OF INCOME OF SUBSIDIARIES/AFFILIATES

FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2002 AND 2001

EMPRESA BRASILEIRA DE TELECOMUNICAÇÕES S.A. - EMBRATEL

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

(Translation of the report originally issued in Portuguese.
See Note 26 to the financial statements.)

	September 30	
	2002	2001
GROSS OPERATING REVENUE:		
Telecommunications services	7,030,455	7,601,923
Gross revenue deductions	(1,643,760)	(1,986,847)
	-----	-----
Net operating revenue	5,386,695	5,615,076
Cost of services	(3,553,361)	(3,721,044)
	-----	-----
Gross profit	1,833,334	1,894,032
	-----	-----
OPERATING REVENUES (EXPENSES)	(1,606,434)	(1,455,713)
	-----	-----
Commercialization of services	(806,242)	(797,307)
General and administrative	(814,855)	(677,663)
Other operating revenue (expenses)	14,663	19,257
	-----	-----
OPERATING INCOME BEFORE INTEREST	226,900	438,319
Interest expense	(1,625,484)	(746,853)
	-----	-----
OPERATING LOSS	(1,398,584)	(308,534)
Extraordinary nonoperating income	198,131	-
Nonoperating income (expense)	11,626	(14,664)
	-----	-----
NET LOSS BEFORE TAXES AND PARTICIPATIONS	(1,188,827)	(323,198)
Income tax and social contribution on profits	475,106	93,386
Employees' profit share	(23,189)	(27,740)
Minority interest	(9,905)	(7,657)
	-----	-----
NET LOSS FOR THE YEAR	(746,815)	(265,209)
	=====	=====
QUANTITY OF OUTSTANDING SHARES (IN THOUSANDS)	4,723,844	4,723,844
	=====	=====
NET LOSS PER THOUSAND SHARES	(158.09)	(56.14)
	=====	=====

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