

Annual Report 2002 Embratel Participações S.A.

Dear Shareholders:

Pursuant to legal and statutory provisions, the Management of Embratel Participações S.A., submits to the appreciation of Shareholders, the Management Report and the Company's Consolidated Financial Statements, accompanied by the Independent Auditors' Report, referring to the fiscal year ended on December 31st, 2002.

1 – Introduction

Embratel Participações S.A. is a holding company of Empresa Brasileira de Telecomunicações S.A. - Embratel, the largest Brazilian data and Internet service provider and concessionaire of domestic and international long-distance telephone services, in addition to authorized provider of local services. Embratel Participações' major investment is its shareholding in Embratel and therefore, its consolidated performance essentially represents Embratel's operating performance, which will be commented further on.

Embratel Participações is controlled by WorldCom, Inc., a U.S. company that purchased it at a privatization bid held in July 1998.

Embratel Participações S.A.

Shareholders	Common	%	Preferred	%	Total	%
Startel Participações Ltda.	62.054.576.448	49,9%	0	0,0%	62.054.576.448	18,6%
New Startel Participações Ltda.	2.350.574.677	1,9%	0	0,0%	2.350.574.677	0,7%
PREVI - Caixa Prev. Func. Banco do Brasil	6.722.609.333	5,4%	6.633.362.644	3,2%	13.355.971.977	4,0%
Treasury Stock	0	0,0%	1.769.666.671	0,8%	1.769.666.671	0,5%
Others	53.241.270.074	42,8%	201.626.967.745	96,0%	254.868.237.819	76,2%
Total	124.369.030.532	100,0%	210.029.997.060	100,0%	334.399.027.592	100,0%
Percentage per class of share	37,2%		62,8%		100,0%	

Date: Dez 31, 2002

Embratel S.A.

Shareholders	Common	%
Embratel Participações S.A.	4.665.874.845	98,8%
Others	57.969.002	1,2%
Total	4.723.843.847	100,0%

Date: Dez 31, 2002

Embratel Participações S.A.'s common and preferred shares are traded at the São Paulo Stock Exchange. In addition, the company has a level II ADR program representing preferred shares traded at the New York Stock Exchange.

2 – Macroeconomic Context and Field of Operation

Economic Scenario

In 2002, the world economic scenario did not show any significant improvement as compared to 2001. The U.S. economy went on feeble and the Brazilian economy suffered with the uncertainty generated by the presidential election and the possibility of changes to the economic policy with the new government.

Concerning Embratel's business, the macroeconomic variables mostly affecting it were the low growth of the Brazilian economy and foreign exchange devaluation.

Telecommunications Sector

The telecommunications sector regulated by Anatel - the National Telecommunications Agency, continued on its course of structural changes. In this sense, two changes were of particular importance to the company: its certification for achieving universalization goals (May 8, 2002) and obtaining authorization to provide local services (August 9, 2002).

This license is critically important since it allows Embratel to offer the only fixed telecommunications service missing in its line of corporate services. In late 2002, companies of six Brazilian cities (Fortaleza, Recife, Salvador, Porto Alegre, Belo Horizonte and Rio de Janeiro) already relied on Embratel's local services. The company's goal is to focus at first on trunk lines and customers already directly connected to its network. Currently, through fiber, digital radio and metal cables, Embratel makes direct connections to over 32 thousand customers, providing data and voice services. This customer base, covering the largest corporations in the country, will be the point of entry to local service.

In 2002, the growth in the number of installed fixed lines was not as expressive as in previous years, since most operators had achieved their universalization goals, and actual demand for new lines was significantly reduced. Total fixed lines in operation increased from 37.4 million in 2001 to 38.8 million in 2002. The number of cells phones in operation also increased from 28.7 million to 34.9 million in the same period. In that year, therefore, the growth in number of lines did not act as a major driver of the long-distance traffic growth.

In 2002, two regional operators that achieved their universalization goals received extensions of their concessions to operate in the inter-regional long-distance market and received authorizations to make international long-distance calls, increasing competition in these market segments. Also in 2002, two companies licensed to use Personal Mobile Service (SMP) started operating, whose model for long-distance connections requires the selection of the operator's code.

Data Segment

Embratel is the leader in the Brazilian data transmission market. The company distinguishes itself from the other market competitors through its broad reach in the service offer, its ability to combine services to meet the clients' needs, the expertise of its labor force, sales team and national service, as well as the size and quality of its network. The data services offered by Embratel provide dedicated lines at several speeds, including high speed lines to other telecommunications services operators, several technologies for switched data transmission, satellite data transmission and many Internet products targeted at the corporate segment.

Its national and international extension network allows these products to be provided, in an integrated manner, in many regions of Brazil, serving customers whose needs go well beyond a city, state or region. Embratel is the main company, in Brazil, providing high-speed Internet data services.

The market for data services provided by the company in 2002 presented an increasing demand for capacity and new services. Measured in equivalent 2Mbits, the quantity of circuits supplied by the company had a 52% increase in 2002.

The circuit installed base growth was a result of new services, net addition of customers and bandwidth capacity growth to already existing customers. This reflects the fact that Embratel maintains a solid position in the data market and is well prepared to benefit from the economy recovery.

Revenues from switched and satellite services increased by 23% and 16%, respectively, offsetting the drop in dedicated service revenues. Internet service revenues remained stable in 2002.

Since privatization, Embratel has been reaching a high level of diversification in revenues from data services and has increased its value-added service base. Services that have lost weight in the revenue formation were commodity types ones. Evidencing the company's innovating ability, approximately 27% of data revenues derive from services developed over the past 4 years.

In addition, the customer net base has kept on expanding. In the past 2 years, growth has been 28%. Embratel has also diversified its customer base in the past four years, by adding to its list of customers a growing number of medium and small-size companies. This has been the result of a coordinated strategy, involving efforts in the sales, product and access development areas.

Telephone Segment - Voice (National and International Long-Distance)

Embratel, by maintaining its focus on income profitability, has increased the number of blocked lines due to bad debt and fraud. In late 2001, 1.8 million lines were blocked, rising to 4.6 million in late 2002. This was the main reason for the drop in long-distance revenues. However, in national long-distance, the average revenue per minute was 3.0% and 12.0% above 2001 and 2002 averages, respectively, showing the company's focus on preserving its profitability.

The market being open to two additional competitors has also contributed to reduce the national long-distance revenue. The highest impact from the competition was on the inter-regional long-distance revenue from the 0800 service belonging to two regional operators that have been authorized to make inter-regional calls. Revenues from these two operators were approximately R\$73 million in the first six months of the year, dropping to R\$30 million in third quarter and to zero in fourth quarter, since the operators directed this captive traffic to their own networks (Embratel, in its turn, started apportioning its local income related to its 0800 services).

Embratel continued to increase its income in the major voice services to the corporate market. As part of the strategy to replace basic voice income by Embratel services adding value to its corporate customers, the company continued to increase its VipPhone and Advanced Voice Services sales. Combined revenues from this services increased 32% in 2002. The number of VipPhone customers rose 55% in 2002. In 1998 there were no VipPhone customers and, currently, they reach approximately 5,000. Corporate customer revenues arising from alternative plans also had over a 200% growth.

In the residential and small-business market, Embratel has emphasized not only profitability, but also revenues originating from recurrent customers. Embratel offered and managed to increase the number of authorizations for automatic payment of its bills by 34% in 2002, improving its invoice payment profile. Bills paid via Internet, a process that began in December 2001, also increased significantly. Together, the collection via automatic payments and Internet payments represented about 30% of domestic long-distance basic voice income. The number of bills in the co-billing program corresponds monthly to 25% of recurrent users. In addition, Embratel keeps attracting customers to its alternative plans. Income from the residential and small-business market with alternative plans grew 131% in 2002.

In the international voice service market, Embratel has successfully maintained its high-profitability customers by offering alternative plans to meet their needs. As to incoming traffic, Embratel has been skillfully working out the carriers market in a segmented manner, by offering quality at competitive prices to those demanding more quality, and services at more competitive prices to cost-sensitive customers.

Local Services

By early January 2003, over 300 customers had already subscribed to Embratel's local services. The company will provide local services in 29 cities (including practically all state capitals and some cities in the state of São Paulo). Embratel is the only local service provider to be present in practically all Brazilian states, and may be characterized as the only nationwide local service operator. This condition will allow Brazilian companies located in these cities to have a sole fixed telecommunications service provider. In addition to offering one single number throughout the country and competitive prices, Embratel innovates by billing its calls per minute, adding transparency to the service being provided.

3 - Services

Data and Internet Services – Among dedicated data services, we can highlight **TopNet** (private data transmission service with continued transmission) and **PrimeLink** (continuous data transmission to any point in Brazil, with data, image and voice integration). In the switched data segment, we highlight the frame relay technology service family: **Fastnet**, **E-Pack** (customized data transmission solution for magnetic card transactions) and **Atmnet** (high-speed, geographical dispersion voice, video and multimedia transmission).

Embratel has an Internet services portfolio targeted at the business corporate market, among which we emphasize: **Business Hosting** (website hosting service for companies which allows multimedia transmission in real time on the Internet); **Business Security** (Internet security services); **Business Link Direct** (private and dedicated connection with Internet using the TCP/IP protocol); **Business Link on Demand** (private connection using the TCP/IP protocol who traffic presents large variation of seasonality); **Business Link Flex** (private connection using the TCP/IP protocol for creating Intranets and Extranets); **Business Dial** (remote dialed Internet access and dialed access to the companies' Intranets) and **Business IP Sat** (broadband Internet dialed access, via satellite with high-speed connection, in remote localities of the country).

An important release in 2002 was the increment in the **Business IP VPN service**, based on Multiprotocol Label Switching (MPLS) technology, by introducing the Quality of Service (QoS) assurance seal. This facility allows to prioritize critical applications and to provide traffic among different VPN points with differentiated treatment. This new feature is particularly used in multimedia applications and can be defined according to customers' needs. There are no restrictions on distance or speed, as it may be provided from 64Kbps to 622Kbps through Embratel's Internet backbone, currently comprising 150 points of presence, 26 routing centers, dual routes and 35Gbps traffic capacity.

Also, **Business Link Fácil** service, a 60Kbps Internet dedicated connection developed for the small and medium sized companies corporate market, can be provided through Embratel's digital access network and from its points of presence.

Optional Telephone Plans – **Sempre 21** (benefits clients calling during business hours), **Toda Hora 21** (benefits clients calling in the evening and weekends), **Unidos Via 21** (benefits clients calling recurrently 3 DDD locations), **Opção 21** (benefits clients making intra-state calls), **Muito Mais 21** (benefits clients making DDD calls through the sale of minute packages in heavy-traffic hours), **Todo Mundo 21** (benefits clients making international calls); **Ligue DDI 21** (benefits clients making international calls to four country groups on weekdays) and **Passaporte 21** (benefits clients making international calls because it presents a simplified rate and better prices in reduced-rate hours). The company has also released its prepaid card throughout the country, benefiting those in transit and on a trip, students who want to control their spending.

Billing – From January 2000 on, Embratel started directly billing for telephone services provided to its clients. Since then, Embratel has been implementing several systems and enhancing its infrastructure aiming to manage billing and collection within a context of selection of long-distance operator per call.

In 2002 Embratel completed the implementation of systems assisting in reducing bad debt by half. During 2001, the company implemented the first phase of the call management system, closing the year with 1.8 million lines with access blocked to code 21 due to bad debt or fraud. In 2002, the second phase of this system was implemented, allowing the company to obtain an unlimited blocking capability, reaching a total of 4.6 million blocked lines due to default on payment and fraud by late 2002.

The increase in the amount of lines blocked due to bad debt and fraud has contributed to the reduction of traffic flowing in the company's networks. Its effect is very positive, since it improves cash generation as it no longer incurs the cost of provided service (mainly interconnections) in calls made by consumers who do not pay for the service used.

Also in 2002, Embratel signed co-billing contracts with companies CTBC, Telemar and Telefonica, and has been increasing the amount of bills sent through the local operator. Given the long cycle between sending the records to the local operator for billing, actual billing and transfer of income to Embratel, and the fact that the increase of bills invoiced through joint-invoicing has been occurring gradually, the expected impact of joint-invoicing on the level of allowance for doubtful accounts will also occur gradually.

Other initiatives taken by the company to upgrade the billing process have been the implementation of the billing system – CACS, in February 2002, which substantially improves the company's capability to act effectively in relation to billing, and significant increase in calls billed through automatic payments. Income billed via automatic payments increased 23% from 2001 to 2002.

All these measures enabled reducing the provision for doubtful accounts from 15.5% of net income in 2001 to 8.8% in 2002. This improvement was followed by a reduction in the average time of accounts receivable, which reached 67 days at year's end, as well as a reduction in the amount of overdue bills as of 60 days. In late 2002, approximately 68% of accounts receivable (net) of voice services were represented by current amounts (calls not yet billed and/or calls billed but not yet overdue). In 2001, this amount did not exceed 62% of net accounts receivable of voice services.

Taxes, Fees and Contributions – In 2002, Embratel established a provision for tax payment around R\$2.3 billion. Among these taxes, in addition to those already known, such as ICMS, ISS, PIS, COFINS and CPMF, we also have federal contributions such as FUST (Telecommunications Service Universalization Fund), FUNTTEL (Brazilian Telecommunications Technological Development Fund) and FISTEL (Telecommunications Inspection Fund).

Social Aid Activities – Embratel takes part in several cultural, educative and social aiding and supporting initiatives. *Instituto Embratel 21*, created by Embratel in 2001 aimed at developing and supporting cultural, educational, scientific, social and sports projects, developed as its major projects in 2002, favoring digital inclusion of the population: "Biblioteca Digital Multimídia" (Multimedia Digital Library), benefiting 90 public libraries throughout the country, providing them with access to titles in the National Library that have been digitalized, as well as videos generated with partnerships of the National Library Foundation, UNB, USP, Instituto EDUMED, PUC-Rio, PUC-Minas, UNESCO, ESG and Instituto Itaú Cultural; "Tesouros de São Paulo" ("Treasures of São Paulo"), benefiting 67 public libraries in the city of São Paulo, providing them with access to titles in Mario de Andrade Library and in Solar da Marquesa that have been digitalized, as well as videos generated with partnerships of the Mario de Andrade Library and São Paulo Cultural Center.

In welfare projects, it supports the *ConvHIVendo Project*, which is aimed at providing social and psychological assistance to HIV-positive children and teenagers, their families and health professionals; support to *Associação dos Amigos do Instituto Nacional do Câncer - AMINCA* (the Association of Friends of the National Cancer Institute - Aminca); to *Associação Fluminense de Reabilitação* (the Rio de Janeiro State Rehabilitation Association), collaborating in the treatment of children with several physical and neurological pathologies; to *Instituto Ronald MacDonald de Apoio à Criança* (the Ronald McDonald Institute for Children Support) - caring for cancer-bearing children; to *Associação de Parentes e Amigos de Pessoas com Alzheimer, Doenças Similares e Idosos Dependentes - APAZ* (the Association of Relatives and Friends of People with Alzheimer Disease, Similar Diseases and Dependent Elderly - Apaz); to Centro de Ensino e Pesquisas Pró-Cardíaco (Pro-Cardiac Center for Education and Research) - Pro-Cardiac Children; and to *Associação Brasileira Beneficente de Reabilitação - ABBR* (the Brazilian Beneficence Association for Rehabilitation - ABBR).

Embratel Network – 2002 Yearend

National Network

- ✓ The only company with a fully digitalized nationwide network;
- ✓ More than 28.8 thousand km of optical fiber cables with 1,069 thousand km of fiber;
- ✓ Installed transmission capacity of 260 Gbps.

Satellite Network

- ✓ Embratel pioneered in the offer of satellite services in Latin America;
- ✓ Satellites provide high-quality services where there is no optical fiber (65 cities are covered via satellite);
- ✓ 5 satellites in orbit (4 over Latin America and 1 over the U.S.A.);
- ✓ 85 land stations.

International Network

- ✓ Embratel's International Network allows integration, also through fully optical means, of Brazil with all the countries with which we have traffic interest;
- ✓ The transmission is carried out the submarine cables system: *AMERICAS-1* (United States), *COLUMBUS-2* (Europe and Asia) and *UNISUR* (South America) and submarine cable systems *AMERICAS-2* (United States), *ATLANTIS-2* (Europe and Asia) and *COLUMBUS-3* (Europe and United States). Embratel's international transmission capacity is 606,000 voice-equivalent circuits in 2002. These cutting-edge technology systems operate through reciprocal restoration, thus providing higher reliability and quality in communications;
- ✓ Embratel's international switching is 100% digital and allows more than 23 thousand simultaneous calls by telephone and advanced voice service;
- ✓ Embratel takes part in the international consortia Intelsat, Inmarsat and New Skies, and has 7 land stations that provide access to these satellites, enabling the company to offer diversified international fixed and mobile services.

Internet Network

- ✓ Latin America's larger Internet backbone with more than 35 Gbps at a national level;
- ✓ National coverage - 300 locations throughout the country;
- ✓ International backbone with optical fiber and satellite circuits for the United States, Europe and Mercosur countries;
- ✓ International connections totaled over 3.7Gbps;
- ✓ Performance Guarantee Program (Quality of Service – QoS / 99.7%).

Local Network

- ✓ Over 945 km of urban loops in major Brazilian cities;
- ✓ Over 32,200 customers connected by its own fiber optics and digital radio;
- ✓ Approximately 1,360 km of copper networks in major towns of 25 Brazilian states.

4 – Economic Performance - Consolidated Financial Results

Net Revenues – Embratel Participações closed 2002 with a R\$7.1 billion net revenues, representing a 4.7% reduction when compared to 2001. This variation resulted from the reduction in voice revenues as a result of strong blocking of bad debt and fraudulent lines and competition.

Net Revenues per Service

R\$ thousand	2002	2001	Var % Year
LDN	4.356.796	4.555.279	-4,4%
LDI	666.714	857.072	-22,2%
Voice	5.023.510	5.412.351	-7,2%
Data & Internet	1.756.507	1.691.099	3,9%
Line Rental to Other Providers	75.932	123.630	-38,6%
Total Data	1.832.439	1.814.729	1,0%
Other Services	251.129	233.876	7,4%
Net Revenues	7.107.078	7.460.956	-4,7%

Data revenues – The data revenues from data, including Internet, rose 1.0% in 2002 reaching R\$1.8 billion. This data income growth was possible due to a high capacity band growth provided to customers, new services and the customer base growth, which enabled the offsetting of the price reduction that occurred during the period.

National Long-Distance – Income from domestic long-distance was R\$4.4 billion, representing a 4.4% reduction in relation to the previous year. This reduction occurred due to the growing number of blocked lines due to bad debt and fraud and competition.

International Long-Distance – Income from international long-distance underwent a 22.2% drop in 2002. This drop is due to traffic reduction because of blocking due to bad debt or fraudulent lines and the entrance of new competitors into this market segment.

Operating Profit before Financial Expenses – In 2002, Embratel presented an operating profit before financial income of R\$216 million in comparison to a R\$64 million loss in 2001. This strong growth was caused by reducing expenses on doubtful accounts from R\$1.2 billion in 2001 to R\$627 million in 2002, as well as cutting interconnection cost in relation to income.

Net Loss – In 2002, Embratel presented a R\$626 million net loss. This loss is the result of the impact of the real devaluation against the dollar (52.3% in the year) in the unprotected debt against foreign exchange variations.

Financial Situation – Embratel closed the year with a R\$887 million cash position. Total debt on December 31, 2002 was R\$4.9 billion. Most of the company's debt is in foreign currency. About 35% of the company's total debt is protected against foreign exchange variation.

Accounts Receivable – The accounts receivable net balance on December 31, 2002 was R\$1.6 billion, representing a R\$338 million reduction in relation to December 2001. This reduction is due to improvement in billing and receiving time.

5 - Compliance with CVM (Brazilian Securities Commission) - Instruction nº 381

On January 14, 2002, CVM (Brazilian Securities Commission) issued Instruction nº 381, which regulates disclosure, by Audited Entities, of information on provision, by the independent auditor, of services other than external audit.

In the fiscal year ending on December 31, 2002, the independent auditors who provide service to Embratel and its controlled companies were hired for some additional services to examining financial statements. Such services were substantially hired between September and October 2002, and mainly referred to collection, critique and compilation of data prepared by the company's areas and/or by third parties, not involving expression of opinion or any other formal expression of judgment by external auditors in relation to the collected information.

Such additional hired services amounted to approximately R\$680 thousand and corresponded to more than 5% of the total amount of fees associated with external audit services.

The Company's procedure is to involve in advance its Legal Department in assessing the purpose of the services to be provided by external auditors in addition to examining financial results, in order to conclude, in the light of pertinent laws, whether such services, by their nature, do not represent a conflict of interest or affect the independence and objectivity of independent auditors.

6 – Investments

The company invested R\$1.0 billion in 2002. Investments were segmented as follows: access and local infrastructure – 24,6%; data and Internet services – 16.9%; network infrastructure – 9.8%; others 32.0% and Star One – 16.7%.

7 – Commitments with ANATEL

The company fulfilled, in 2002, all quality goals set by Anatel. The Call Completion Rate remained, on average, over 65% and Congestion Rate (CO) remained, on average, under 6%.

8 – Human Resources

Embratel closed 2002 with a staff of 12,010 employees, of which 7,106 are of the Operator Embratel itself, 187 are of *Star One* and 4,717 belong to *BrasilCenter*.

In 2002, there was a small addition to *BrasilCenter's* staff, a non-outsourced company, responsible for Embratel's customer care service. This is mainly due to the collection effort with defaulting customers, record correction and customer loyalty work such as automatic payments and alternative plans. *BrasilCenter's* employees hold 2,099 customer care service positions.

Embratel is continuously renewing its labor force, adding new talents and adjusting the profile of its teams to market requirements. By the end of 2002, it implemented an encouraged resignation program for employees reaching retirement age.

Embratel maintains a Quality of Life Program – *Feliz da Vida* (the Happily Alive) which for the second year in a row has been awarded the National Quality of Life Prize, highlighting Embratel among those companies aware of the importance of its employees' well-being to the organizations success.

9 – Acknowledgments

Concluding, we thank our Shareholders, Customers, Governments, Suppliers and Financial Institutions for their support and trust deposited, and especially our collaborators for their dedication and efforts.

The Management

Rio de Janeiro, March 17, 2003.

Embratel
Participações S.A.

*Financial Statements for the Years Ended
December 31, 2002 and 2001 and
Report of Independent Public Accountants*

Deloitte Touche Tohmatsu Auditores Independentes

(Convenience translation into English from the original previously issued in Portuguese.)

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

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

1. We have audited the accompanying individual (Company) and consolidated balance sheets of Embratel Participações S.A. and subsidiaries as of December 31, 2002, and the related statements of income, changes in shareholders' equity (Company) and sources and applications of funds for the years then ended, prepared under the responsibility of the Companies' management. Our responsibility is to express an opinion on these financial statements.
2. Our audits were conducted in accordance with auditing standards generally accepted in Brazil and comprised: (a) planning of the work, taking into consideration the materiality of balances, volume of transactions, and the accounting and internal control systems of the Company and its subsidiaries; (b) checking, on a test basis, of the evidence and records that support the amounts and accounting information disclosed; and (c) evaluating the relevant accounting practices and estimates made by the Company's management, as well as the presentation of the financial statements taken as a whole.
3. In our opinion, the financial statements referred to in paragraph 1 present fairly, in all material respects, the individual and consolidated financial position of Embratel Participações S.A. as of December 31, 2002, the results of their operations, the changes in shareholders' equity (Company), and the sources and applications of funds for the year then ended in accordance with accounting practices generally accepted in Brazil.
4. The individual (Company) and consolidated financial statements as of December 31, 2001, presented for comparative purposes, were audited by other independent public accountants, and an unqualified report was issued on February 15, 2002.
5. The accompanying financial statements have been translated into English for the convenience of readers outside Brazil.

Rio de Janeiro, March 17, 2003.

DELOITTE TOUCHE TOHMATSU
Auditores Independentes

Francisco Papellás Filho
Engagement Partner

EMBRATEL PARTICIPAÇÕES S.A.

BALANCE SHEETS AS OF DECEMBER 31, 2002 AND 2001

(In thousands of Brazilian reais)

(Translation of the report originally issued in Portuguese.

See Note 31 to the financial statements)

A S S E T S

	Notes	Company		Consolidated	
		2002	2001	2002	2001
CURRENT ASSETS		49,114	49,236	3,164,880	3,377,607
		-----	-----	-----	-----
Cash and cash equivalents	12	20,167	20,875	886,991	652,153
Trade accounts receivable	13	-	-	1,590,996	1,929,278
Deferred and recoverable taxes	14	28,947	28,361	437,838	606,191
Other current assets		-	-	249,055	189,985
NONCURRENT ASSETS		12,516	12,516	1,496,032	899,031
		-----	-----	-----	-----
Deferred and recoverable taxes	14	-	-	1,185,636	490,604
Deposits in court		12,516	12,516	270,011	341,562
Other noncurrent assets		-	-	40,385	66,865
PERMANENT ASSETS		4,717,786	5,344,538	8,184,696	8,181,438
		-----	-----	-----	-----
Investments	15	4,717,786	5,344,538	267,042	169,627
Property, plant and equipment	16	-	-	7,795,867	7,849,429
Deferred assets	17	-	-	121,787	162,382
		-----	-----	-----	-----
Total assets		4,779,416	5,406,290	12,845,608	12,458,076
		=====	=====	=====	=====

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

EMBRATEL PARTICIPAÇÕES S.A.

BALANCE SHEETS AS OF DECEMBER 31, 2002 AND 2001

(In thousands of Brazilian reais)

(Translation of the report originally issued in Portuguese.
See Note 31 to the financial statements)

LIABILITIES AND SHAREHOLDERS' EQUITY

	Notes	Company		Consolidated	
		2002	2001	2002	2001
CURRENT LIABILITIES		46,192	46,187	5,032,843	3,497,864
Personnel, charges and social benefits		-	2	118,075	99,202
Accounts payable and accrued expenses	18	81	1	1,680,690	1,569,123
Taxes and contributions	19	22,635	22,606	252,284	450,308
Dividends and interest payable on capital	23	23,466	23,565	37,720	30,240
Loans and financing	20	-	-	2,566,482	1,079,953
Provision for contingencies	21	-	-	53,378	33,573
Employees' profit sharing		-	-	42,113	22,610
Actuarial liabilities – Telos	22	-	-	63,973	61,506
Related party liabilities	24	-	3	96,671	39,091
Other current liabilities		10	10	121,457	112,258
NONCURRENT LIABILITIES		13,431	13,431	2,747,000	3,236,877
Loans and financing	20	-	-	2,325,453	2,648,157
Actuarial liabilities – Telos	22	-	-	338,982	358,343
Taxes and contributions	19	12,516	12,516	55,557	229,462
Sundry credits and other liabilities		915	915	27,008	915
DEFERRED INCOME		-	-	121,889	132,038
MINORITY INTEREST		-	-	224,083	244,625
SHAREHOLDERS' EQUITY	23	4,719,793	5,346,672	4,719,793	5,346,672
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		575,402	1,201,747	575,402	1,201,747
Total liabilities and shareholders' equity		4,779,416	5,406,290	12,845,608	12,458,076

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

EMBRATEL PARTICIPAÇÕES S.A.

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

(In thousands of Brazilian reais, except loss per thousand shares)

(Translation of the report originally issued in Portuguese.

See Note 31 to the financial statements)

	Notes	Company		Consolidated	
		2002	2001	2002	2001
GROSS OPERATING REVENUE					
Telecommunications services		-	-	9,217,872	10,052,001
Gross revenue deductions		-	-	(2,110,794)	(2,591,045)
		-----	-----	-----	-----
Net operating revenue	5	-	-	7,107,078	7,460,956
Cost of services	6	-	-	(4,736,435)	(4,954,802)
		-----	-----	-----	-----
Gross profit		-	-	2,370,643	2,506,154
		-----	-----	-----	-----
OPERATING REVENUES (EXPENSES)					
		(629,850)	(542,380)	(2,154,675)	(2,570,505)
		-----	-----	-----	-----
Selling expenses	7	-	-	(1,076,085)	(1,579,596)
General and administrative expenses	8	(3,158)	(3,216)	(1,109,119)	(987,958)
Other operating revenues (expenses), net		-	-	30,529	(2,951)
Equity method results		(626,692)	(539,164)	-	-
		-----	-----	-----	-----
OPERATING INCOME (LOSS)					
BEFORE INTEREST					
Interest income (expense)	9	3,640	1,711	(1,465,828)	(636,500)
		-----	-----	-----	-----
OPERATING LOSS					
		(626,210)	(540,669)	(1,249,860)	(700,851)
		-----	-----	-----	-----
Extraordinary non-operating income – ILL	11	-	-	198,131	-
Other non-operating income (expense), net	10	(58)	(29)	10,989	(75,902)
		-----	-----	-----	-----
LOSS BEFORE TAXES					
AND MINORITY INTEREST					
Income tax and social contribution on profits	11	(77)	(4,059)	414,196	222,088
Minority interest		-	-	(8,611)	(5,526)
		-----	-----	-----	-----
LOSS BEFORE REVERSAL OF					
INTEREST ON CAPITAL					
Reversal of interest on capital		-	-	8,813	6,520
		-----	-----	-----	-----
LOSS FOR THE YEAR					
	23	(626,345)	(544,757)	(626,342)	(553,671)
		=====	=====	=====	=====
QUANTITY OF OUTSTANDING SHARES					
(IN THOUSANDS)					
		332,629,361	332,932,361		
		=====	=====		
LOSS PER THOUSAND SHARES					
		(1.88)	(1.64)		
		===	===		

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

EMBRATEL PARTICIPAÇÕES S.A.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

(In thousands of Brazilian reais)

(Translation of the report originally issued in Portuguese.
See Note 31 to the financial statements.)

	Company					
	Capital stock	Income reserves		Treasury shares	Retained Earnings	Total
		Legal reserve	Unrealized earnings reserve			
BALANCES AS OF DECEMBER 31, 2000	2,134,427	190,491	1,721,622	(41,475)	2,077,105	6,082,170
Capital increase	139,486	-	-	-	(139,486)	-
Sale (repurchase) of shares – Note 23.f	-	-	-	374	(65)	309
Prior period adjustment - Medical Assistance Plan (CVM Deliberation No. 371) - Note 22	-	-	-	-	(191,050)	(191,050)
Loss for the year	-	-	-	-	(544,757)	(544,757)
	-----	-----	-----	-----	-----	-----
BALANCES AS OF DECEMBER 31, 2001	2,273,913	190,491	1,721,622	(41,101)	1,201,747	5,346,672
Repurchase of shares	-	-	-	(534)	-	(534)
Loss for the year	-	-	-	-	(626,345)	(626,345)
	-----	-----	-----	-----	-----	-----
BALANCES AS OF DECEMBER 31, 2002	2,273,913	190,491	1,721,622	(41,635)	575,402	4,719,793
	=====	=====	=====	=====	=====	=====
		1,912,113				
		=====				

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

EMBRATEL PARTICIPAÇÕES S.A.

STATEMENTS OF SOURCES AND APPLICATIONS OF FUNDS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

(In thousands of Brazilian reais)

(Translation of the report originally issued in Portuguese.

See Note 31 to the financial statements)

	Company		Consolidated	
	2002	2001	2002	2001
SOURCES OF FUNDS:				
From operations-				
Loss for the year	(626,345)	-	(626,342)	(553,671)
Expenses (revenues) not affecting working capital-				
Minority interests	-	-	8,611	5,526
Depreciation	-	-	1,075,128	998,368
Amortization	-	-	67,040	63,263
Monetary and exchange variations and other charges on noncurrent liabilities	-	-	1,458,740	236,279
Monetary and exchange variations and other revenues from noncurrent assets	-	-	-	120
Exchange variation on investments	-	-	(97,317)	(26,983)
Realization of deferred income	-	-	(19,132)	(26,767)
Investment write-off	60	-	-	-
Loss on disposal of property, plant and equipment	-	-	5,887	76,398
Loss (gain) on long term hedge contracts	-	-	(228,536)	142,556
Long term deferred income tax and social contribution	-	-	(696,869)	(168,590)
Actuarial liabilities update – Medical Health Care Plan	-	-	(16,736)	-
Equity on investment	626,692	-	-	-
Other operating revenues	-	-	(26,445)	(22,667)
	-----	-----	-----	-----
	407	-	904,029	723,832
From third parties-				
Increase in noncurrent liabilities-				
Taxes and contributions	-	-	861	61,844
Loans and financing	-	-	722,585	1,712,118
Actuarial liabilities - Telos (Note 22)	-	-	-	193,424
Other liabilities	-	12,516	26,093	-
Transfer from noncurrent to current assets	-	-	44,075	273,778
Transfer from investment to deferred assets on merger of Acessionet (Note 17)	-	-	-	202,978
Effect of the merger of Star One	-	-	-	8,914
Effect of the merger of Star One – minority interests	-	-	-	27,221
Reduction in noncurrent assets	-	-	181,220	-
Effect on Parent Company of adjustment to subsidiary's shareholder's equity (Note 22)	-	191,050	-	-
Disposal of property, plant and equipment	-	-	5,766	7,938
Increase in deferred income	-	-	8,983	48,178
Sale of shares	-	374	-	374
Other	-	129	1,479	-
	-----	-----	-----	-----
Total sources of funds	407	204,069	1,895,091	3,260,599

(continue

EMBRATEL PARTICIPAÇÕES S.A.

STATEMENTS OF SOURCES AND APPLICATIONS OF FUNDS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

(In thousands of Brazilian reais)

(Translation of the report originally issued in Portuguese.
See Note 31 to the financial statements)

	Company		Consolidated	
	2002	2001	2002	2001
APPLICATIONS OF FUNDS:				
In operations -				
Loss for the year	-	544,757	-	-
Expenses not affecting working capital - Equity method results	-	(539,164)	-	-
	-----	-----	-----	-----
	-	5,593	-	-
Increase in noncurrent assets	-	6,933	125,427	436,944
Decrease in noncurrent liabilities -				
Taxes and contributions	-	-	173,122	-
Additions to investments	-	-	98	17,270
Additions to property, plant and equipment	-	-	1,034,700	1,465,008
Transfer from investment to deferred assets on merger of Acessionet (Note 17)	-	-	-	202,978
Proposed dividends and interest on capital	-	-	23,728	-
Effect of capital increase in subsidiary Star One – minority interests	-	-	5,425	-
Repurchase of shares	534	65	534	65
Prior period adjustment (Note 22)	-	191,050	-	191,050
Transfer from noncurrent to current liabilities	-	-	2,279,763	855,065
	-----	-----	-----	-----
Total applications of funds	534	203,641	3,642,797	3,168,380
	-----	-----	-----	-----
INCREASE (DECREASE) IN NET WORKING CAPITAL	(127)	428	(1,747,706)	92,219
	=====	=====	=====	=====
VARIATIONS OF NET WORKING CAPITAL:				
CURRENT ASSETS:				
At beginning of period	49,236	249,202	3,377,607	3,399,485
At end of period	49,114	49,236	3,164,880	3,377,607
	-----	-----	-----	-----
	(122)	(199,966)	(212,727)	(21,878)
	-----	-----	-----	-----
CURRENT LIABILITIES:				
At beginning of period	46,187	246,581	3,497,864	3,611,961
At end of period	46,192	46,187	5,032,843	3,497,864
	-----	-----	-----	-----
	5	(200,394)	1,534,979	(114,097)
	-----	-----	-----	-----
INCREASE (DECREASE) IN NET WORKING CAPITAL	(127)	428	(1,747,706)	92,219
	=====	=====	=====	=====

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

EMBRATEL PARTICIPAÇÕES S.A.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2002 AND 2001

(Amounts in thousands, except as indicated otherwise)

(Translation of the report originally issued in Portuguese.
See Note 31 to the financial statements)

1. OPERATING OVERVIEW

Embratel Participações S.A. (“Company”) 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.

The businesses of the subsidiaries Embratel and Star One S.A. are regulated by Anatel (Agência Nacional de Telecomunicações), which is the regulatory authority for the Brazilian telecommunications industry, pursuant to Law No. 9,472, of July 16, 1997, and related regulations, decrees, decisions and plans.

On August 15, 2002, the subsidiary Embratel was granted an undefined term authorization by Anatel to operate Switched Fixed Telephony Services (STFC), for local services, in areas equivalent to regions I, II and III of the General Grant Plan (“Plano Geral de Outorgas”), which represents the authorization to operate in domestic territory. The subsidiary Embratel started rendering those services effective in December 2002.

On November 1, 2000, the subsidiary Embratel incorporated Star One S.A. to manage satellite operations, as 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.

2. PRESENTATION OF FINANCIAL STATEMENTS

The individual and consolidated financial statements as of December 31, 2002 and 2001 were prepared in accordance with accounting practices established by the Brazilian corporate law, instructions applicable to telecommunications concessionaires and rules and accounting procedures established by the Brazilian Securities Commission (CVM - Comissão de Valores Mobiliários).

3. SUMMARY OF PRINCIPAL ACCOUNTING PRACTICES

a. Cash and Cash Equivalents

Cash and cash equivalents refer to 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, when applicable.

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 holdings 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.

The current annual depreciation rates used are calculated on the straight-line method based on the expected useful life of the assets. The main rates used are shown in Note 16.

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 16, fixed assets acquired through leasing contracts are capitalized and the corresponding lease finance is registered as a liability. The liabilities arising from such transactions bear interest and, where applicable, exchange variations.

f. Deferred Assets

This represents the goodwill associated with the acquisition of Acessonet Ltda., which is being amortized over 5 (five) years (Note 17).

g. Loans and Financing

Loans and financing include accrued interest and are updated based on exchange or monetary variation to the balance sheet date, according to the terms of each agreement.

h. Income Tax and Social Contribution

Income tax and social contribution on net income are recorded on an accrual basis. Deferred taxes are provided on temporary differences, tax losses and on the negative basis for calculation of social contribution, as described in Notes 11, 14 and 19, based on the assumption of its future realization.

i. Provision for Contingencies

The provision for contingencies is updated through the closing dates of the financial statements for losses, according to the nature of each contingency. The basis and nature of the provisions are described in Note 21.

j. 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 22). Contributions to the plans are determined according to actuarial calculations and recorded on an accrual basis.

According to CVM Deliberation No. 371 issued on December 13, 2000, actuarial liabilities were integrally recognized in financial statements as of December 31, 2001.

k. 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.

l. 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.

m. Interest Income (Expense)

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

n. Employees' Profit Sharing

The subsidiaries Embratel and Star One have provided for employees' profit sharing, calculated based on corporate and individual goals, and payment of which is subject to approval by the General Meeting of Shareholders. As determined by Circular Letter CVM/SEP/SNC No. 01/2003, issued on January 16, 2003, the Company and its subsidiaries reclassified that expense to operational expenses in the statements of income for the period. For comparative purposes, the statements of income for the year ended December 31, 2001 also reflects such reclassification.

o. Minority Interests

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

p. Loss per Thousand Shares

Loss per thousand shares is calculated based on the number of shares outstanding at the balance sheet date.

q. Use of Estimates

For consolidation purposes, Management is required to make estimates and assumptions related to the recording and disclosure of assets and liabilities, as well as revenues and expenses, on the consolidated financial statements. Actual results may differ from those estimates.

4. CONSOLIDATION PROCEDURES

For consolidation purposes, intercompany balances and transactions were eliminated, including items such as intercompany investments, unrealized profits, when applicable, equity adjustments, intercompany income and expense accounts and intercompany balances under short and long-term assets and liabilities. The intercompany investments were eliminated against the respective

intercompany shareholders' equity. Minority interests in the results and shareholders' equity are also separately reported.

The consolidated financial statements as of December 31, 2002 and 2001 include the financial statements of Embratel Participações S.A. and of its direct and indirect subsidiaries, as follows:

	Voting capital stock	
	Direct and/or indirect share (%)	
	2002	2001
Empresa Brasileira de Telecomunicações S.A. - Embratel	98.8	98.8
BrasilCenter Comunicações Ltda.	100.0	100.0
Embratel Americas, Inc.	100.0	100.0
Star One S.A.	80.0	80.0
Ponape Telecomunicações Ltda.	100.0	100.0
Palau Telecomunicações Ltda.	100.0	100.0
Embratel Clearinghouse Ltda.	100.0	100.0
Embratel Internacional S.A.	100.0	100.0
Embratel Uruguay S.A. ⁽¹⁾	100.0	-
Gollum Investments, Inc. ⁽²⁾	100.0	-
Embratel Soluções Ltda. ⁽³⁾	-	100.0

⁽¹⁾ On April 18, 2002, the subsidiary Embratel acquired Embratel Uruguay S.A., located in Montevideo, Uruguay, for the purpose of exploring and rendering telecommunications services.

⁽²⁾ On December 16, 2002, the subsidiary Embratel incorporated Gollum Investments, Inc, located in Delaware, USA, for the purpose of investing and/or controlling investments.

⁽³⁾ Embratel Soluções Ltda. finished operations in April 2002.

5. NET OPERATING REVENUE

	Consolidated	
	2002	2001
Voice-		
Domestic long-distance	4,356,796	4,555,279
International long-distance	666,714	857,072
	-----	-----
	5,023,510	5,412,351
Data & Internet-		
Corporate and other	1,756,507	1,691,099
Telecommunications companies	75,932	123,630
	-----	-----
	1,832,439	1,814,729
Other services	251,129	233,876
	-----	-----
Net operating revenue	7,107,078	7,460,956
	=====	=====

6. COST OF SERVICES

	Consolidated	
	2002	2001
Interconnection/facilities	(3,274,291)	(3,567,487)
Depreciation and amortization	(981,351)	(929,201)
Personnel	(228,045)	(229,972)
Third-party services (*)	(204,281)	(161,124)
Other	(48,467)	(67,018)
	-----	-----
Total	(4,736,435)	(4,954,802)
	=====	=====

(*) Refers substantially to maintenance of telecommunications equipment and public services (energy).

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

7. SELLING EXPENSES

	Consolidated	
	2002	2001
Allowance for doubtful accounts	(627,136)	(1,155,498)
Personnel	(246,668)	(227,495)
Third-party services (*)	(188,331)	(176,643)
Depreciation and amortization	(3,484)	(2,882)
Other	(10,466)	(17,078)
	-----	-----
Total	(1,076,085)	(1,579,596)
	=====	=====

(*) Refers substantially to marketing, advertisement, advisory and consulting expenses.

8. GENERAL AND ADMINISTRATIVE EXPENSES

	Consolidated	
	2002	2001
Third-party services (*)	(585,085)	(442,127)
Taxes	(163,521)	(180,700)
Personnel	(134,514)	(162,749)
Depreciation and amortization	(157,333)	(129,548)
Employees' profit sharing	(31,302)	(18,156)
Other	(37,364)	(54,678)
	-----	-----
Total	(1,109,119)	(987,958)
	=====	=====

(*) Refers substantially to maintenance of installations, public services, printing and postage of invoices, auditing and consulting expenses.

9. INTEREST INCOME (EXPENSE)

	Company		Consolidated	
	2002	2001	2002	2001
Interest income-				
Interest on temporary investments	3,640	1,925	181,622	92,021
Monetary variation - credit	-	-	396	260
Exchange variation - credit	-	-	337,175	100,176
	-----	-----	-----	-----
Subtotal	3,640	1,925	519,193	192,457
	-----	-----	-----	-----
Interest expense-				
Interest charges		(214)	(346,390)	(273,343)
Interest on capital	-	-	(8,813)	(6,520)
Monetary variation - charge	-	-	(41,652)	(41,710)
Exchange variation - charge	-	-	(1,588,166)	(507,384)
	-----	-----	-----	-----
Subtotal	-	(214)	(1,985,021)	(828,957)
	-----	-----	-----	-----
Total	3,640	1,711	(1,465,828)	(636,500)
	=====	=====	=====	=====

In 2002, the Brazilian real devalued by 52.27% (18.67% in 2001) against the US dollar, resulting in an exchange variation expense in the amount of R\$1,588,166 (R\$507,834 in 2001) in the period, net of losses on hedge contracts recorded during the year, in the amount of R\$703,474 (R\$80,747 in 2001).

10. OTHER NONOPERATING INCOME (EXPENSE), NET

	Consolidated	
	2002	2001
Revenues-		
Proceeds from sale of permanent assets	5,766	7,938
International consortia	6,888	40
Rent of infrastructure to third parties	14,495	10,354
Other	3,193	6,135
Expenses-		
Write-off of permanent assets	(11,653)	(84,336)
Sponsorships/cultural incentives (Rouanet Law)	(6,899)	(11,491)
Other	(801)	(4,542)
	-----	-----
Total	10,989	(75,902)
	=====	=====

11. INCOME TAX AND SOCIAL CONTRIBUTION

The Company and its subsidiaries are subject to corporate income tax (IRPJ) and social contribution on profits (CSSL) on their actual profit, and have chosen to pay such taxes based on monthly estimates. As provided in current tax legislation, the monthly estimated payment is suspended or reduced when the amounts originated from such criteria are higher than those obtained through calculation made based on the accumulated actual profit of the current period, upon balance sheets prepared for this purpose (tax balance sheet). 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 19).

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 December 31, 2002, the subsidiary Embratel had R\$1,079,118 in tax losses and R\$949,040 of negative basis of social contribution (on December 31, 2001, R\$113,667 in tax losses and R\$2,403 of negative basis of social contribution).

11.1 - Income Tax and Social Contribution Income (Expenses)

The income tax and social contribution expense is comprised of the current expense for the year, 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 year. The deferred income tax and social contribution income for the years ended December 31, 2002 and 2001 totals R\$437,327 and R\$244,572, respectively (consolidated), and were calculated on the allowance for doubtful accounts, tax losses, temporarily non-deductible taxes and other expenses, as well as other temporarily non-taxable revenues (Note 14).

Breakdown of Income Tax and Social Contribution Income (Expenses)

	Company		Consolidated	
	2002	2001	2002	2001
Current-				
Social contribution	(27)	(35)	(6,123)	(4,877)
Income tax	(50)	(5,896)	(17,008)	(17,607)
	-----	-----	-----	-----
Total current expense	(77)	(5,931)	(23,131)	(22,484)
	-----	-----	-----	-----
Deferred-				
Social contribution	-	487	115,696	66,410
Income tax	-	1,385	321,631	178,162
	-----	-----	-----	-----
Total deferred income	-	1,872	437,327	244,572
	-----	-----	-----	-----
Total	(77)	(4,059)	414,196	222,088
	=====	=====	=====	=====

The current income tax and social contribution charge, reported in the statements of income of 2002 and 2001, arises substantially from the subsidiary Star One.

11.2 - 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 in relation to the amounts recorded is shown below:

	Company		Consolidated	
	2002	2001	2002	2001
Loss before taxes, minority interest and reversal of interest on capital	(626,268)	(540,698)	(1,040,740)	(776,753)
Social contribution income at nominal rate	56,364	48,663	93,667	69,908
Rate adjustment to obtain effective rate-				
Social contribution credit set up on				
Exempt international income	-	-	-	2,261
Social contribution on amortization of goodwill from merger	-	-	(2,380)	(2,380)
Non-deductible financial charges	-	-	4,981	(4,981)
Favorable decision on ILL lawsuit	-	-	12,961	-
Sundry permanent additions and exclusions (*)	(56,391)	(48,211)	344	(3,275)
Social contribution benefit (expense) on statement of income	(27)	452	109,573	61,533
Income tax income at nominal rate-	156,567	135,175	260,185	194,188
Rate adjustment to obtain effective rate-				
Income tax on amortization of goodwill from merger	-	-	(6,611)	(6,611)
Non-deductible financial charges	-	-	13,837	(13,837)
Favorable decision on ILL lawsuit	-	-	36,002	-
Sundry permanent additions and exclusions (*)	(156,617)	(139,686)	1,210	(13,185)
Corporate income tax credit (expense) per statement of income	(50)	(4,511)	304,623	160,555
Total (corporate income tax + social contribution)	(77)	(4,059)	414,196	222,088

(*) Sundry permanent additions and exclusions at the Parent Company are substantially related to equity method results on investments.

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%.

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 then in force. 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 taxpayers 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 March 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 2002</u>
Reversal due to favorable decision on ILL suit	144,006
Financial income – monetary variation	54,125

Total	<u>198,131</u>
	=====

12. CASH AND CASH EQUIVALENTS

	<u>Company</u>		<u>Consolidated</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
Cash and bank deposits	33	107	268,837	292,932
Foreign short-term investments	-	-	292,164	136,356
Marketable securities	20,134	20,768	325,990	222,865
	-----	-----	-----	-----
Total	<u>20,167</u>	<u>20,875</u>	<u>886,991</u>	<u>652,153</u>
	=====	=====	=====	=====

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.

13. TRADE ACCOUNTS RECEIVABLE

	<u>Consolidated</u>	
	<u>2002</u>	<u>2001</u>
Voice services	2,676,977	2,529,338
Data, telecom operators and other services	585,377	596,490
Foreign administrators	319,126	255,519
	-----	-----
Subtotal	3,581,480	3,381,347
Allowance for doubtful accounts	(1,990,484)	(1,452,069)
	-----	-----
Total	<u>1,590,996</u>	<u>1,929,278</u>
	=====	=====

The Company constantly monitors its accounts receivables past due. An allowance for doubtful accounts is recognized as from the first day after maturity, and is gradually increased to reflect any deterioration in recoverability with the aging of receivables. The balance of the allowance for doubtful accounts as of December 31, 2002 and 2001 refers substantially to provisions for amounts over 120 days past due on voice services.

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, until it was finally able to obtain the necessary capability and instituted management measures to prevent abuses which were deteriorating its accounts receivables. As a result, in March 2001, the Company could prevent 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 its net accounts receivables 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 subsidiary Embratel’s network. While fixed-line companies are obligated to provide such information to the subsidiary Embratel, 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 subsidiary Embratel able to determine the creditworthiness of the user. Blocking procedures are then implemented along with other measures to manage calls trying to recover the amounts billed;
- c) Market deterioration in customer creditworthiness during 2001 – from 2000 to 2001 client delinquency has 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.

During 2002, the Company continued making significant investments in measures to improve its collection rate as well as continued to more aggressively manage calls to ensure that non-payers were prevented from using its network. These investments caused a decrease in the allowance for doubtful accounts expense by approximately R\$528,000 in 2002, in comparison with 2001.

At the end of the first quarter of 2002, the number of blocked lines had increased to 3.1 million. In March 2002, the Company has also completed, installation of a new collections system, known as “CACs”, that provides the Company with better information on collections and past due accounts. During the first quarter of 2002, the Company has implemented a new call management system, known as “Infusion”, will improve its ability to filter calls. From this time forward, 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 system also increased the Company’s capacity to improve both managing of calls and collections. Also in 2002, the Company signed co-billing agreements with local phone service providers. This consists of invoicing customers for services rendered by the subsidiary Embratel on the same bill which is used by the local phone company to charge for its own services. Co-billing is a billing alternative which the subsidiary Embratel offers to its customers to make the payment easier. Co-billing may also contribute to improve collections as the procedure is more fully implemented.

14. DEFERRED AND RECOVERABLE TAXES

	Company		Consolidated	
	2002	2001	2002	2001
Deferred tax assets-				
Provision for write-off of property, plant and equipment	-	-	17,732	43,708
Tax losses	-	-	269,779	28,419
Negative basis of social contribution purposes	-	-	85,414	216
Allowance for doubtful accounts	-	-	676,765	493,703
Goodwill on the acquisition of investment	-	-	26,974	35,965
Cofins/PIS – temporarily non-deductible	1,872	1,872	30,402	89,263
Other deferred taxes (provisions)	-	-	145,444	132,900
Withholding income tax (IRRF)	26,979	26,376	75,012	52,410
Recoverable income tax/social contribution	96	113	15,133	22,473
Value-added goods and services tax – ICMS	-	-	262,564	176,923
Other	-	-	18,255	20,815
	-----	-----	-----	-----
Total	28,947	28,361	1,623,474	1,096,795
	=====	=====	=====	=====
Current	28,947	28,361	437,838	606,191
	=====	=====	=====	=====
Noncurrent	-	-	1,185,636	490,604
	=====	=====	=====	=====

As part of the agreement for the sale of a minority shareholding in the subsidiary Star One S.A., in January 2001, SES Participações Ltda. (the Brazilian subsidiary of the new minority shareholder) was merged into Star One S.A. Deferred Income Tax and Social Contribution credits (Assets), in the amount of R\$26,974 as of December 31, 2002 (R\$35,965 in 2001) resulted from that merger, and were recognized in Star One's financial statements as a deferred asset and with 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: recovery will occur proportionally to the amortization of the goodwill from the subsidiary Star One, in a 5-year term.
- c. Other temporary differences: realization will occur with the payment of accrued provisions and the actual write-off of underlying doubtful accounts.

In July 2002, CVM Instruction No. 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 reviewed by the Company's Fiscal Counsel, indicate the full recovery of the amounts recognized by the subsidiaries 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:

<u>Year</u>	
2003	175,955
2004	134,663
2005	189,105
2006	129,657
2007	204,339
2008 through 2009	375,696

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 sufficient to recover the full amount of the assets, it may be forced to write off part of the credit recorded. However, some measures have already been or are being taken by the Company's Management in order to make its business return to profitability and, in doing so, to assure the realization of tax credits, among which we highlight:

- a. Better management of services, seeking to improve collectability of revenues and reducing costs associated with high bad debt rates (Note 13);
- b. Launching of operations in the local telephony market as from December 2002 (Note 1);
- c. Renegotiation of debt with financial institutions (Note 20); and
- d. Continuing efforts to reduce operational costs.

15. INVESTMENTS

	<u>Company</u>	
	<u>2002</u>	<u>2001</u>
Investments - at equity-		
Empresa Brasileira de Telecomunicações S.A.	4,717,805	5,344,502
Embratel Soluções Ltda.	-	55
Ponape Telecomunicações Ltda.	10	10
Other investments - at cost	(29)	(29)
	-----	-----
Total	4,717,786	5,344,538
	=====	=====

Details of the investment in the subsidiary Embratel as of December 31, 2002 and 2001 are as follows:

	Subsidiary	
	2002	2001
Paid-in capital stock	2,700,000	2,700,000
Shareholders' equity	4,776,419	5,410,903
Book value per thousand shares - expressed in reais	1,011.13	1,145.44
Loss for the year, after reversal of interest on capital	(634,667)	(545,860)
Total number of shares (in thousands)	4,723,844	4,723,844
Quantity of shares held (in thousands)	4,665,875	4,665,875
Direct share	98.8%	98.8%
Equity method results	(626,697)	(539,162)
Book value of investment	4,717,805	5,344,502

The consolidated investments as of December 31, 2002 and 2001, R\$267,042 and R\$169,627, respectively, refer substantially to interests in international satellite companies.

16. PROPERTY, PLANT AND EQUIPMENT

	Annual depreciation rates (%)	Consolidated			
		2002	2001		
		Cost	Accumulated depreciation ⁽³⁾	Net book value	Net book value
Construction in progress	-	815,705	-	815,705	1,551,887
Switching equipment	7.69	1,995,640	(705,486)	1,290,154	952,748
Transmission equipment	10.00 to 20.00	7,727,919	(3,731,000)	3,996,919	3,880,998
Buildings and ducts	4.00	1,279,754	(645,887)	633,867	642,740
Land	-	189,869	-	189,869	189,660
Other assets-	5.00 to 20.00				
Sundry equipments ⁽¹⁾		584,650	(374,640)	210,010	253,504
Intangible ⁽²⁾		723,413	(263,776)	459,637	292,149
Telecommunications					
Infrastructure		614,256	(414,550)	199,706	85,743
Total		13,931,206	(6,135,339)	7,795,867	7,849,429

⁽¹⁾ Vehicles, IT infrastructure, furniture and fixtures.

⁽²⁾ Software licenses and rights of way.

⁽³⁾ On December 31, 2002, fully depreciated assets amount to R\$1,701,506 (R\$1,451,197 on December 31, 2001).

a. Assets related to the concession contract

The concession to provide international and domestic long-distance telecommunications services, as mentioned on Note 1, foresees the reversibility of certain fixed assets indispensable for the rendering of concession services, in order to guarantee its continuity after the concession expires.

As regards the fixed assets considered as reversible, the General Telecommunications Law established that those 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.

b. Assets acquired through financial leasing

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.

c. Assets pledged as a guarantee

As of December 31, 2002, the Company had real estate and other fixed assets, considered as non reversible, in the amount of R\$416,627, listed and/or designated as guarantees in judicial claims.

d. Construction of the C-1 Satellite – Star One subsidiary

In 2002, the subsidiary Star One S.A. signed an agreement for construction of the satellite “C-1”. The cost of the project is approximately equivalent to US\$126,105, and, according to the original 32-month schedule, will be concluded in 2005. Based on the agreement, on December 31, 2002, the amount of R\$115,973 related to the payment of 15% of the total costs estimated for the project, plus other building costs incurred until that date, was recorded under the heading Construction in Progress.

In November 2002, the subsidiary Star One and the contractor agreed to revise technical specifications of satellite C-1, in order to optimize benefits of this investment. While the final revisions to the specifications are being made, the contractor will work only on the items not affected by possible changes. The final revision proposals for the specifications, including any contractual changes, as well as the schedule previously agreed, are expected by the end of the first quarter of 2003.

The original agreement provides that, if the construction of satellite C-1 is cancelled, the subsidiary Star One would be obliged to reimburse the contractor and its sub-contracted parties the costs incurred until the date of cancellation, plus 5% of that amount, after subtracting the payments made.

17. DEFERRED ASSETS

	Consolidated	
	2002	2001
Goodwill on acquisition of subsidiary	202,978	202,978
Accumulated amortization	(81,191)	(40,596)
	-----	-----
Net book value	121,787	162,382
	=====	=====

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 forecasted future profits, the subsidiary Embratel transferred the goodwill paid upon the acquisition of Acessionet, in December 2000, to a specific account in deferred charges.

18. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	Consolidated	
	2002	2001
Suppliers	1,238,376	1,188,446
Foreign administrators	326,306	275,235
Consignment for third-parties/other	116,008	105,442
	-----	-----
Total	1,680,690	1,569,123
	=====	=====

19. TAXES AND CONTRIBUTIONS

	Company		Consolidated	
	2002	2001	2002	2001
Indirect taxes-				
ICMS (value-added tax)	-	-	57,479	104,372
PIS/Cofins (social/finance contributions)	17	5	26,583	30,008
PIS/Pasep - in suspension	-	-	114,263	94,176
Cofins - judicial deposit in court (increase of Tax rate from 2% to 3%)	12,516	12,516	12,801	186,565
ISS (municipal service tax)	-	-	7,786	8,107
Other	2	-	19,113	9,882
Income taxes-				
Income tax on interest on capital	22,601	22,601	29,213	22,601
Income tax in suspension – Federal Senate Resolution No. 82/92 (Note 11.2.a)	-	-	-	179,612
Income tax – estimate	6	-	306	-
Social contribution – estimate	9	-	(10)	-
Deferred taxes - liabilities-				
Law No. 8,200/91 - supplementary Monetary restatement	-	-	40,307	44,447
Total	35,151	35,122	307,841	679,770
Current	22,635	22,606	252,284	450,308
Noncurrent	12,516	12,516	55,557	229,462

In 1999, the subsidiary Embratel challenged the changes caused by Law No. 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\$173,122, and the corresponding judicial deposits in the same amount.

20. LOANS AND FINANCING

	Consolidated			2001 Total
	2002 Principal	2002 Interest	2002 Total	
Financial institutions	4,747,591	135,544	4,883,135	3,694,524
Suppliers	8,654	146	8,800	33,586
Total	4,756,245	135,690	4,891,935	3,728,110
Current	2,430,792	135,690	2,566,482	1,079,953
Noncurrent	2,325,453	-	2,325,453	2,648,157

The 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 26), as described below:

	Amounts	%	Average cost of debt	Maturity
Current-				
Hedged debt (notional amount)	1,599,623	62.3	99.11% CDI p.a.	From January to December 2003
Unhedged debt	966,859	37.7	7.26% p.a. in foreign currency (i)	From January to December 2003
Total short term debt	2,566,482	100.0		
Noncurrent-				
Hedged debt (notional amount)	246,894	10.6	94.85% CDI p.a.	From February to August 2004
Unhedged debt	2,078,559	89.4	7.89% p.a. in foreign currency (i)	From January 2004 to September 2010
Total long term debt	2,325,453	100.0		
Total-				
Hedged debt	1,846,517	37.7		
Unhedged debt	3,045,418	62.3		
Total debt (ii)	4,891,935	100.0		

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

(ii) Net of receivable balance originated from hedge contracts - R\$499,359 on December 31, 2002.

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.

In February 2003, the Company renegotiated part of its loans with some banking institutions. Therefore, the original agreements with those institutions were redefined, as regards to repayment schedules, guarantees, breakdown by currency and interest rates, as described in item "f" below.

a. Mode/Objective

	<u>2002</u>	<u>2001</u>
Local currency-		
Permanent assets financing-		
Financial institutions	34,724	34,498
Suppliers	1,686	-
	-----	-----
Total in local currency	36,410	34,498
	=====	=====
Foreign currency-		
Working capital	2,766,877	2,163,423
Permanent assets financing-		
Financial institutions	2,081,534	1,496,603
Suppliers	7,114	33,586
	-----	-----
Total in foreign currency	4,855,525	3,693,612
	=====	=====

b. Repayment Schedule

Noncurrent debt is scheduled to be repaid as follows:

<u>Year</u>	<u>2002</u>	<u>2001</u>
2003	-	1,295,478
2004	1,087,891	611,620
2005	544,333	326,014
2006	329,214	185,677
2007	203,689	124,743
2008 and after	160,326	104,625
	-----	-----
Total	2,325,453	2,648,157
	=====	=====

c. Breakdown by Currency

Updated by	2002		2001	
	Exchange rate as of December 31 (in R\$)	Amount	Exchange rate as of December 31 (in R\$)	Amount
Real	-	36,410	-	34,498
US Dollar	3.533300	2,642,030	2.320400	2,634,208
French Franc	0.568215	251,474	0.313113	165,745
German Mark	1.905716	16,246	1.050140	10,580
Japanese Yen	0.029839	1,945,775	0.017704	883,079
Total		4,891,935		3,728,110

d. Guarantees

On December 31, 2002, loans and financing operations were guaranteed primarily by promissory notes (though they do not represent real guarantees, these notes are executable instruments in cases of indebtedness).

e. Financial agreement for the construction of satellite – subsidiary 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 current agreement foresees the following guarantee clauses:

- e.1.) during the entire term of the agreement, the subsidiary Star One pledges to keep deposits, in the creditor's services accounts, in an amount in Brazilian reais equivalent to 6 months of the above mentioned loan in US dollars, and to issue a promissory note in favor of BNP Paribas, in the outstanding balance of principal and interest in US dollars. The promissory note has attributable characteristics according to the French Laws. It is a legal instrument that can be executed judicially with the purpose of reinforcing guarantees offered to creditors, and represents a commitment to pay the cited amounts, in the case of the subsidiary Star One delays the payments contractually scheduled;
- e.2.) in the event of unavailability of the above mentioned guarantee, there is the guarantee of part of the accounts receivable originated from the 10-year term agreement signed between subsidiaries Embratel and Star One for the rent of transponders; and

- e.3.) in the event of unavailability of guarantees “e.1.” and “e.2.”, the subsidiary Embratel, controlling shareholder of subsidiary Star One, is unconditionally responsible for paying the principal.

During the term of the agreement, the subsidiary Embratel pledges to hold not less than 51% of the total shares with right of vote of subsidiary Star One.

The first draft should have occurred in August 2002. However, as mentioned in Note 16, the terms of the original agreement for the acquisition of the satellite are being renegotiated with the supplier for changes in technical specifications, in order to optimize performance of satellite C-1. Consequently, the building of the satellite and the first draft were postponed in relation to the initial schedule, in order to properly adjust the terms of the original agreement.

f. Renegotiation of debt

On March 17, 2003, an agreement was reached with some banking institutions to roll over maturing debt. The agreement comprised the renegotiation of an amount equivalent to US\$709,814, which would be originally due within 18 months as from December 31, 2002. Of this amount, US\$606,408 referred to loans involving principal to be paid in full and US\$103,406 to be amortized within the aforementioned period.

The major conditions of the agreement are as follows:

a) Agreements with principal to be paid in full:

The outstanding balance shall be paid as follows: (i) 20% upon maturity, according to the original agreements, and part of it, equivalent to 10% of the outstanding balance of the loans with principal to be paid in full, with guarantees in the amount of US\$76,523 given by the subsidiary Embratel or by one of its subsidiaries; (ii) 7 quarterly installments, corresponding to approximately 4.29% of the outstanding balance; and (iii) 50% of the remainder in 2 years after the original maturity date.

b) Agreements with principal to be paid in installments:

The amortization scheduled according to the original agreements that would occur between the date of renegotiation and June 30, 2004 will not be made, and the accumulated amount of debt in the period will be divided by the number of future installments provided in the original agreements, which will be duly paid.

c) Interest rates renegotiated:

Debt by currency:	Amount in R\$ renegotiated:	Interest Rates:
Loans in US dollars	974,211	Libor + 4% p.a.
Loans in Japanese Yens	1,504,091	Yen Libor + 4% p.a.
Loans in Brazilian reais	64,039	CDI + 4% p.a.

- d) Main guarantees established, which were also extended to all banking institutions with outstanding loan agreements on the renegotiation date with “*pari-passu*” right of participation in guarantees, include part of the receivables from corporate customers of the subsidiary Embratel, as well as shares and dividends of subsidiary.
- e) The subsidiary Embratel is bound by financial covenants to the creditor banking institutions, on account of the renegotiated agreements, with respect to the following items: the level of debt, minimum earnings before financial result, income taxes, depreciation and amortization (“EBITDA”), and limits for capital expenditures, among other requirements.

21. 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 the Company 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, subsidiary 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:

	<u>2002</u>	<u>2001</u>
Commercial disputes with third parties (item a)	17,268	11,340
Labor claims (item b)	29,610	22,233
Other judicial claims (item f)	6,500	-
	-----	-----
Total provision for contingencies	<u>53,378</u>	<u>33,573</u>

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\$17,268 (R\$11,340 on December 31, 2001) in its financial statements.

b. Labor Claims

The provision for loss on labor claims amounted to R\$29,610 on December 31, 2002 (R\$22,233 on December 31, 2001). 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 December 31, 2002, in the amount of, approximately, R\$27,697 (R\$28,839 on December 31, 2001) 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 of R\$22,930, which was not covered by the initial appeal, is currently deposited in court, in an interest-bearing account. In light of the good chances of success on the judicial appeal and in view of analyses conducted internally and by the Company's Legal 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.

On February 8, 1999, the Company made a formal consultation on the matter to the Brazilian Income Tax authorities. In their response of September 3, 1999, 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 taxpayer, reiterated its opinion on the non remittance 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, still to be reviewed at the second administrative level, 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. On September 30, 2002, the Company made the administrative deposit in the amount of R\$35,532 (including interests and fine), with a reduction of 30% relating to a judicial fine, pending a final review of this matter.

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.

On December 23, 2002, the Company was notified of a decision by SRF which modifies their previous interpretation on this matter, indicating that withholding income tax is applicable to payments to foreign companies for outbound traffic from the date of the payment. In view of legal precedent that contradicts this new interpretation of the SRF, the Company has challenged this decision at the administrative level.

Based on the opinion of the Company's Management and Legal Counsel, which considers that the possibility of loss is minimal, no loss provision has been accrued 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 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. On October 24, 2002, the first administrative level issued a decision which kept the assessment. The Company will appeal from this decision before the Taxpayers' Council.

On June 17, 1999, the subsidiary Embratel 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 at 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, and on December 12, 2002, the payment was suspended, pending a final decision by the Court.

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, jointly with its legal counsel, 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\$351,000 as of December 31, 2002 (R\$290,000 as of December 31, 2001). As a result of this evaluation, no provision was recorded in the financial statements.

In 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\$236,000. 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 are still pending. In view of the nature of those services, the Company believes that it can prevail in its arguments. Due to the interpretation of Company's management and legal counsel, which consider that the possibility of loss is possible, no loss provision was recorded in the financial statements with respect to this dispute.

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\$501,000, including fines and interest, for prior years' PIS/Cofins taxes.

The first claim, in the amount of R\$159,000, 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\$342,000, 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\$220,000. In view of this event, the actual remaining amount is R\$122,000. Such a decision is being challenged to a higher administrative level. Additionally, contradictory arguments were made in support of the claim, which reflect 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 legal counsel, the Company's management evaluated the probability of loss in these 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 from R\$55,000 to R\$50,000. 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\$30,000 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\$520,200 . This amount relates to disputed amounts from 2000.

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\$34,436 related to the months from August to November 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\$47,315 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 and its legal counsel evaluate the probability of loss in these causes as possible, thus no provision was recorded in the financial statements.

22. 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 years of 2002 and 2001, is 19.8% of the salary of the active participants in this plan (34 participants on December 31, 2002).

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, provided in the plan's by-laws, for financing administrative expenses, and the balance of the account intended to cover cases of disability and death, also considering lifetime income for participants or beneficiaries.

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 when the statement was signed, subject to a minimum increase based on IGP-DI plus 6% p. a.. As of December 31, 2002, the outstanding balance payable to Telos amounts to R\$189,098 (R\$226,425 on December 31, 2001).

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 an additional liability in the amount of R\$193,424 (effect in Company – R\$191,050) against shareholders' equity in the form of a prior period adjustment. On December 31, 2002, that liability amounted to R\$213,857.

Reconciliation of Assets and Liabilities to be Recognized in Financial Statements as of December 31, 2002:

	<u>Defined benefit plan</u>	<u>Defined contribution plan ⁽²⁾</u>	<u>Medical health care plan</u>
Actuarial liabilities – present value	(894,115)	(939,699)	(278,607)
Fair value of the plan assets	952,427	830,527	58,103
	-----	-----	-----
Present value of liabilities in excess			
Of fair value of plan assets	58,312	(109,172)	(220,504)
Actuarial (gains) or losses unrecognized	4,046	(50,005) ⁽²⁾	6,647
Actuarial assets unrecognized by subsidiary Embratel	(62,358) ⁽¹⁾	(29,921) ⁽³⁾	-
	-----	-----	-----
Net actuarial liabilities	-	(189,098)	(213,857)
	=====	=====	=====

- (1) Actuarial assets are not recognized for the following reasons: (a) there is no forecast for reduction of future contributions; and (b) there are no assurances that this surplus will be maintained over the coming years.
- (2) Refers substantially to gains obtained by non payment of interest and fines on income tax related to the period from January 1, 1997 through August 31, 2001, as provided by Normative Instruction No. 126 of the Federal Revenue Agency (SRF), issued on January 25, 2002, and Provisional Measure No. 2,222, issued on September 4, 2001. The aforementioned gains are being deferred, in conformity with paragraphs 53 and 54 of CVM Deliberation No. 371, issued on December 13, 2000.
- (3) Unrecognized actuarial assets by the agreement signed on September 1, 1999 (statement of recognition, acknowledgement of debt, acceptance and amortization of actuarial insufficiency). According to the statement, the subsidiary Embratel is committed to pay the amount stipulated in up to 20 years. The statement does not foresee the revision of the liability in an eventual future actuarial insufficiency.

Main actuarial assumptions used at balance sheet date:

a. Economic assumptions:

(i)	Discount rate for present value of actuarial liabilities	Inflation + 6.0% p.a. = 11.3% p.a.
(ii)	Expected rate of returns for plan assets	Inflation + 6.0% p.a. = 11.3% p.a.
(iii)	Average salary increases, INSS benefit growth and plan benefit	Inflation + 0.0% p.a. = 5.0% p.a.
(iv)	Long term annual inflation rate	5.0% p.a.
(v)	Wage and benefits capacity	0.98 ⁽¹⁾
(vi)	Health care cost trend rate	Inflation + 5.44% p.a. ⁽²⁾ = 10.6% p.a.

- (1) The wage and benefits capacity factor aims to reflect the monetary loss of the amounts verified on the date of evaluation, considering the periodicity and indexes used to recover losses due to inflation.
- (2) Decreasing to Inflation + 2.70% p.a. after 44 years.

b. Other assumptions:

(i) Table of general mortality rate	UP-94 rated up to 4 for males and females
(ii) Table of mortality rate of disability	IAPB-57
(iii) Table of entry into disability	Mercer table of entry into disability
(iv) Turnover	Not used

Statement of changes in actuarial liabilities:

Beginning balance – unsecured liabilities (defined contribution plan, as of December 31, 2001)	226,425
Actuarial liabilities arising from CVM Deliberation No. 371 (medical health care plan)	193,424

Actuarial liabilities as of December 31, 2001	419,849

Charges and interests on actuarial liabilities	58,548
Payments made in the period (defined contribution plan)	(75,442)

Actuarial liabilities as of December 31, 2002	402,955
	=====
Current	63,973
	=====
Noncurrent	338,982
	=====

23. SHAREHOLDERS' EQUITY

a. Capital Stock

The authorized capital on December 31, 2002 and 2001 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 December 31, 2002 and 2001. 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 December 31, 2002 and 2001, amounts to R\$14.11 and R\$15.99, 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 constitution of this reserve is mandatory based on 5% of net annual income up to the limit of 20% of the paid-up 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 apparently originated 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.

Since Law No. 10,303/01 became effective, the Unrealized Earnings Reserve has been constituted by the amount of the statutory dividend, calculated according to the terms foreseen in article 202 of the referred Law and the Company's by-laws, which exceeds the net earnings for the period. Therefore, the amounts constituted from the issuance of Law No. 10,303/01 now represent the postponed dividend itself, instead of its base for realization.

In connection with Circular Letter CVM/SEP/SNC No. 01/2003, of January 16, 2003, the Unrealized Earnings Reserve balance which originated under the old criteria will keep its original characteristics, i.e., the realized amount will compose the base for calculation of dividends.

c. Treasury Shares

As of December 31, 2002, the Holding Company held 1,769,667 thousand of its own preferred shares in treasury (1,466,667 thousand of preferred shares on December 31, 2001), at a weighted average cost of R\$23.53 per thousand shares (R\$28.02 on December 31, 2001). During 2002, there were no sales of treasury shares.

The market value per lot of 1,000 preferred shares at the end of 2002, expressed in reais, was R\$3.74.

d. Dividends and Interest on Capital

The preferred shares are non-voting, except under certain limited circumstances. They are entitled to (i) 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, or (ii) a dividend 10% higher than that paid to each ordinary share, whichever is the higher (Company's by-law alteration on December 30, 2002), 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.

The subsidiary Embratel recorded, as of December 31, 2002, R\$29,982 of interest on capital (receivable) and R\$27,070 of dividends (receivable), credited by subsidiary Star One. Because of that, the retained earnings of subsidiary Star One were fully allocated to its shareholders.

e. Retained Earnings

Retained earnings were destined to permanent investments of the Company, duly documented in a budgetary appraisal approved by Management, as foreseen in Article 196 of the Corporate Law and in Article 8 of CVM Instruction No. 59, of December 22, 1986. Such retention will be deliberated in the General Shareholder meeting.

f. 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 offered in 2002	2,097,333
Options cancelled in 2002	(477,615)

Open options as of December 31, 2002	7,884,429
	=====
Weighted average exercise price of the purchase options on December 31, 2002 (per thousand shares, expressed in reais)	5.44
	=====

g. Reconciliation of Loss of the Company to those of the Consolidated Financial Statements

As of December 31, 2002 and 2001, the reconciliation between the Company's net loss for the period and the Consolidated net loss is as follows:

	<u>2002</u>	<u>2001</u>
Company	(626,345)	(544,757)
Recognition of the effects from the merging process which occurred in the subsidiary Star One (Note 14)	-	(8,914)
Recognition of the effects of other subsidiaries in the subsidiary Embratel	3	-
	-----	-----
Consolidated	<u>(626,342)</u>	<u>(553,671)</u>
	=====	=====

24. TRANSACTIONS WITH RELATED PARTIES

After the privatization, the major transactions with related parties started being carried out with WorldCom, under normal market conditions for these types of operations. Balances receivable and payable as of December 31, 2002 and 2001, resulting from such transactions, are as follows:

	<u>Company</u>		<u>Consolidated</u>	
	<u>2002</u>	<u>2001</u>	<u>2002</u>	<u>2001</u>
ASSETS				
Current-				
Foreign telecommunications operators (telephony traffic)- WorldCom	-	-	86,379	61,254
LIABILITIES				
Current-				
Foreign telecommunications operators (telephony traffic)- WorldCom	-	-	66,050	44,018
Proceda	-	-	167	1,300
Other telecom companies	-	3	1,980	615
Management fee – WorldCom	-	-	92,871	38,244
Other liabilities – WorldCom	-	-	3,800	847
INCOME STATEMENTS				
Net operating revenues-				
International traffic WorldCom	-	-	128,760	135,616
Cost of services-				
International traffic WorldCom	-	-	(85,623)	(74,460)
Proceda	-	-	(14,505)	(5,623)
Other	-	-	(4,044)	(1,570)
General and administrative expenses-				
Management fee – WorldCom	-	-	(36,232)	(37,122)
Other WorldCom	-	-	-	(847)
Financial expenses-				
Management fee exchange variation	-	-	(18,395)	(1,454)

Under the terms of the concession contract with Anatel and as approved by the shareholders on November 18, 1998, in the years ended December 31, 2002 and 2001, the amounts of R\$36,232 and R\$37,122, respectively, were charged to General and Administrative Expenses for consulting services rendered by WorldCom International, Inc., a subsidiary of WorldCom.

On August 7, 2002, subsidiaries Star One (Lender) and Embratel (Borrower) signed a Loan Agreement. Accordingly, the subsidiary Embratel had available, as of December 31, 2002, a credit line of R\$150,000 to be drawn from the subsidiary Star One. Under this agreement, the repayment shall be as follows:

- a) Up to R\$30,000 shall be repaid by Embratel, through offset of dividends and/or interest on shareholders' equity payable by Star One over its 2002 results;
- b) The outstanding balance shall be repaid in 3 equal quarterly installments commencing after the effective advance to Embratel. The third installment will be offset of dividends and/or interest on shareholders' equity payable by Star One out of 2003 results.

The interest rate to be applied to the outstanding balance at any time shall be equal to 100% of the CDI rate applicable to the corresponding period.

This Loan Agreement is guaranteed by promissory notes issued by the subsidiary Embratel.

25. INSURANCE

a. Subsidiary Embratel

On December 31, 2002, the subsidiary Embratel had insurance contracts (all risks type), with total amount in risk equivalent to R\$12,551,379 and maximum indemnity limited to R\$1,151,856, covering its equipment and that of third-parties located in the subsidiary's premises, as well as business interruption. The assets and liabilities of material amounts and risks are covered by insurance in accordance with the concession contracts.

b. Subsidiary Star One

All Earth Station Equipment is insured at its approximate replacement value. On December 31, 2002, the satellites were covered as described below (in local currency equivalent to US Dollars on that date):

Satellite	Amount insured	Net book value
B1	106,361	-
B2	129,483	8,228
B3	286,713	68,382
B4	451,761	169,192

In respect of B4 and B3, the insurance policy stipulates that in the event of a Total Loss or a Constructive Total Loss, the claims are to be paid as follows:

- a) The amount of the claim corresponding to the outstanding balance of the Export-Import Bank of the United States (Eximbank) finance to be paid by the subsidiary Embratel shall be paid directly to the Eximbank, as additional insured. Four months after this payment, the subsidiary Embratel shall reimburse subsidiary Star One an amount equivalent to that paid for the Eximbank finance plus an additional amount, as established in Credit Agreements dated as of August 23, 2000 and August 1, 1996.
- b) The remaining amount of the claim shall be paid directly to subsidiary Star One by the insurance company.

26. 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 against the variation of foreign currency loan principal and interest against the Real. The par values of such operations, at the end of 2002 and 2001, totaled R\$1,492,801 and R\$1,692,057, respectively, 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 and Swap (Hedge)

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

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			
	2002		2001	
	Book value	Market value	Book value	Market value
Deferred and recoverable taxes	1,623,474	1,083,249	1,096,795	952,732
Assets	1,623,474	1,083,249	1,096,795	952,732
Taxes and contributions	307,841	282,868	679,770	622,300
Loans and financing	5,391,294	4,547,315	3,575,902	3,428,869
Swap/Hedge	(499,359)	(323,535)	152,208	130,507
Liabilities	5,199,776	4,506,648	4,407,880	4,181,676

27. DIRECTORS' FEES

During the years 2002 and 2001, directors' fees in the amount of R\$48 for each period (consolidated - R\$10,565 in 2002 and R\$6,801 in 2001), were classified under the heading Operating Expenses.

28. COMMITMENTS WITH ANATEL (UNAUDITED)

The table below shows the commitments to quality, demand and traffic, as established in the commitment protocol for 2003 and the status of subsidiary Embratel's compliance with these commitments on December 31, 2002.

Indicator	Situation on December 31, 2002	Goal for 2003
Rates of domestic long distance calls, completed in each peak period of fixed telephone switching services-		
Morning	68.2%	65.0%
Afternoon	70.2%	65.0%
Night	63.0%	65.0%
Rates of completed calls for services with telephone customer service up to 10 seconds in each peak period of the fixed telephone switching service-		
Morning	95.0%	93.0%
Afternoon	93.9%	93.0%
Night	95.9%	93.0%
Requests for repair of public telephone sets, for 100 telephones in operation, per month	20	12
Number of accounts with complaints of errors for each thousand	0.78	3
Quantity of public telephones in operation in the service concession area	1,241	(*)

(*) There is no fixed goal for this indicator in the regulations.

Concerning the authorization obtained by the subsidiary Embratel for operating of Switched Fixed Telephony Services for local areas (Note 1), Anatel has not yet defined neither parameters and quality indicators related to that service, nor dates for such commitments to be valid thereafter.

29. VOLUNTARY DISMISSAL PROGRAM

The subsidiary Embratel completed, in the first half of January 2003, a Temporary Dismissal Program, with granted financial, assistance and social incentives.

The Program, initiated in December 2002, was destined to employees who were already retired through INSS and those who were entitled to retire, proportional or integrally, through INSS or Telos.

In order to implement this Program, the subsidiary Embratel set up a provision, in December 2002, in the approximate amount of R\$20,000.

30. SUBSEQUENT EVENT

As described in Note 21 c.1., due to the administrative decision which reduced the amount of the assessment related to the Income Tax on Remittances to Foreign Telecommunications Companies, the Company made an administrative deposit in the amount of R\$35,532 (including interests and charges).

On January 28, 2003, the subsidiary Embratel was notified by the Federal Revenue Agency (SRF) about the need to complement that deposit in R\$3,884, corresponding to the benefit of reduction of 30% of the judicial charge, based on the understanding of the SRF that it would be due in case of payment of the tax in debt.

On February 3, 2003, the subsidiary Embratel, through its attorneys, communicated the SRF branch that since the decision issued on the administrative level was related only to the calculation basis, the Company was not opposed to that decision. However, the subsidiary Embratel retained its right to discuss this matter in the future, should any changes occur in the understanding originating from the decision at the first judicial level. Moreover, the SRF branch was informed of the Company's decision to abstain from transforming the administrative deposit into a judicial deposit, in view of the fiduciary letter which guarantees the entire credit at the judicial level.

Accordingly, the subsidiary Embratel decided to convert the administrative deposit into a payment, notwithstanding the possible restitution of the amount based on an expected favorable decision by the Court. However, the Company will conservatively recognize the aforementioned amount as an expense in the income statement in the first quarter of 2003.

31. 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.

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