

Management Report 2007 Embratel Participações S.A

Dear Shareholders,

Pursuant to the requirements set out in Brazilian laws and regulations and our by-laws, the management of Embratel Participações S.A (“Embrapar” or “Company”) submits for your examination the Company’s Management Report and Individual and Consolidated Financial Statements for the financial year ended December 31, 2007, along with the Independent Auditors’ report.

1 - Introduction

Embrapar is a controlling holding company, which main investments are direct and indirect share interests, in:

- Empresa Brasileira de Telecomunicações S.A. – Embratel (“Embratel”) – national reference company in telecommunications, providing voice, data, multimedia and corporative networks services.
- BrasilCenter Comunicações Ltda. (“BrasilCenter”) – a call center operator providing services to Embratel and other companies.
- PrimeSys Soluções Empresariais S.A. (“PrimeSys”) – a telecommunications service outsourcing company, which services large clients such as large retail banks.
- Star One S.A. (“Star One”) – Latin America’s largest satellite telecommunications company, with television broadcasting, data, voice and broad-band transmission services across the entire region.

Embrapar has a direct and indirect minority interest in Net Serviços de Comunicação S.A. (“Net”), a cable TV and broadband operator.

Background

The strength of the Embratel brand was built over 42 years of operation in Brazil. Created in 1965, the company brought satellite communications to Brazil in 1969, establishing the technological base for Brazil’s television broadcasting systems. Embratel introduced Direct Distance Dialing (DDD) and a series of innovations essential for development, such as the National Telex System, International Direct Dialing (IDD) and the National Packet Switched Network (Rempac) – a leap for the corporate market. In the 90s Embratel introduced Internet in Brazil.

Overcoming the challenge of providing the entire Country with telecommunications infrastructure, Embratel established its presence across all of Brazil’s vast territory. Thanks to a sophisticated satellite, terrestrial signal transmission (radio and fiber optic) and service network, the Company is recognized for its state-of-the-art technology,

product quality and customer relations capability. These attributes strengthened our competitiveness during the deep-reaching transformations that our sector experienced (new telecommunications framework, privatization and globalization).

In the current competitive scenario, Embratel is now engaged in service convergence and adoption of IP (Internet Protocol) technology, in-line with our trajectory of continual innovation. For corporate customers, we develop convergence of telephone service and data over IP networks; to residential customers we offer Triple Play service – telephone, broadband Internet and cable TV. Our progression in the world of IP is towards a key factor in the future of communications: the capability to offer bandwidth for convergence of voice, data, video and other multimedia services.

Reorganization

Embratel's management is 100% Brazilian and committed to offering high-quality services and furthering the development of the Country. When Teléfonos de México S.A. de C.V. ("Telmex") took over in 2004, the Company was in a serious financial crisis. In a scenario marked by decreasing revenue and liquidity issues resulting from losses in the Domestic / International Long Distance markets and customer default, our debt exceeded R\$ 4.1 billion. Tax and judicial claims potentially amounted to more than R\$ 6 billion. The company's credibility was low and its future was uncertain.

Telmex acquired 19.26% of the total share capital and 51.79% of the voting capital in Embrapar from MCI, an American company that been in control of Embratel since its privatization in 1998. Also in 2004, Telmex invested R\$745.8 in the purchase of papers from minority shareholders (Tag-Along). Telmex then carried out capital increase operations to cover the debts that were suffocating the company.

Investments

Telmex has invested R\$6.3 billion in Embrapar. These funds, part of a broad operational and financial reorganization program, provided Embratel with the conditions it needed to grow and the capability to compete in the market. Every year the company has invested an average R\$1.5 billion in our strategy of growth in local telephone, data transmission, broadband Internet and satellite services.

Investimentos of Telmex at Embrapar

Date	Description	Total in millions of R\$
	Investment in Consertel (ADRs)	3,8
23/07/2004	Purchase from MCI	1.216,6
13/12/2004	Tender Offer	745,8
08/04/2005	Rights Offer - Initial Rounds	618,8
18/04/2005 to 03/05/2005	Remainders Round	977,7
24/10/2005	Telmex do Brasil Merger and shares purchase in Net	978,2
07/11/2006 to 12/02/2007	Voluntary Tender Offer (Auction e 1st Sales Option)	1.744,9
Total Investment		6.285,9

Acquisitions

The strategy to make Embratel its expansion vehicle in the country led Telmex to incorporate, at the end of 2005, other Brazilian assets to Embrapar. One of them was the interest of 37.1% on Net (currently 35.1%), besides the purchase of Telmex do Brasil as full subsidiary of Embrapar. It was also purchased, for R\$ 231 million, PrimeSys, national leader in managed networks operation.

Universalization

With a view to the integration of all Brazilians, the Company faithfully and punctually fulfills its commitment to provide access to fixed telephone service to all users, regardless of location or social-economic condition. Embratel was the first to have its Universalization targets certified by the National Telecommunications Agency (Anatel) in January 2007. At the end of 2007, 1,618 "public-use telephones" (PUTs) had been installed by the Company, as provided in the concession agreement and the Telecommunications Universalization Target Plan (PGMU).

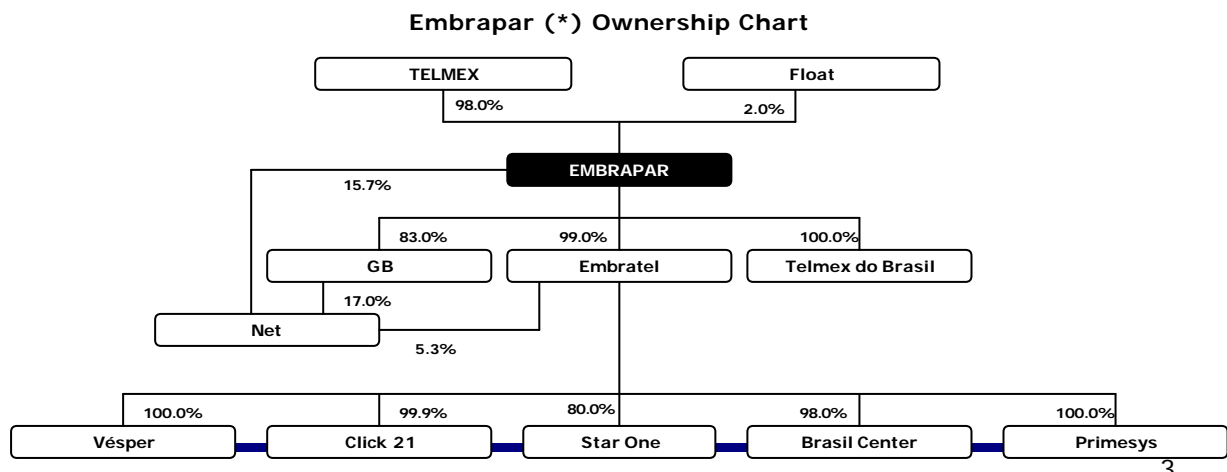
Ownership Structure and 2007 Highlights

Embrapar is controlled by Telmex, a Mexican corporation that acquired its control from MCI on July 23rd, 2004.

Continuing with the process initiated in 2006, Telmex went on purchasing remaining stocks outstanding in accordance with the OPA defined conditions until February 2007 and, in March, extended the term for more three months so that the stockholders were able to sell their stocks to the bidder in the same conditions.

In 2007, Embrapar achieved a capital increase, accomplished by the credit capitalization of dividends owned by the Company's controlling shareholders. The Company's capital stock was increased in the amount of R\$142,206,808.04 with the issuance of 10,330,893,779 common shares and 9,601,111,401 preferred shares.

In April, the withdrawal of Embrapar's ADSs from the list of New York's Stock Exchange (NYSE) was carried out. In June, the Company terminated its disclosure obligations in the United States.



(*) Main companies of the group included.

Star One C1 Satellite Launch

In November 2007 the Star One C1 satellite was successfully launched, the first of Embratel's third generation of satellites, known as the C-series. More modern and with greater coverage and service capabilities, such as broadband Internet in remote locations, the new satellite will ensure the continued quality of the telecommunications services provided in the Country. The investment of R\$ 1 billion in our new generation of satellites, Star one C1 and Star One C2 (to be launched in 2008) demonstrates our confidence in Brazil's future and renews our commitment to providing high-reliability telephone, radio, data and Internet services, ensuring the continuity of military telecommunications services and transmitting television signals to more than 16 million households.

Embratel Achieves Investment Grade

In 2007 Moody's Investors Services upgraded Embratel's global local currency issuer rating and foreign currency senior unsecured rating (Bond to mature in 2008) to Baa3, upgrading the Company to Investment Grade.

This three-level upgrade reflects Embratel's improved credit capacity resulting from successful implementation of our revenue diversification strategy and the support from Telmex.

Taxes and contributions

R\$ 3.7 billion were recognized as tax and contribution expense in 2007. This expense includes value-added tax ICMS, ISS, income tax (IRPJ), service tax (PIS), social security contribution (COFINS), CPMF, and income tax on offshore remittance, and other Federal contributions, such as: FUST (Telecommunications Service Universalization Fund), FUNTTEL (Technological Development Fund for Telecommunications), FISTEL (Telecommunications Audit Fund) and the Anatel Concession Renewal Fee.

Reduction of the level of contingencies

Since Telmex took over in 2004, Company Management has taken steps to reduce the volume of judicial and administrative claims against the company, aiming to create a more favorable business environment.

To put an end to the legal disputes over Value-Added Tax (ICMS), Embratel signed agreements with a number of States in 2006, and virtually completed its implementation of Agreement 72/06 in the first quarter of 2007. Through these efforts, the company became eligible to a number of tax benefits, in keeping with Telmex's decision to reduce the volume of contingencies. With this positive outcome, two objectives were achieved: Re-establishment of a healthy political / institutional environment and improvement of the Company's operations.

Corporate Governance

- Sarbanes Oxley (“SOX”) Program – as previously mentioned, since 2007 Embrapar has no longer been listed on the New York Stock Exchange (NYSE). Nevertheless, the Company has decided to maintain Sarbanes Oxley compliance, aiming to maintain a high level of internal control and as an important investment of Telmex, which is listed on the New York Stock Exchange, support the controlling shareholder in fulfilling SOX requirements. During financial year 2007, 75 relevant investigations and their corresponding corrective and improvement actions were completed. Company Management considers that our implementation of SOX requirements has brought relevant benefits to our business and contributed to our internal control culture.
- Board of Directors - the Board of Directors is populated by 7 members, all appointed in a General Meeting. To assist the Board of Directors in their duties, an Audit Committee has been installed.
- Audit Board – Embrapar’s Audit Board consists of 3 members, all of them independent and appointed in a General Meeting. The Audit Board’s chief responsibilities are to monitor management activities, examine the Financial Statement and assess the work of the independent auditors. Pursuant to the requirements of the Sarbanes-Oxley Act, the Audit Board has the duties of an Audit Committee.
- Code of Ethics – implemented in 2005, our Code of Ethics reflects our corporate commitment to maintaining the highest levels of corporate ethics and conduct. Our Mission, vision, values and principles are an integral part of the Code, which describes the types of behavior expected and the objectives to be achieved for compliance with the Company’s management model.

2 –Telecommunications Sector

Regulatory

Of the changes implemented in the fixed telephone service sector in 2007, the most noteworthy are:

- Changes in Local Network Usage Rates (TU-RL) and local connection rates: In 2006, Local Network Usage Rates were subject to an upper limit of 50% of the public rate for local calls. In 2007 the upper limit was reduced to 40%. This upper limit will be effective until Anatel publishes a Resolution establishing upper limits applicable to Concession Network Usage Rates and to Switched Fixed Telephone Service (SFTC) Providers belonging to any Group with Significant Market Power (“PMS”) for the supply SFTC fixed network interconnection, which will be based on the long-run incremental cost model. Implementation of the long-run incremental cost model for calculating local interconnection rates was to occur in 2008. This project has, however, been postponed by Anatel.

- Anatel's Steering Council has approved the New Regulations on Compensation for the Use of SFTC Provider Networks. These regulations maintain the "bill & keep partial" rules, under which only traffic exceeding 55% in a given direction is charged in the interconnect relationship between Local SFTC Providers, and the 30% discount on Local Network Usage Rates during Local SFTC reduced rate hours. Moreover, these new regulations provide that 20% may be added to the Local Network Usage Rates of SFTC carriers without PMS for SFTC fixed network interconnection.

Technological Competencies – The Embratel Network

Embratel is in-line with the technological convergence movement. Operating the largest IP Backbone in the country, thanks to our pioneering efforts when introducing Internet in Brazil, the Company offers integrated services to residential and corporate customers, leading the market in technological innovation. The world of IP gives us the capability to provide convergent voice, Internet, television services and other solutions to households and companies, be they large, medium or small.

With nation-wide coverage, Embratel has integrated solutions for the entire market. Our operations leverage the synergies of people and technology: the largest team of engineers in Brazil and fiber-optic, radio-communications and satellite infrastructure built over a period of more than four decades. Across the entire country, the company mobilizes 4.3 thousand engineers, forming the largest and most notable staff of telecommunications professionals in Brazil. Added to these are the specialists at Star One, who operate the Company's satellites.

The Embratel terrestrial network

Fiber-optic cables (Backbone)	36.4 thousand km
Transport capacity	1,093 Gbps
Optical access	257 thousand km
Small stations for customers	9.000
National telephone exchanges	237
Interconnection points	2.036
Twisted pair lines in cities	1 million km

Residential Solutions

In the residential market, serviced by our Triple Play solution, the Company's partnership with Net was decisive. By combining the capillarity of Net's coaxial cable network with Embratel's fiber-optic network, we were able to bring over 561 thousand residential and corporate customers to our Net Fone via Embratel ("Net Fone") customer base by the end

of 2007. The good response this product has received demonstrates how service integration in the IP world opens new avenues for communications, driven by factors such as advances in technology and infrastructure, diversification of content, and our customers' demand for practical and interactive solutions.

The most recent milestone in the Company's continual innovation process, our leading position in the IP market, was enabled by the Company's definitive entry in the local telephone service market – one of the greatest challenges faced by the Company. Even after the Privatization of Brazilian telecommunications in the late 90's, access to potential fixed telephone service customers remained closed. The concessions, with their cable networks, were exclusively capable of offering this service in all states.

Embratel paved its own way this market, using state-of-the-art technology. Our first step was to offer local telephone services to corporate customers that already used the Company's data transmission services. Their PABXs were connected to the Company's modern NGN (Next Generation Networking) systems, previously restricted to long-distance and international traffic. The second step was to reach the residential market, through Embratel's fixed line service "Livre". With the launch of Net Fone in 2006, the company entered the era of convergence and became a real competitor in the fixed line market.

IP Network

Embratel's technological competencies and infrastructure, empowered by intelligent IP resources, are competitive advantages in the development of integrated services for the corporate market. Through IP network convergence, the company is expanding its presence among these customers, providing (and optimizing) the capability to transmit voice, data and images in digital format over the same transmission medium.

Corporate IP services provide diversified solutions that meet the specific needs of each customer. Our solutions include corporate networks (Intranet) and business communities (Extranet) for domestic and international transmission of voice, data and videoconferences, connecting headquarters, business units and partners in real time. Other services interconnect networks and transmit data and video via satellite. These services are used by banks, service station chains and retail chains. IP technology also enables videoconferencing over the networks of two or more companies.

Network Outsourcing

To service our medium and large corporate customers, Embratel is supported by the expertise of PrimeSys, the leading managed network operator in Brazil. PrimeSys offers highly value-added services and full telecom outsourcing, and is positioned as the preferred partner of company's and institutions in which communications are a critical factor for business growth.

PrimeSys develops and manages customized solutions, implementing state-of-the-art technology across customers' entire value chains, including internal and external network outsourcing, human resources, equipment procurement and contract management. With

advanced convergent network resources, the company ensures high levels of quality and security in voice, data and video transmission, supported by service level agreements executed with each customer.

With a reputation for excellence in the Brazilian market, PrimeSys has four distinguishing competitive characteristics:

- service level
- coverage
- innovation and partnerships
- experience and a pioneering spirit

New satellites

A pioneer in satellite communication in Brazil, Embratel owns for the four space vehicles operated by our subsidiary Star One (Brasilsat B1, B2, B3 and B4), which transmit and receive Internet, data, telephone, radio and television signals. Their applications are not limited to the corporate and residential markets, but include distance education, telemedicine and social inclusion in remote locations. Star One also offers satellite capacity to foreign countries.

In 2007 Star One put into service the first of its new generation of satellites, Star One C1. Star One C2 is scheduled to be launched in April 2008. These new satellites, which will increase the capacity and coverage of our operations, are part of the Company's fleet renewal and service innovation strategies. Star One's investments in these satellites amount to US\$ 500 million.

The new satellites will replace Brasilsats B1 and B2 (which have reached their end-of-life) and will ensure the continuity and quality of important satellite telecommunications services provided to the company. They will also increase the coverage of advanced applications, such as high-speed Internet and last-mile voice services (direct access to the carrier's network). C1 and C2 will be at 65° W and 70° W, the latter considered by the market to be a 'hot position', as it is the direction that 16 million parabolic antennas across the country are pointed to, picking up free-to-air television signals.

Both satellites are also equipped with military frequency (x band) transponders, ensuring continuity of the services provided by B1 and B2.

The advanced technology of the new satellites will enable Star One to accelerate its internationalization process by offering satellite services across Latin America and connections to North America, Europe and Africa. The company, created in 2000, has the personnel and experience of the former "Embratel Satellite Area" – a wealth of satellite launching, orbit and maneuvering expertise accumulated over more than 30 years.

Technology Reference Center

Before becoming products and being launched in Brazil, all new solutions developed by Embratel go through the Technology Reference Center (CRT), in Rio de Janeiro. The

only of its kind among Brazilian telecommunications companies, the CRT was created in 2001 to test the efficiency and quality of telephone, network and data transmission services.

The Technology Reference Center is a test and simulation laboratory that is integrated with all the technologies used in our operations. All the equipment and networks servicing our customers are represented at the center. It also integrates suppliers and customers with state-of-the-art technology that will later be available to all Brazilians.

To many suppliers, the center offers a unique opportunity to adapt their products to the Brazilian telecommunications system. The Brazilian telephone system has rare particularities, such as direct collect dialing. The CRT – with its specialized engineers and technicians, and with the assistance of researchers in different areas of the company – is certified to ISO 17025, which attests to quality of knowledge management, a trademark in the Company's history.

3 - Services

Embratel offers a complete portfolio of telecommunications solutions to the entire Brazilian market, including local, long-distance and international telephone service, data, video and Internet service, and can provide these services at any location in Brazil through satellite communication. Our services include:

- **Multi-service Networks, Managed Networks and Outsourcing** – solutions for building corporate networks using various technologies (IP MPLS, Frame Relay, ATM and satellite). Embratel is capable of assuming the management and operation of the telecommunications environments or corporate networks of its customers. Through PrimeSys, greater value is added to Embratel's managed network solutions.
- **Internet and added Value** – Embratel's services range from simple dedicated Internet connections to complete networks for companies and providers (ISP), including software hosting, hardware hosting and security management.
- **Residential Internet** – For the residential market, Embratel offers *Click21*, a free, high-quality dialed internet service.
- **Advanced Telephone Services** - Local, long-distance, international and customer relations telephone services (0800, 0300, 4004 and automated response service), using Intelligent Networks that provide our corporate customers with greater cost savings, expense control and value-adding facilities.
- **Basic long-distance telephone service** – With nation-wide telephone service coverage, Embratel offers special plans to corporate and residential customers, selected according to the consumption profile of each customer.
- **Local telephone service** – Embratel currently offers two local residential phone services: Livre and Net Fone. Livre (a service operating on Embratel's fixed-line

network) offers residential customers pre-paid and post-paid plans suitable their specific needs, as well as cheap calling rates. Net Phone is a residential voice service offered by Embratel in partnership with Net. As is the case with Livre, the monthly minimum usage charge can be used to call local or long-distance using the 21 carrier code. Both offer the following intelligent services: Caller Identification and Hold. Net Fone also offers Follow Me and Three-Party Conference service, and Livre offers Answering Machine service. To the corporate market Embratel offers landline services through Vipline, Número Único and Embratel PME. Per-minute service costs are itemized in telephone bills, allowing users to better control their telecommunications expenses. Número Único enables companies to enjoy the effectiveness and centralization of a toll-free number without themselves or their customers having to pay the costs of long-distance calls. Embratel PME is a telephone and Internet solution for small and medium companies, which combines our basic offer with an exclusive and customized Contact Center service.

- **Other Services** – Embratel also offers services for data, voice and image communication, and television and radio broadcasting service.

4 - Consolidated Economic - Financial Performance

Net Revenue – Embrapar closed financial year 2007 with net revenue of R\$8.6 billion, up 4.9% from 2006, owing primarily to a 40.7% (R\$371 million) increase in local service revenue.

Net Revenue by Service

R\$ millions	2007	2006	YoY %
Domestic Long Distance	4,084.3	4,217.8	-3.2%
International Long Distance	500.0	511.6	-2.3%
Voice	4,584.3	4,729.4	-3.1%
Data	2,276.7	2,264.6	0.5%
Data	2,276.7	2,264.6	0.5%
Local Services	1,283.1	911.6	40.7%
Other Services	480.7	314.6	52.8%
Net Revenues	8,624.8	8,220.2	4.9%

Data Revenue – revenue from data services, including Internet, increased 0.5% in 2007, reaching R\$2.3 billion. In December 2007, Embratel had in service 2.9 million circuits (equivalent to 64kbit) to provide services of corporate data, representing an increase of 29.4% compared to the end of 2006.

Local Service – Revenue from local service amounted to R\$1,283 million, a 40.7% (R\$371 million) increase from 2006, owing to the growth of our corporate and residential customer base and an increase in the amount of usage. The share of local service revenue in total net revenue increased to 15%. Our Livre product increased its customer

base to 1,374,000 subscribers, a 46.3% increase compared to the previous year, and our Net Fone customer base closed the period with 561 thousand subscribers.

Domestic Long-Distance – Domestic long-distance revenue was R\$4.1 billion in 2007, a 3.2% decrease relative to the previous year. In the year of 2007, the long distance traffic reached 14,125 million minutes, 2.5% lower than 2006. Domestic long-distance revenue accounted for 47.4% of total net revenue.

International Long-Distance – International long-distance revenue dropped 2.3% in 2007 to R\$ 500 million, accounting for 5.8% of total net revenue.

Operating Profit before Financial Items – In 2007 Embrapar submitted an earned net income before financial items of R\$1,134 million, which represented an increase of 1,900% a relative to the previous period. In 2006 our operating income was affected by non-recurrent expenses, especially the R\$632 million expense (payment and contingencies) in connection with ICMS Agreement No. 72/06, which partially explains the ample increase this year.

Net Profit – In 2007 Embrapar reported net profit of R\$840.8 million, compared to a net profit of R\$105.8 million in 2006.

In 2007 our net income was positively affected (in the amount of approximately R\$380 million) by gains from our investment in Net, by the incorporation of Vivax S.A.'s shares in Net's equity.

Financial Situation – Embrapar closed the year with a cash position of R\$717 million, Total debt at December 31, 2007 was R\$2.6 billion, 63% of which is long-term.

5 – Compliance with CVM Directive 381

On January 14, 2003 the Brazilian Securities Commission (CVM) issued Directive 381, which requires that audited companies disclose information about any services provided by the independent auditors other than independent auditing.

It is a procedure at Embrapar to have our Legal Department assess the scope of any services to be provided by the independent auditors in addition to examining our financial statements, in order to determine, in accordance with applicable laws and regulations, whether the nature of such services will represent a conflict of interests or affect the independence and objectiveness of the independent auditors.

Additionally, such auditing services require prior approval from the Audit Committee.

During the financial year ended December 31, 2007 the independent auditors providing services to Embrapar and its subsidiaries provided no other services unrelated to independent auditing representing more than 5% of their yearly contracted fees.

6 – Investments

In 2007 Embrapar invested R\$1,269.6 million. The largest portion of the Company's investment was directed to the data and Internet market, representing 33.7% of our total investments for the year. An equally significant portion of our investments (33.3%) was directed to the Last Mile, involving investments in access, infrastructure and local services. 20.1% of our investments were allocated to Network Infrastructure, 9.6% to satellites (Star One) and 3.2% to other items, such as Information Technology and Call Centers.

Our subsidiary Star One put into service the first of Brazil's third generation of communication satellites, Star One C1, increasing the capacity and coverage of our operations.

In R\$MM	2007	2007	2006	2006
Access, Infrastructure and Local Services	423	33.3%	220	15.0%
Network Infrastructure	256	20.1%	403	27.5%
Data and Internet Services	428	33.7%	442	30.1%
Star One	122	9.6%	324	22.1%
Other	41	3.3%	78	5.3%
TOTAL	1.269,6	100,0%	1.467,1	100,0%

7 – Social Responsibility

The Embratel Institute

Excellence in telecommunications and social responsibility converge at the Embratel Institute (Instituto Embratel), which supports the education of children, teenagers and young adults. In addition to connecting remote locations with no landline service to the Internet, the institute brings educational and cultural content to rural communities in various regions of the Country. Our satellite service brings social integration through digital inclusion to thousands of Brazilians.

Created in 2001 and recognized as a Public Interest Civil Society Organization (Oscip) in 2003, the Institute incorporates the social and environmental commitments cultivated over four decades by Embratel. With a nation-wide presence, the Institute's philosophy is that education is the only way to transform the lives of Brazilians for the better. In this challenge, the Internet is an essential tool for inserting people and social groups in the globalized world.

In the rural zone, where over 40 million people live, the dimension of this issue is yet greater. Despite the education universalization efforts over recent years, statistics show that the children and teenagers living in the country face greater difficulties. To break this vicious cycle and strengthen education in Brazil, the Embratel Institute dedicates special attention to rural schools, providing technologies and content to students and teachers in remote areas with low Human Development Indexes (HDI). To most of these communities, the arrival of the Embratel antenna represents the only means of two-way communication with the Country and world.

In the core of the Institute's actions is the Embratel Education (Embratel Educação) Project, which connects schools in seven states. Another four programs complement the Institute's offer of access to the World Wide Web - TV PontoCom, Digital Multimedia library, Online Courses and Rádio.Lê. To fulfill our objective of improving education quality in Brazil, the Embratel Institute forms partnerships with state and municipal education departments, universities and other organizations that share the goal of improving the education for the new generation of Brazilians.

Embratel Educação (Education)

This Project places new information and communication technologies within reach of students and teachers in rural-zone public schools in seven states - Minas Gerais, Bahia, Tocantins, Goiás, Pernambuco, Amazonas and Rio de Janeiro. In 2007 Embratel Educação reached the mark of 52 connected schools, directly benefiting 35 thousand students and teachers.

Embratel Educação provides communities with three technological solutions:

- Satellite broadband internet – Access to TV PontoCom, the Multimedia Library and all the other benefits of the World Wide Web.
- RTv digital – Reception of the TV PontoCom channel at schools equipped with the TV Escola digital system or parabolic antennas with digital receivers.
- Wimax / Wi-Fi – Wireless access to voice and data within a radius of 50 kilometers (Wimax), combined with short-range wireless networks (Wi-Fi).

TV PontoCom

On the air 24 hours a day, this TV channel transmits a variety of social / educational programs to the communities serviced by Embratel Educação. Documentaries, debates, performances, lessons and lectures address subjects ranging from health to social issues.

Digital Multimedia Library

This project stores and provides connected schools with access to social, educational and cultural content, which has been digitalized since 2001. The library contains:

- Books;
- Two thousand videos;
- Over 35 thousand paintings from the National Library, in Rio de Janeiro and the Mário de Andrade Library, in São Paulo.

This project helps disseminate knowledge, preserve our history and promote digital inclusion.

Online Courses

Directed to the students and teachers serviced by the Embratel Educação project, our online courses enable students to learn computer skills on their own. The thematic modules developed by Embratel's Corporate University are designed for early learners and include:

- Linux Operating System;
- Text editor;
- Electronic spreadsheet;
- Multimedia presentation;
- Internet;
- Email.

For users with basic skills, the Federal University of Minas Gerais, in partnership with the Institute, has prepared courses on: HTML (a language for developing web pages), MYSQL (a database tool), PHP (a dynamic Internet language that enables user-site interaction), WIKI (an application that enables users to collectively create and / or edit documents, very much used to create collective works) - and CSS (which provides web designers with new production and presentation tools).

Rádio.Lê (Radio. Reading)

This Internet-based radio station is collectively managed by content producers in schools and communities and is integrated with two projects of the Federal university of Minas Gerais (UFMG): the Center for Convergence of new Media and Rede.Lê. Producers broadcast their programs at scheduled times. The radio station is a tool for encouraging cultural diversity and disseminating information.

Ponto Comunidade (Community Point)

Broadband Internet and satellite Tv are used along with books, newspapers and magazines at the project's seven community facilities. Installed in schools, libraries and social organizations in Rio de Janeiro, São Paulo, Minas Gerais and Tocantins, Ponto Comunidade facilitates access to knowledge and digital technology, including the content of the Digital Multimedia Library and Online Courses.

Over 105 thousand young people have been benefited by the project.

Parintins Cidade Digital (Digital City)

Along with Embratel, the Institute is also participating in the Parintins Cidade Digital project, which is transforming the city of Parintins (AM), on the Tupinambarana Island, amid the Amazon River, into the first digital city in the state of Amazônia. The Company will contribute with infrastructure for transmission and reception through Wimax technology and operations management. The Institute provides the public with the content of the projects maintained by Embratel Educação: the Digital Multimedia Library, Online Courses and TV PontoCom.

At two schools and a community center, teachers and students have access to computer laboratories provided with broadband Internet through WLAM technology. Using Embratel's satellite signals, the equipment donated by the Company to a healthcare center provides the center with telemedicine capability, benefiting the 110 thousand inhabitants of the island.

Gente Capaz (Capable People)

Through this project, the Institute and Embratel provide telecommunications technician training and certification to 25 young adults with special needs in Rio de Janeiro, promoting their social integration. The students were selected by the corporate managers of Education, Training and Benefits and Social Responsibility, in partnership with the Graham Bell School. These young high school graduates are attending an 18-month course and supervised apprenticeship at Embratel. Upon completion, they will be registered with the Regional Council of Engineering, Architecture and Agronomy (CREA). The institute grants 20 scholarships and the school another five.

Gente Capaz, in partnership with the Citizenship Institute of the Center for Company-School Integration (Centro de Integração Empresa-Escola - CIEE), selects higher learning students with special needs to be trainees at the Company. A scholarship and allowance are granted to these students by the Embratel Institute. These projects are part of the Program for Employment and Development of People with Special Needs of the Embratel Group.

Embratel Press Awards

National coverage and credibility make the Embratel Press Awards program one of the most important of its kind in Brazil. The awards encourage the production of reports on important issues in Brazil, through any type of media – newspapers, magazines, television and Internet. Through this program, Embratel valorizes the contribution of journalism to social inclusion, promotion of citizenship and sustainable development.

The awards reached their ninth edition in 2007, amounting to over 6.8 thousand reports submitted by over 3 thousand reporters across the country since 1999. The awards are supported by the Rouanet Law (which provides incentives for culture in the State of Rio de Janeiro) and sponsored by Embratel in partnership with the Professional Journalists' Union of Rio de Janeiro and the Photographic and Cinematographic Reporters' Association of Rio de Janeiro (Arfoc). The award categories include:

- Investigative Reporting (Tim Lopes Trophy);
- Social responsibility;
- Information technology/communication/multimedia;
- Sports and cultural reporting;
- Photography;
- Journalistic TV images;
- Reports brought to foreign countries by foreign correspondents in Brazil.

Cultura Nota 10 Awards

For the fifth consecutive year Embratel sponsored the Cultura Nota 10 awards, promoted by the State Department of Culture of Rio de Janeiro, with the support of UNESCO. The purpose is to promote the cultural integration of the different municipalities by creating interfaces with the different segments of culture, and demonstrate how public policies for culture may be decisive to the strengthening of the cultural identity and citizenship of the population. This year all the municipalities of the State of Rio de Janeiro were represented by cultural projects.

13th Biennial International Book Fair – Rio de Janeiro

Embratel was the official sponsor of the 13th biennial International book Fair in Rio de Janeiro, for the second consecutive time. This is the most important literary event in the Country. In this edition, inspiration for Embratel's participation was drawn from the masters of modern architecture, Oscar Niemeyer and Ricardo Legorreta, who personally attended the event. These architects were the theme of the new books sponsored by Embratel: Oscar Niemeyer – *Uma Arquitetura da Sedução* and Ricardo Legorreta – *Sonhos Construídos*, officially launched at Embratel's stand.

A high-tech exposition was set up in our modern and ample space, designed by architect Alvaro Razuk, with a touch screen display showing the main achievements of the two architects during their brilliant careers. The exposition utilized multimedia resources, combining Embratel technology with incentive for culture.

Telecommunications Social Balance

Embratel Participated in the Telecommunications Social Balance, an important survey on the social work conducted by companies in the telecommunication sector and their social performance.

Awards given to Embratel

The following awards received by Embratel in 2007 deserve special mention:

- Mario Henrique Simonsen Award – for social responsibility projects. This award is given by the National Management Support Foundation, with the support of the Rio de Janeiro Trade Association and the Basil Rotário magazine.
- Top Comm Awards 2007 – Best Environment Project, for the Manaus - Porto Velho Optical Connection project, considered to be a success case in the use of technology with social / environmental responsibility.

8 – Human Resources

During financial year 2007, Human Resources and Quality Management continued the actions set out in the Embratel Improvement Management Model, most notably people development, in-line with the Organization's strategy. A number o Education and Training

actions were implemented, focusing on leadership training, development of competencies and sales skills.

To further strengthen this management model, Embratel sought new talents in the market and aligned the profiles of its teams with business needs, ending the year 2007 with 16,044 employees.

In 2007 Embratel received the following recognition from the market for its human Resources:

- National Living Quality Awards 2007 – Continued Action, granted by the Brazilian Association of Living Quality.

9 - Acknowledgements

We would like to thank our shareholders, customers, Governments, suppliers and Financial Institutions for their support and trust, and especially our employees for their dedication and best efforts.

Management.

Rio de Janeiro, March 13, 2008

Financial Statements

Embratel Participações S.A.

*December 31, 2007 and 2006
with Report of Independent Auditors*

EMBRATEL PARTICIPAÇÕES S.A.

FINANCIAL STATEMENTS

December 31, 2007 and 2006

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A free translation from Portuguese into English of Report of Independent Auditors on financial statements prepared in accordance with accounting practices adopted in Brazil

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and Shareholders of
Embratel Participações S.A.

We have audited the accompanying balance sheets of Embratel Participações S.A. and the consolidated balance sheets of Embratel Participações S.A. and its subsidiaries as of December 31, 2007 and 2006, and the related statements of income, changes in shareholders' equity and changes in financial position for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements.

We conducted our audits in accordance with auditing standards generally accepted in Brazil including: a) the planning of our work, taking into consideration the materiality of balances, the volume of transactions and the accounting and internal control systems of the Company and its subsidiaries; b) the examination, on a test basis, of the documentary evidence and accounting records supporting the amounts and disclosures in the financial statements; and c) an assessment of the accounting practices used and significant estimates made by management, as well as an evaluation of the overall financial statement presentation.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Embratel Participações S.A. and the consolidated financial position of Embratel Participações S.A. and its subsidiaries as of December 31, 2007 and 2006, and the results of their operations, the changes in their shareholders' equity and the changes in their financial position for the years then ended, in accordance with the accounting practices adopted in Brazil.

Rio de Janeiro, January 31, 2008
(Except for the Note 32.b, as to which the date is February 29, 2008)

ERNST & YOUNG
Auditores Independentes S.S.
CRC - 2SP 015.199/O-6 - F - RJ

Fernando Alberto S. de Magalhães
Accountant CRC - 1SP 133.169/O-0 - S - RJ

A free translation from Portuguese into English of financial statements prepared in accordance with accounting practices adopted in Brazil

EMBRATEL PARTICIPAÇÕES S.A.

BALANCE SHEETS
December 31, 2007 and 2006
(In thousands of reais)

	Notes	Company		Consolidated	
		2007	2006	2007	2006
Assets					
Current assets:		162,889	31,363	3,362,328	3,298,446
Cash and cash equivalents and short-term investments	13	16,280	823	717,061	637,153
Accounts receivable	14	-	-	1,700,385	1,944,505
Inventories		-	-	125,898	12,016
Dividends and interest on capital	26	143,836	21,835	-	-
Deferred and recoverable taxes	15	2,741	8,561	682,207	555,124
Prepaid expenses		-	-	48,857	21,114
Other current assets		32	144	87,920	128,534
Noncurrent assets		8,234,383	7,631,964	11,141,065	10,928,495
Long-term assets:		123	26,182	1,551,292	1,805,765
Deferred and recoverable taxes	15	-	-	1,336,271	1,632,764
Deposits in court		123	26,182	101,398	105,875
Other noncurrent assets		-	-	113,623	67,126
Permanent assets:		8,234,260	7,605,782	9,589,773	9,122,730
Investments	16	8,234,260	7,605,782	1,770,994	1,399,233
Property, plant and equipment	17	-	-	7,453,975	7,242,947
Intangible	18	-	-	295,334	370,852
Deferred asset	19	-	-	69,470	109,698
Total assets		8,397,272	7,663,327	14,503,393	14,226,941

	Notes	Company		Consolidated	
		2007	2006	2007	2006
Liabilities					
Current liabilities:		403,155	331,549	3,943,376	4,154,175
Loans and financing	22	-	-	881,892	769,365
Accounts payable and accrued expenses	20	1,095	451	1,032,296	1,099,714
Taxes and contributions	21	672	71	542,151	619,707
Dividends and interest on capital		327,946	151,836	355,085	161,140
Personnel, charges and social benefits		10	-	84,597	69,641
Employees' profit sharing		-	-	46,679	50,925
Provision for contingencies	24	-	-	829,073	1,238,172
Actuarial liability – Telos	25	-	-	40,758	40,504
Related parties	27	73,424	179,177	-	-
Other current liabilities		8	14	130,845	105,007
Noncurrent liabilities		915	915	2,223,130	2,350,461
Long-term liabilities:		915	915	2,223,130	2,350,461
Loans and financing	22	-	-	1,716,955	1,882,210
Actuarial liability – Telos	25	-	-	429,392	406,676
Taxes and contributions	21	-	-	42,107	43,313
Sundry credits and other liabilities		915	915	34,676	18,262
Deferred income		-	-	154,808	188,010
Minority interests		-	-	188,877	203,425
Shareholders' equity and advances for future capital increase		7,993,202	7,330,863	7,993,202	7,330,870
Shareholders' equity:	26	7,993,202	7,330,863	7,993,202	7,330,863
Capital stock paid-in		5,217,148	5,074,941	5,217,148	5,074,941
Income reserves		2,776,054	2,255,922	2,776,054	2,255,922
Advances for future capital increase		-	-	-	7
Total liabilities		8,397,272	7,663,327	14,503,393	14,226,941

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

EMBRATEL PARTICIPAÇÕES S.A.

STATEMENTS OF INCOME

Years ended December 31, 2007 and 2006

(In thousands of reais, except net income, per thousand outstanding shares)

	Notes	Company		Consolidated	
		2007	2006	2007	2006
Gross operating revenue		-	-	11,765,190	11,141,210
Gross revenue deductions		-	-	(3,140,437)	(2,921,009)
Net operating revenue	5	-	-	8,624,753	8,220,201
Cost of services and goods sold	6	-	-	(5,563,038)	(5,333,365)
Gross profit		-	-	3,061,715	2,886,836
Operating income (expenses)		657,627	17,093	(1,927,263)	(2,830,130)
Selling expenses	7	-	-	(1,201,340)	(1,152,576)
General and administrative expenses	8	(5,403)	(4,916)	(765,934)	(1,075,058)
Other operating income (expenses), net	9	(87)	10,962	(56,178)	(620,249)
Equity pickup and goodwill amortization	16	663,117	11,047	96,189	17,753
Operating income before financial income (expense), net		657,627	17,093	1,134,452	56,706
Financial income (expense), net	10	(20,051)	(423)	(152,384)	117,970
Operating income		637,576	16,670	982,068	174,676
Other non-operating income, net	11	203,212	91,048	243,878	119,925
Income before taxes and minority interests		840,788	107,718	1,225,946	294,601
Income tax and social contribution	12	-	(1,872)	(351,127)	(141,300)
Minority interests		-	-	(34,031)	(47,455)
Net income for the year		840,788	105,846	840,788	105,846
Quantity of outstanding shares (in thousands)		1,008,690,660	988,758,654		
Net income per thousand outstanding shares - in reais		0.83	0.11		

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

EMBRATEL PARTICIPAÇÕES S.A.

STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years ended December 31, 2007 and 2006

(In thousands of reais)

	Company						Total
	Capital stock paid-in	Legal reserve	Income reserves Unrealized earnings reserve	Reserve for investments	Treasury shares	Retained earnings	
Balances as of December 31, 2005	5,074,941	210,427	1,535,717	556,091	(11,792)	-	7,365,384
Disposal of shares	-	-	-	-	11,792	(5,818)	5,974
Prescribed dividends	-	-	-	-	-	333	333
Net income for the year	-	-	-	-	-	105,846	105,846
Reversal of investment reserves:							
Dividend distribution	-	-	-	(46,120)	-	46,120	-
Other appropriations	-	-	-	(5,485)	-	5,485	-
Allocation of adjusted net income:							
Legal reserve	-	5,292	-	-	-	(5,292)	-
Proposed dividends	-	-	-	-	-	(146,674)	(146,674)
Balances as of December 31, 2006	5,074,941	215,719	1,535,717	504,486	-	-	7,330,863
Capital increase (Note 26.a.)	142,207	-	-	-	-	-	142,207
Net income for the year	-	-	-	-	-	840,788	840,788
Realization of unrealized earning reserve	-	-	(483,876)	-	-	483,876	-
Allocation of adjusted net income:							
Legal reserve	-	42,040	-	-	-	(42,040)	-
Proposed dividends	-	-	-	-	-	(320,656)	(320,656)
Investment reserve	-	-	-	961,968	-	(961,968)	-
Balances as of December 31, 2007	5,217,148	257,759	1,051,841	1,466,454	-	-	7,993,202
			2,776,054				

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

EMBRATEL PARTICIPAÇÕES S.A.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended December 31, 2007 and 2006

(In thousands of reais)

	<u>Company</u>		<u>Consolidated</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Source of funds				
From operations:				
Net income for the year	840,788	105,846	840,788	105,846
Expenses (income) not affecting working capital				
Minority interests	-	-	34,031	47,455
Depreciation and amortization	-	-	1,126,747	1,115,548
Monetary and exchange variations and other charges on noncurrent liabilities	-	-	(368,193)	(109,517)
Monetary and exchange variations and other revenues from noncurrent assets	(860)	(1,320)	(23,008)	(1,767)
Realization of deferred income	-	-	(16,756)	(14,025)
Disposal of property, plant and equipment	-	-	33,071	17,571
Results from long term hedge contracts	-	-	206,370	41,367
Long term deferred income tax and social contribution	-	-	90,906	262,821
Actuarial liabilities update – Pension and Medical Health Care Plan	-	-	37,606	33,312
Disposal of investments (Note 16)	(18,655)	-	(18,655)	-
Equity pickup and goodwill amortization	(663,117)	(11,047)	(96,189)	(17,753)
Deposits in court	-	-	464	9,901
Pension plan	-	-	15,390	11,956
Capital gain, net – subsidiary NET (Note 11)	(184,567)	(91,051)	(247,348)	(119,958)
Donations	-	-	(306)	(1,529)
	(26,411)	2,428	1,614,168	1,381,228
From stockholders:				
Capital increase	142,207	-	142,207	-
From third parties:				
Increase in noncurrent liabilities				
Loans and financing	-	-	737,886	934,133
Taxes and contributions	-	-	240,240	37
Deferred income	-	-	3,609	15,640
Other liabilities	-	-	2,752	5,737
Transfer from noncurrent assets to current assets	-	-	443,866	59,361
Transfer from current to noncurrent liabilities	-	-	60,646	41,208
Reduction in noncurrent assets	26,923	-	56,768	24,563
Prescribed dividends	-	333	-	333
Disposal of treasury shares	-	5,974	-	5,974
Dividends and interest on capital	154,838	21,835	-	-
Disposal of investments	106,891	-	14	-
Donations	-	-	306	1,529
	288,652	28,142	1,546,087	1,088,515
Total sources of funds	404,448	30,570	3,303,212	2,469,743

EMBRATEL PARTICIPAÇÕES S.A.

STATEMENTS OF CHANGES IN FINANCIAL POSITION

Years ended December 31, 2007 and 2006

(In thousands of reais)

	<u>Company</u>		<u>Consolidated</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Application of funds				
Increase in noncurrent assets	4	12,327	258,000	778,661
Decrease in noncurrent liabilities	-	12,517	300,271	52,677
Transfer from current to noncurrent assets	-	-	56,523	164,536
Transfer from noncurrent to current liabilities	-	-	759,761	416,169
Additions to investments	23,868	10,229	28,263	335,709
Additions to property, plant and equipment	-	-	1,255,098	1,467,398
Dividends and interest on capital	320,656	146,674	349,107	192,150
Effects of minority interest on capital decrease in subsidiary Star One	-	-	20,101	-
Effects of minority interest on capital increase in subsidiary Star One	-	-	-	5,395
Reduction of deferred income	-	-	1,407	1,708
	<hr/>		<hr/>	
Total applications of funds	344,528	181,747	3,028,531	3,414,403
	<hr/>		<hr/>	
Increase (decrease) in net working capital	59,920	(151,177)	274,681	(944,660)
	<hr/>		<hr/>	
Variations in net working capital				
Current assets:				
At the beginning of the year	31,363	25,508	3,298,446	2,807,508
At the end of the year	162,889	31,363	3,362,328	3,298,446
	<hr/>		<hr/>	
	131,526	5,855	63,882	490,938
Current liabilities:				
At the beginning of the year	331,549	174,517	4,154,175	2,718,577
At the end of the year	403,155	331,549	3,943,376	4,154,175
	<hr/>		<hr/>	
	71,606	157,032	(210,799)	1,435,598
	<hr/>		<hr/>	
Increase (decrease) in net working capital	59,920	(151,177)	274,681	(944,660)
	<hr/>		<hr/>	

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

EMBRATEL PARTICIPAÇÕES S.A.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

(In thousands of reais, except when mentioned otherwise)

1. Background and Operations

Embratel Participações S.A. (“Embrapar” or “Company”) was incorporated in accordance with article 189 of Law 9,472/97 – General Telecommunications Law, based on Decree No. 2,546 of April 14, 1998. The Company resulted from the spin-off of Telecomunicações Brasileiras S.A. - Telebrás, as approved at the May 22, 1998 General Meeting of Shareholders. The spin-off was approved based on an appraisal report as of February 28, 1998. Since July 23, 2004 the Company has been controlled by Teléfonos do México S.A de C.V. (“Telmex”), a company incorporated under the laws of Mexico.

The Company, through its subsidiaries and affiliated companies, offers voice, text, data and image transmission and other services locally and abroad, as well as satellite services. The Company’s operations are regulated by the National Telecommunications Agency (“ANATEL”).

The Company holds 98.99% of Empresa Brasileira de Telecomunicações S.A. – Embratel (“Embratel”), which is a telecommunications service provider, mainly domestic and international services.

Under the terms of the telecommunications concessions (domestic and international long distance services) granted by the Federal Government, and renewed for 20-year term, since January 1, 2006, at cost to the Company. This cost is related to the payment, bi-annually, corresponding to 2% (two per cent) of its revenues, from switched fixed telephone service, net of taxes and social contributions, of the previously year to the payment.

On November 1, 2000, subsidiary Embratel incorporated Star One S.A. (“Star One”) to manage satellite operations, as the main Brazilian provider of transponders for radio communications services such as: (i) network services; (ii) end-to-end telecommunications services; and (iii) radio and television broadcasting. On the date of its incorporation, all terms related to the 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, which was renewable until December 31, 2020, at cost to the subsidiary, by ANATEL, and would be renewable for more 15 years subject to ANATEL’s regulation.

EMBRATEL PARTICIPAÇÕES S.A.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

(In thousands of reais)

On October 24, 2005, the Company has concluded the acquisition of all of the capital stock of Telmex do Brasil Ltda. (“TdB”), an equity stake equivalent to 19.81% of the capital stock of Net Serviços de Comunicação S.A. (“NET”) and a equity stake of 83% of the capital of GB Empreendimentos e Participações S.A. (“GB”), held by Telmex. With the acquisition of the equity stakes on NET and GB, the Company has become a holder of direct and indirect interest (through GB) of 37.1% of the NET capital stock.

On May 18, 2006, the Company’s subsidiary Embratel acquired from Globo Comunicação e Participações S.A. (“Globo”) and from its subsidiary Globosat Programadora Ltda. (“Globosat”): (i) 8.54% of the total share class and 5.06% of the total capital of NET; and (ii) rights assigned by NET to Globo (as the successor of Roma Participações S.A.), under the terms of CVM Instruction No. 319/99 and subsequent amendments, and in accordance with applicable tax and corporate legislation, deriving from the special premium reserve recorded at NET and from the tax loss relating to such premium, amortized or used, as the case may be, in 2005, convertible into 26,575,961 new common shares and 38,572,409 preferred shares issued by NET, representing 1.65% of total common shares, 1.65% of total preferred shares and 1.65% of the total capital of NET. Globo and its subsidiaries, shareholders of NET, did not exercise their preemptive rights to the subscription of said capital increase.

After the transaction conducted by subsidiary Embratel, Embrapar has held, directly and indirectly, 42.98% of total capital. This investment did not change the shareholding structure of NET.

Also with regard to this investment, on November 30, 2006, NET issued 1,355,713 common shares and 23,010,140 preferred shares, thus concluding the first stage of the acquisition of Vivax S.A (“Vivax”).

Embrapar (directly and indirectly) subscribed a total 1,355,707 common shares and as of December 31, 2006 has held (directly and indirectly) a 39.87% interest in the total capital of NET.

Although Embrapar’s (direct and indirect) investment in NET has decreased 3.1% with this transaction, there was a capital gain of approximately R\$190 million (R\$120 million net in other non-operating income, net and R\$70 million in equity pick-up).

EMBRATEL PARTICIPAÇÕES S.A.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

(In thousands of reais)

On June 11, 2007, the Company and its subsidiary Embratel had a decrease in their direct and indirect investment in NET to 35.15%, due to the merger into NET's assets of the Vivax shares acquired, title to which, at the merger date, was not NET's, and the consequent transformation of Vivax into a wholly-owned subsidiary of NET, thereby generating capital gain of nearly R\$380 million (R\$247 million in other non-operating income, net and R\$133 million in equity pickup).

On November 25, 2005 subsidiary Embratel concluded the transaction of the purchase of shares that represent 100% of the capital of Primesys Soluções Empresariais S.A. ("PMS"), provider of specialized telecom network and circuit services.

On October 1, 2007, subsidiary Embratel incorporated subsidiary Embratel Tvsat Telecomunicações Ltda. ("Tvsat"), aimed primarily at providing telecommunication services, including unlimited pay-TV broadcasting services, and Direct-To-Home (DTH) satellite broadcasting, which is the distribution of television and audio signals via satellite subscription.

On May 8, 2006, Embrapar announced the decision of its controlling shareholder, Telmex, to file a request with CVM for the public offer for the acquisition of all outstanding common and preferred shares issued by the Company (Public Offer for Shares - "OPA"), with a view to canceling Embrapar's registration as a public company. The purchase price offered for both share classes was R\$6.95 (six reais and ninety-five cents) per 1,000 share lot, adjusted by the monthly Reference Rate (TR) variation, *pro rata temporis*, from the date the offer was announced in a notice of material event to the date of OPA settlement.

After CVM approved the OPA, Telmex initiated the Voluntary Offer on October 3, 2006, and an auction was held at the Sao Paulo Stock Exchange on November 7, 2006, when the Offerer acquired 3,626,089,453 common shares and 234,765,943,746 preferred shares issued by Embrapar. Through its subsidiaries, Telmex has become the holder of 98.0% of total common shares and 94.7% of total preferred shares representing approximately 96.4% of the Company's total capital.

In addition to acquisitions at the OPA, Telmex purchased more shares having 97.98% of total Embrapar shares as of December 31, 2007 (96.96% on December 31, 2006).

EMBRATEL PARTICIPAÇÕES S.A.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

(In thousands of reais)

2. Presentation of the Financial Statements

The individual and consolidated financial statements are the responsibility of the Company's management and were prepared in accordance with the accounting practices adopted in Brazil, that include dispositions in Corporation Law, regulations applicable to telecommunications concessionaires and rules and accounting procedures established by the Brazilian Securities Commission (CVM) and announcement of the Brazilian Institute of Accountants (IBRACON).

Authorization for the financial statements closing process was obtained at the Directors' Meeting held on January 28, 2008.

The preparation of the financial statements involves the use of accounting estimates. Such estimates were based on objective and subjective aspects considering management's judgment to determine the adequate amount to be recorded in the financial statements. Significant items subject to these estimates and assumptions include the selection of useful lives of fixed assets and their recovery in operations, risk credit analysis to determine the allowance for doubtful accounts, and the analyses of other risks to determine other provisions, including the provision for contingencies, and the valuation of financial instruments and other assets and liabilities at the balance sheet date.

Actual results may significantly differ from these estimates once the underlying transactions are settled due to the underlying inaccuracy of the determination process. The Company reviews its estimates and assumptions at least on a quarterly basis.

The provision for income and social contribution taxes was recognized in accordance with legislation in effect at the balance sheet date.

Assets and liabilities are classified as current when these items are likely to be settled or realized within twelve months, or otherwise classified as noncurrent.

Certain reclassifications were performed in the financial statements for the year ended on December 31, 2006 to make them consistent with the presentation of the current year.

EMBRATEL PARTICIPAÇÕES S.A.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

(In thousands of reais)

3. Principal Accounting Practices

a) Cash and cash equivalents and short-term investments

Cash and cash equivalents and short-term investments of fixed income, variable income, government securities and Bank Deposit Certificates (CDB), with maturity not exceeding 90 days as from balance sheet date, are classified as cash and cash equivalents and are stated at the investment amount, plus yield contracted and proportionally recognized until balance sheet date.

b) Accounts receivable

Refer primarily to the amounts received from local and long distance domestic and international telecommunication services, billed and/or unbilled at the balance sheet dates, as well as amounts receivable from data and other services.

An allowance for doubtful accounts is accrued to cover the amounts which recoverability is considered doubtful. See change in the allowance for doubtful accounts in Note 14.

c) Foreign currency transactions

Monetary assets and liabilities denominated in foreign currencies were converted into reais at the rate of exchange of the balance sheet closing date. Currency translation differences are recognized in the statement of income, under the heading Financial income (expense), net, when incurred. The effects of foreign rate changes are detailed in Note 10.

d) Inventories

Inventories are stated at the average purchase cost less the provision for realization, when applicable and refer primarily to handsets (digital telephone equipment).

EMBRATEL PARTICIPAÇÕES S.A.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

(In thousands of reais)

e) Investments

Refers substantially to the interest in subsidiaries and associated company recorded under the equity method.

The accounting practices adopted by the subsidiaries and associated company, included those located overseas, are consistent with those adopted by the Company.

f) Property, plant and equipment

Property, plant and equipment is recorded at purchase cost and/or construction cost, monetarily restated up to December 31, 1995, less accumulated depreciation, adjusted for impairment, when applicable.

Depreciation is calculated by the straight-line method at the rates mentioned in Note 17, which take into consideration the estimated useful lives of the assets.

Expenses for maintenance and repairs are capitalized when they represent improvements (increase of installed capacity or useful life) while the others are expensed. The financial charges arising from financing linked to construction in progress are recorded in property, plant and equipment.

The Company's policy is to capitalize goods acquired through leasing arrangements and the corresponding lease finance is recorded as a liability. The liability arising from such transactions bear interests as established in the leasing contracts and, when applicable, exchange variations.

The recoverability of the Company's property, plant and equipment through future generation of income is monitored on the basis of income forecasts for the purpose of verifying whether the net recoverable value is greater than the net book value.

g) Intangible

They mainly correspond to software, regulatory permits and rights of use, whose breakdown is presented in Note 18. Amortization of software is calculated by straight-line method for the period of 5 years, and regulatory permits and right of use for the contract term.

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h) Deferred asset

Correspond to goodwill paid by former controlling interest holders of CT Torres Ltda. (“CT Torres”) and PMS on the acquisition of those companies, subsequently capitalized in those companies (with the spin-off of CT Torres and its subsequent merger into subsidiaries Vésper S.A. - “VSA” and Vésper São Paulo S.A. - “VSP”, this goodwill started being recorded in these companies).

Referred to goodwill is economically based on future profitability forecasts and have been amortized over the terms and to the extent determined in respective forecasts.

i) Loans and financing

Loans and financing are updated based on the exchange or monetary variations and according to the interest rates incurred up to the balance sheet dates according to the terms defined in the contracts.

j) Income tax and social contribution

Income tax and social contribution are calculated according to the rules and rates prevailing during the year and are recorded on an accrual basis.

Deferred income tax and social contribution on accumulated tax losses and social contribution negative basis, as well as on temporary differences are assessed based on the expectation of generating future taxable income less the valuation allowance based on the regulations established by CVM Instruction No. 371/02, as stated in Notes 12, 15 and 21.

Prepaid or recoverable amounts are stated as current or noncurrent assets, based on their related estimated realization.

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k) Provision for contingencies

This provision is set up based on the external and internal legal advisors' opinions at amounts deemed to be sufficient to cover any losses or risks which chances of losing are considered probable. The total balance is recorded as current liabilities, due to the fact that it is not possible to estimate the time required to reach settlement. The grounds and nature of the provisions are described in Note 24.

l) Actuarial liability - Telos

Subsidiaries Embratel and Star One sponsor an entity to manage the pension funds and other post-retirement benefits for their employees (Note 25). The contributions toward the plans are planned by actuaries and recorded on an accrual basis.

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

m) Deferred income

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

Furthermore, this amount also includes negative goodwill on the merger of Latam do Brasil Participações S.A. ("Latam"), and acquisition/increase of equity interest in subsidiaries.

n) Revenue recognition

Revenues from telecommunications services are recorded on an accrual basis, less an estimate for billing problems or disputes.

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o) Financial income (expense), net

Represents interest and foreign exchange and monetary variations on loans and financing and other assets and liabilities subject to monetary updated, recorded on an accrual basis. Additionally, includes banking and fiduciary letters expenses, as well as PIS (Employees' Profit Participation Program) and COFINS (Tax on Social Security Financing) expenses (calculated on revenues from fines and interest on capital) and CPMF (Provisional Contribution Tax on Financial Transactions).

p) Employees' profit sharing

Subsidiaries Embratel, Star One, Click21 Comércio e Publicidade Ltda. – “Click21”, BrasilCenter Comunicações Ltda. – “BrasilCenter”, PMS e TdB have established a provision for employees' profit sharing, which is calculated based on the Company's and employees' targets and which payment is subject to approval by the Annual Shareholders' Meeting. These subsidiaries recorded this expense in the statement of income under general and administrative expenses (R\$55,975 and R\$58,169 for the years ended December 31, 2007 and 2006, respectively). In 2007, BrasilCenter has recorded a provision, in amount of R\$6,335 (R\$3,650 on December 31, 2006), classified as personnel in the group of selling expenses.

Management profit sharing is included under Directors' Fees (Note 29).

q) Minority interests

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

r) Net income per thousand outstanding shares

Net income per thousand outstanding shares is calculated based on the number of outstanding shares on the date of the financial statements.

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4. Consolidation Procedures

In the consolidated financial statements, investments in subsidiaries have been eliminated against their respective shareholders' equity, unrealized intercompany profits or losses, when applicable, equity earnings and provision for losses on subsidiaries' investments, intercompany income and expenses, intercompany current and non-current asset and liabilities balances. The amount of shareholders' minority interest has been separated in the results and shareholders' equity of the subsidiaries.

The consolidated financial statements include the financial statements of the Company and its subsidiaries, according to direct and/or indirect participation in the share/voting capital, as shown below:

	%	
	<u>2007</u>	<u>2006</u>
Embratel	99.0	99.0
Star One ⁽¹⁾	80.0	80.0
BrasilCenter	100.0	100.0
Click21	100.0	100.0
VSA	100.0	100.0
VSP	100.0	100.0
TdB ⁽¹⁾	100.0	100.0
PMS ⁽¹⁾	100.0	100.0
Embratel Internacional S.A. ⁽²⁾	100.0	100.0
Embratel Uruguay S.A. ⁽²⁾	100.0	100.0
Palau Telecomunicações Ltda. ⁽²⁾	100.0	100.0
Tvsat ⁽¹⁾	100.0	-
Ponape Telecomunicações Ltda. – “Ponape” ⁽³⁾	-	100.0

⁽¹⁾ See comments on Note 1.

⁽²⁾ The Board of Directors approved the liquidation/dissolution of these Companies, but the dissolution process is still in progress.

⁽³⁾ The liquidation/dissolution of this subsidiary occurred on June 6, 2007.

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5. Net Operating Revenue

	Consolidated	
	2007	2006
Voice		
Domestic long distance	4,084,341	4,217,765
International long distance	499,958	511,578
	<u>4,584,299</u>	<u>4,729,343</u>
Data & Internet		
Corporate and other	2,054,271	2,013,585
Telecommunications companies	222,435	251,047
	<u>2,276,706</u>	<u>2,264,632</u>
Local services ⁽¹⁾	1,283,056	911,602
Other services ⁽²⁾	480,692	314,624
	<u>480,692</u>	<u>314,624</u>
Total	<u><u>8,624,753</u></u>	<u><u>8,220,201</u></u>

⁽¹⁾ Includes revenue from handsets sales.

⁽²⁾ Refers mainly to revenues from the transmission of television and radio, telex and mobile satellite communication services.

6. Cost of Services and Goods Sold

	Consolidated	
	2007	2006
Interconnection/facilities ⁽¹⁾	(3,434,817)	(3,321,158)
Depreciation and amortization	(1,008,564)	(925,030)
Third-party services ⁽²⁾	(371,064)	(379,600)
Personnel	(287,147)	(284,841)
Other ⁽³⁾	(461,446)	(422,736)
	<u>(461,446)</u>	<u>(422,736)</u>
Total	<u><u>(5,563,038)</u></u>	<u><u>(5,333,365)</u></u>

⁽¹⁾ Interconnection costs represent charges by the fixed-line and mobile telephone companies providing interconnection services, according to Resolution No. 33, of April 1, 1998 and Resolution No. 438, of July 10, 2006, both issued by ANATEL; costs with facilities refer to charges by telecommunication service providers for the use of dedicated circuits for the rendering of services to end users.

⁽²⁾ Refers mainly to the installation and maintenance of telecommunications equipment and public utilities (electric power).

⁽³⁾ These refers substantially to FUST, FUNTTEL and amount charged by ANATEL to renew the concession (Note 1), rental and handsets selling costs.

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NOTES TO FINANCIAL STATEMENTS

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(In thousands of reais)

7. Selling Expenses

	Consolidated	
	2007	2006
Doubtful accounts ⁽¹⁾	(382,473)	(434,959)
Third-party services ⁽²⁾	(481,748)	(426,567)
Personnel	(328,538)	(282,771)
Depreciation and amortization	(1,021)	(406)
Other	(7,560)	(7,873)
	(1,201,340)	(1,152,576)
Total		

⁽¹⁾ Comprise also other losses related with accounts receivable.

⁽²⁾ Refers, substantially, to the expense with marketing and advertising, billing and mailing, advisory and consulting.

8. General and Administrative Expenses

	Company		Consolidated	
	2007	2006	2007	2006
Third-party services ⁽¹⁾	(4,245)	(3,750)	(358,624)	(327,085)
Personnel	(692)	(807)	(161,539)	(155,918)
Depreciation and amortization	-	-	(117,162)	(190,112)
Employees' profit sharing (Note 3)	-	-	(55,975)	(58,169)
Taxes ⁽²⁾	(466)	(357)	(26,412)	(298,930)
Other	-	(2)	(46,222)	(44,844)
	(5,403)	(4,916)	(765,934)	(1,075,058)
Total				

⁽¹⁾ Refers to maintenance, conservation and cleaning expenses as well as those for public utilities and information technology, auditing, assistance and consulting.

⁽²⁾ In 2006, this also includes expenses recognized in connection with ICMS Agreement No. 72 (Note 24.2.a).

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9. Other Operating Income (Expenses), Net

	Consolidated	
	2007	2006
Agreement with operators (Note 31)	(40,774)	7,674
Provision for contingencies (Note 24)	(67,731)	(543,383)
Late charges expenses, net ⁽¹⁾	(7,885)	(110,423)
Rights of way (ROW)	4,948	3,869
Telecom network assignment	7,153	7,515
Recovery of credit	32,106	12,444
Other	16,005	2,055
	(56,178)	(620,249)
Total		

⁽¹⁾ In 2006, this refers mainly to a fine of R\$95,130 levied by the Federal Revenue Service in connection with income tax on inbound international income (Note 24.2.b).

10. Financial Income (Expense), Net

	Company		Consolidated	
	2007	2006	2007	2006
Financial income				
Interest on temporary investments ⁽¹⁾	1,825	14,666	160,808	561,412
Monetary variation – credit ⁽¹⁾	-	-	468	183,273
Exchange variation – assets accounts	20	1	(13,153)	(1,965)
Subtotal	1,845	14,667	148,123	742,720
Financial expense				
Financial charges	(21,853)	(15,090)	(288,021)	(235,052)
Monetary variations – charge	-	-	(11,789)	(367,916)
Exchange variations – liabilities accounts ⁽²⁾	(43)	-	(697)	(21,782)
Subtotal	(21,896)	(15,090)	(300,507)	(624,750)
Total	(20,051)	(423)	(152,384)	117,970

⁽¹⁾ In 2006, subsidiary Embratel recorded revenue of R\$604,790, for the right to recover amounts of income and social contribution taxes paid on inflation profit, already including interest and monetary restatement of R\$592,890 on such receivable (Note 15).

⁽²⁾ Net results from hedge and foreign currency forwards contracts, determined in the same period (expense of R\$363,966 and R\$123,807, for the years ended December 31, 2007 and 2006, respectively).

In 2007, the US dollar devalued by 17.15% (8.66% devaluation for the same period in 2006) against to the Brazilian real.

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(In thousands of reais)

11. Other Non-Operating Income (Expense), Net

	Company		Consolidated	
	2007	2006	2007	2006
Income				
Disposal of property, plant and equipment	-	-	5,944	3,133
Capital gain – subsidiary NET (Note 1)	217,953	98,028	292,241	129,130
Disposal of investments (Note 16)	18,655	-	18,655	-
Other	-	-	3,852	9,305
Expenses				
Write-off of property, plant and equipment	-	-	(12,006)	(3,421)
Provision for write-off of property, plant and equipment	-	-	(18,190)	(8,160)
Loss of interest stake – subsidiary NET (Note 1)	(33,386)	(6,977)	(44,893)	(9,172)
Other	(10)	(3)	(1,725)	(890)
Total	<u>203,212</u>	<u>91,048</u>	<u>243,878</u>	<u>119,925</u>

12. Income Tax and Social Contribution

With regard to Corporate Income Tax (IRPJ) and Social Contribution Tax on Net Profit (CSLL), the company and its subsidiaries opted to have annual taxable profit computed on their accounting records, prepaying such taxes monthly based on the tax-suspension or tax-reduction trial balance methodology.

The provision for IRPJ is calculated on an accrual basis at a rate of 15%, plus a surtax of 10% on taxable profit as set forth under current legislation, whereas social contribution tax is computed at a rate of 9%.

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The tax losses carry forward and negative basis of social contribution of the main subsidiaries, that can be offset according to Law No. 9,065/95, which limited offsetting of accumulated tax losses and negative basis for social contribution to 30% of taxable income generated in each fiscal year, are described below:

Company/ subsidiary	Consolidated			
	December 31, 2007		December 31, 2006	
	Tax losses carry forward	Negative basis of social contribution	Tax losses carry forward	Negative basis of social contribution
Embrapar ⁽¹⁾	11,770	12,477	11,641	12,263
Embratel	818,741	701,891	971,163	852,776
VSA e VSP ⁽¹⁾	4,409,215	4,414,952	4,217,881	4,224,299
TdB ⁽¹⁾	558,916	568,117	559,606	568,754
PMS ⁽¹⁾	200,018	200,174	186,882	186,882
Other ^{(1) (2)}	10,796	10,902	14,335	14,439
Total	6,009,456	5,908,513	5,961,508	5,859,413

⁽¹⁾ Because neither these subsidiaries nor the Company present a history of taxable bases and because of uncertainties as to their realization, the respective tax credits were not accounted for, according to CVM Instruction No. 371/02. The management of these subsidiaries and of the Company keep monitoring the results, aiming at accounting for the respective tax credits thereon once the CVM Instruction requirements are met.

⁽²⁾ Income and social contribution tax losses carryforward of subsidiaries BrasilCenter, Click21 and Palau.

12.1. Income tax and social contribution expenses

The result of income tax and social contribution comprises current expenses computed on taxable profit for the year ended December 31, 2007, according to current tax legislation, and deferred tax credit (expense), calculated on temporary differences generated or realized in the year ended December 31, 2007, and on the balance of respective tax losses. Consolidated deferred expense results from calculation of these taxes on allowance for doubtful accounts, income tax loss, provision for contingencies, social contribution tax loss, taxes and other temporarily nondeductible expenses, as well as temporarily nontaxable revenues (Notes 15 and 21).

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Breakdown of income tax and social contribution expense:

	Company		Consolidated	
	2007	2006	2007	2006
Current				
Social contribution	-	-	(48,367)	(29,824)
Income tax	-	-	(137,992)	(113,070)
Total current	-	-	(186,359)	(142,894)
Deferred				
Social contribution	-	(496)	(43,477)	6,940
Income tax	-	(1,376)	(121,291)	(5,346)
Total deferred	-	(1,872)	(164,768)	1,594
Total expenses	-	(1,872)	(351,127)	(141,300)

Current income tax and social contribution expense reported in the consolidated statements of income are mainly attributable to subsidiaries Embratel and Star One.

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12.2. Reconciliation of tax expenses with nominal rates

The reconciliation of income tax and social contribution calculated based on the nominal tax rates in relation to the amounts recorded is shown below:

	Company		Consolidated	
	2007	2006	2007	2006
Income before taxes and minority interests	840,788	107,718	1,225,946	294,601
Income tax expenses at nominal rate – 25%	(210,197)	(26,930)	(306,486)	(73,650)
Adjustments to obtain the effective rate:				
Unrecorded tax credits owed to Instruction CVM 371/02 ⁽¹⁾	(32)	-	(16,686)	(3,851)
Equity pickup and goodwill amortization	165,779	2,762	24,044	4,438
Other permanent additions (exclusions) ⁽²⁾	44,450	22,792	39,845	(45,353)
Income tax expenses in the statements of income	-	(1,376)	(259,283)	(118,416)
Social contribution expenses at nominal rate – 9%	(75,671)	(9,695)	(110,335)	(26,514)
Adjustments to obtain the effective rate:				
Unrecorded tax credits owed to Instruction CVM 371/02 ⁽¹⁾	(19)	-	(6,052)	(1,386)
Equity pickup and goodwill amortization	59,680	994	8,656	1,598
Other permanent additions (exclusions) ⁽²⁾	16,010	8,205	15,887	3,418
Social contribution expenses in the statements of income	-	(496)	(91,844)	(22,884)
Income tax and social contribution, per statements of income	-	(1,872)	(351,127)	(141,300)

⁽¹⁾ This basically refers to the losses incurred by subsidiaries VSP, VSA and PMS, on which no tax credits were established due to the uncertainties involved in the realization of them.

⁽²⁾ Permanent exclusions (additions) on consolidated substantially correspond to gain earned by the company and its subsidiary Embratel on change in shareholding percentage in investees NET and GB, amortization of deferred charges in subsidiary PMS, losses on collection of credits and a provision set up for non-realization of deferred tax assets in subsidiary Embratel.

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13. Cash and Cash Equivalents and Short-Term Investments

	Company		Consolidated	
	2007	2006	2007	2006
Cash and cash equivalents:				
Cash and bank deposits	10,034	23	311,509	287,222
Foreign short-term investments	-	-	6,792	51,221
Financial investment fund ⁽¹⁾	6,249	803	398,953	295,133
Provision for Income Tax and other	(3)	(3)	(193)	(726)
	16,280	823	717,061	632,850
Short-term investments:				
Bank Certificates of Deposit (CDB)	-	-	-	4,303
	-	-	-	4,303
Total	16,280	823	717,061	637,153

⁽¹⁾ Represent exclusive fund securities maturing within less than 90 days as from year end date.

Statement of foreign short-term investments and investment funds:

	2007		Consolidated		
	Financial institution	Over SELIC	Off-Shore investments	Provision for IR and others	Total
Exclusive Investment Fund					
Bradesco		236,514	-	(114)	236,400
Caixa Econômica Federal		162,439	-	(79)	162,360
Subtotal		398,953		(193)	398,760
Other investments					
Banco do Brasil		-	1,476	-	1,476
Itaú		-	5,316	-	5,316
Subtotal		-	6,792	-	6,792
Total		398,953	6,792	(193)	405,552

	2006			Consolidated				
	Financial institution	LTN hedged by swap	LFT	Over SELIC	CDB	Off-Shore investments	Provision for IR and others	Total
Exclusive Investment Fund - Bradesco		9,705	3,922	237,468	44,038	-	(726)	294,407
Other investments								
ABN Amro		-	-	-	4,303	-	-	4,303
Banco do Brasil NY		-	-	-	-	442	-	442
J P Morgan		-	-	-	-	49,839	-	49,839
Citibank		-	-	-	-	940	-	940
Subtotal		-	-	-	4,303	51,221	-	55,524
Total		9,705	3,922	237,468	48,341	51,221	(726)	349,931

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A substantial part of the capital investments of the Company and its subsidiaries are represented for funds application in exclusive investment funds quota (“IFQ”).

This IFQ, comprising exclusive investment funds (“IFs”), classified as Referenced DI short-term, is allocated to the Company and parent companies or those who have authorization to participate in that fund. It was built under the open condominium form without time limit, and it is daily liquid. The IF portfolio management is done by external managers that follow the investments policies established by the Company.

The fund portfolio comprises government securities, certificates of bank deposits (“CDBs”) issued by first-tier financial institutions and derivatives, with the latter being used exclusively to protect the portfolio. The financial assets that belong to fund portfolio are registered, conforming the case, on the “Sistema Especial de Liquidação e de Custódia” – SELIC, on the “Câmara de Custódia e Liquidação” – CETIP, or in the “Bolsa de Mercadorias & Futuros” – BM&F.

14. Accounts Receivable

	Consolidated	
	2007	2006
Voice services	1,236,011	1,660,578
Data, telecommunications companies and other services	1,039,292	822,378
Foreign administrators	99,755	138,037
Subtotal	2,375,058	2,620,993
Allowance for doubtful accounts	(674,673)	(676,488)
Total	1,700,385	1,944,505
	Consolidated	
	2007	2006
Billed services	1,665,986	1,957,500
Unbilled services	709,072	663,493
Gross accounts receivable	2,375,058	2,620,993
Allowance for doubtful accounts	(674,673)	(676,488)
Accounts receivable, net	1,700,385	1,944,505

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	Consolidated	
	2007	2006
Accounts receivable maturity:		
Maturing	1,148,325	1,022,125
Overdue from:		
01 to 30 days	281,932	367,847
31 to 60 days	164,514	279,029
61 to 90 days	116,488	145,872
Over 90 days	663,799	806,120
Total	2,375,058	2,620,993

The Company and its subsidiaries monitor their past due accounts receivable and the balance of the allowance for doubtful accounts as of December 31, 2007 and 2006 was mainly made up of amounts overdue more than 90 days, from basic voice customer users, advanced voice, data and other services, as well as estimated amounts based on historical losses.

Changes in the allowance for doubtful accounts were as follow:

Ending balance at December 31, 2005	1,170,511
Increase of expenses for doubtful accounts	316,599
Reduction related to other accounts ⁽¹⁾	(92,349)
Disposal of allowance for doubtful accounts ⁽²⁾	(718,273)
Ending balance on December 31, 2006	676,488
Increase of expenses for doubtful accounts	312,181
Reduction related to other accounts ⁽¹⁾	(2,562)
Disposal of allowance for doubtful accounts ⁽²⁾	(311,434)
Ending balance on December 31, 2007	674,673

⁽¹⁾ Decrease mainly due to agreements with operators (Note 31).

⁽²⁾ Reduction due to invoices disposals from voice and data services, after the drain of charging actions.

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15. Deferred and Recoverable Taxes

	<u>Company</u>		<u>Consolidated</u>	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Deferred income tax and social contribution assets				
Provision for write-off of property, plant and equipment	-	-	27,256	26,923
Tax losses carry forward	-	-	204,685	242,791
Negative basis of social contribution	-	-	63,170	76,750
Allowance for doubtful accounts	-	-	190,617	209,288
Provision for contingencies	-	-	200,616	334,342
SWAP	-	-	147,135	77,166
Actuarial plan	-	-	60,503	47,717
Other deferred taxes (other provisions)	-	-	40,957	83,869
Subtotal	-	-	934,939	1,098,846
Recoverable taxes				
Withholding income tax (IRRF)/social contribution	1,413	106	23,324	55,501
Recoverable income tax/social contribution	226	7,417	8,535	48,481
Income tax/social contribution tax on inflationary gains ⁽¹⁾	-	-	599,499	604,790
ICMS (value-added tax)	-	-	399,512	329,856
Income tax on net income - ILL	-	-	7,930	7,930
Other ⁽²⁾	1,102	1,038	44,739	42,484
Total	2,741	8,561	2,018,478	2,187,888
Current	2,741	8,561	682,207	555,124
Noncurrent	-	-	1,336,271	1,632,764

⁽¹⁾ In December 2000, subsidiary Embratel filed a legal claim against the federal government for recognition of its right to recover the income and social contribution taxes paid on inflation profit for the period 1990-1994. On November 28, 2006, the court handed down a final unappealable decision favorable to subsidiary Embratel. As a consequence, the subsidiary recorded a revenue of R\$604,790 in its financial statements for the year ended December 31, 2006, already including interest and monetary restatement calculated on said credit amounting to R\$592,890 at that date. On October 3, 2007, the Brazilian IRS rendered a decision whereby the application filed by its subsidiary Embratel for validation of the tax credit recognized by way of a court decision was accepted and approved. After that decision, subsidiary Embratel started using portions of such credit to offset federal tax and contribution debts. This asset is remunerated based on SELIC rate variation, and on December 31, 2007 it amounted to R\$599,499 (R\$604,790 on December 31, 2006), already net of the amount used for tax offsetting purposes.

⁽²⁾ Composed, mainly, by tax credits of PIS and COFINS recorded in accordance with the Laws 10,637/02 and 10,833/03 as well as taxes withheld by federal agency.

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The consolidated figures for deferred taxes arise substantially from subsidiary Embratel and were recognized on the assumption of future realization, in accordance with CVM Instruction No. 371/02, which establishes the essential conditions for maintaining and accounting for deferred assets stemming from temporary differences and from income and social contribution tax losses.

Studies conducted by such subsidiary indicate full recovery of the amounts recognized by its subsidiaries within the period defined by this Instruction. The technical studies, which support the maintenance of the recorded amounts, correspond to management's best estimates regarding the subsidiaries' projected income. As such, due to the inherent nature of financial forecasts and uncertainties of information based on future events, mainly considering the market in which subsidiary Embratel operates, there may be differences between the actual results and those shown in the financial projections.

The table below shows the schedule for realization of the deferred tax assets recorded by subsidiary Embratel:

Year	
2008	328,390
2009	180,846
2010	219,083
2011	116,091
2012	18,210
2013 to 2014	2,584
2015 to 2017	57,525
Total	922,729

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16. Investments

In the Company, the roll forward of the investments and the provision for losses on investments for the year ended December 31, 2007 is shown below:

	Balance on 12.31.06			Roll forward						Balance on 12.31.07			
	Investments	Goodwill ⁽²⁾	Negative goodwill	Acquisition/ capital subscriptions	Equity pick-up	Amortization of goodwill ⁽²⁾	Dividends/ interest on capital	Capital gain/loss	Disposal of investment	Capital decrease	Investments	Goodwill ⁽²⁾	Negative goodwill
Embratel ⁽¹⁾	6,458,229	-	(7,267)	-	509,343	-	(120,969)	-	-	-	6,846,603	-	(7,267)
NET ⁽²⁾	185,330	339,796	-	12,588	24,672	(41,188)	-	184,567	-	-	407,157	298,608	-
GB ⁽²⁾	371,798	150,707	(11,598)	11,280	154,685	(18,264)	-	-	-	-	537,763	132,443	(11,598)
TdB ⁽³⁾	186,719	-	-	-	33,869	-	(33,869)	-	-	(106,881)	79,838	-	-
Ponape	10	-	-	-	-	-	-	-	-	(10)	-	-	-
VSA and VSP ⁽⁵⁾	-	-	(18,655)	-	-	-	-	-	18,655	-	-	-	-
Other ⁽⁴⁾	-	-	(49,287)	-	-	-	-	-	-	-	-	-	(49,287)
	7,202,086	490,503	(86,807)	23,868	722,569	(59,452)	(154,838)	184,567	18,655	(106,891)	7,871,361	431,051	(68,152)
		7,605,782										8,234,260	

- (1) The negative goodwill is not economically based, and therefore these amounts will be amortized only in the case of write-off or disposal of the investment.
- (2) The amount of goodwill acquired is justified by economic studies and based on expectation of a future profitability for the acquired operations. The amortizations of goodwill are being recorded based on the term of the future profit forecasts (10 years), which are yearly revised.
- (3) In September 2007, the members' meeting approved a capital decrease in subsidiary TdB as the capital was considered excessive when compared to the corporate purpose of that subsidiary.
- (4) Negative goodwill was computed upon the merger of Latam, holder of investments in the capital of investees NET and GB.
- (5) In December 2007, the Company sold all the common shares it held in subsidiaries VSA and VSP to subsidiary Embratel, and then became the holder of indirect investments through that subsidiary, thereby realizing the negative goodwill of R\$18,655.

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On December 31, 2007, the information related to the main investments in direct subsidiaries and associated companies are shown below:

Subsidiaries/ associated company	Net income	Shareholders' equity	Quantity of shares/quotas (thousand share lot)			% of interest Voting capital
			Common	Preferred	Total	
Embratel	514,544	6,901,673	5,679,815	-	99.0%	99.0%
TdB	33,869	79,838	79,838	-	100.0%	100.0%
NET	171,079	2,735,227	40,425	12,091	15.7%	36.2%
GB	194,670	647,908	136,804	558,383	83.0%	49.0%

Regarding their investment in NET, the Company and its subsidiary Embratel are minority interest holders with special powers and are not part of the controlling group of that company. Based on the NET Shareholders' Agreement, Embrapar does not hold positive control of the company's operations, or veto rights in regard to such operations, retaining but the prerogative of approving certain transactions that are extraordinary in nature or that involve related parties.

The market value of NET shares, according to the most recent average price quote at the São Paulo Stock Exchange (BOVESPA), corresponded, on December 31, 2007, to R\$21.70 (R\$24.27 on December 31, 2006) per share. Other investees do not have Stock Exchange-traded shares.

Consolidated investments are broken down as follows:

	2007	2006
Investment valued under the equity accounting method		
NET ⁽¹⁾	545,907	248,496
GB	537,763	371,798
Premium on investment acquisition		
NET ⁽¹⁾	536,163	605,516
GB	132,443	150,707
PMS	30,098	33,898
Negative goodwill on the acquisition of investments – GB	(11,598)	(11,598)
Other	218	416
	1,770,994	1,399,233

⁽¹⁾ Includes the amounts recorded in Embrapar and in its subsidiary Embratel.

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17. Property, Plant and Equipment

	Annual depreciation/ amortization (%) rates	Consolidated			
		2007		2006	
		Cost	Accrued depreciation/ amortization	Net book value	Net book value
Switching equipment	10	4,166,952	(2,124,042)	2,042,910	1,822,839
Transmission equipment	5 to 20	11,525,406	(7,815,881)	3,709,525	3,426,506
Buildings and ducts	4	1,465,650	(871,955)	593,695	641,135
Land	-	191,362	-	191,362	192,047
Other assets					
Sundry equipments ⁽¹⁾	10 and 20	913,487	(775,996)	137,491	137,040
Telecommunications infrastructure	4, 5 and 10	1,046,902	(814,226)	232,676	256,712
Impairment of assets	-	(1,381,271)	822,078	(559,193)	(714,238)
Construction in progress	-	1,105,509	-	1,105,509	1,480,907
Satellites and transponders		320,988	-	320,988	816,981
Data and Internet services		175,348	-	175,348	130,491
Access, local infrastructure and services		249,556	-	249,556	206,688
Telco commutation		118,792	-	118,792	107,383
Network infrastructure		108,072	-	108,072	95,383
Information technology		132,753	-	132,753	123,981
Total		19,033,997	(11,580,022)	7,453,975	7,242,947

⁽¹⁾ Vehicles, information technology equipment, furniture and fixtures.

a) Assets related to concession contract

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

In regard to the fixed assets considered 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.

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b) Assets pledged as a guarantee

As of December 31, 2007, the Company had real estate and other fixed assets listed and/or designated as guarantees in lawsuits, in the amount of R\$535,273 (R\$953,873 on December 31, 2006).

On December 31, 2007 and 2006, subsidiary Star One has two fleet satellites pledged as guarantee regarding IRPJ and CSLL tax deficiency notices filed by the Brazilian IRS.

c) Satellite C-1

In 2001, subsidiary Star One signed an agreement with Thales Alenia Space (“Thales”, formerly denominated Alcatel Alenia Space), for the construction of the C-1 satellite. The cost of the project was US\$141,700 and the construction was expected to last 32 months through 2005. In April 2002, Star One and Alcatel entered into an agreement to review the technical specifications of the satellite Star One C-1, which decreased the amount of the project to US\$126,105 and the agreements reviewed took effect on September 30, 2003.

Because of modifications to the technical specifications of the satellite, the contract was amended in March 2004 to reflect a total cost of US\$212,100 and a new configuration was set of 28, 14 and 1 transponders in C, Ku and X bands, respectively. This satellite was successfully launched in November 2007.

On December 20, 2007, Star One C-1 started commercial operations. On December 31, 2007, the amount related to the agreements is recorded under the heading “Property, plant and equipment”, in the amount of R\$572,756 (R\$531,706 on December 31, 2006), and respective depreciation started being calculated from January 2008 on. As described in Note 22.e, part of the Star One C-1 construction is being financed. The capitalized interest recorded for Star One C-1 amounts to R\$38,999, of which R\$11,675 was incurred during the year ended December 31, 2007.

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d) Satellite C-2

In January 2005, subsidiary Star One signed up contract with Thales Alenia Space in amount of US\$152,200 to build of the Star One C-2 satellite, and the expansion of the control station. The amount of the investment is estimated in US\$190,000, including the insurance premium of launch, credit insurance premium, hired with Coface (“Compagnie Française d’Assurance pour le Commerce Extérieur”), and all others needed expenses to its built. The satellite will have 28 transponders in C band, 14 in Ku band and 1 in X band and will cover South America, Mexico and Florida. The orbit delivery is programmed to the first semester of 2008. As described on Note 22.f, in June 2005, subsidiary Star One executed a loan agreement for the construction of that satellite. On December 31, 2007, the amount related to this contract is recorded as construction in progress in amount of R\$320,988 (R\$271,930 on December 31, 2006). The capitalized interest recorded for Star One C-2 amounts to R\$11,650, of which R\$8,178 was incurred during the year ended December 31, 2007).

18. Intangible

	Annual depreciation/ amortization (%) rates	Consolidated			
		2007		2006	
		Cost	Accrued depreciation/ amortization	Net book value	Net book value
Data processing systems (software)	20	1,271,634	(1,120,788)	150,846	249,184
Rights of way (ROW)	3 to 10	244,423	(122,225)	122,198	113,598
Regulatory permits	6	26,306	(3,140)	23,166	15,571
Other	3 to 20	53,608	(48,901)	4,707	6,763
Adjustment to market value ⁽¹⁾	6 to 20	(163,558)	157,975	(5,583)	(14,264)
Total		<u>1,432,413</u>	<u>(1,137,079)</u>	<u>295,334</u>	<u>370,852</u>

⁽¹⁾ Adjustment to market value refers mainly to data processing systems (software) of subsidiaries VSA and VSP and ROW of subsidiary TdB.

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19. Deferred Asset

	Consolidated			2006 Net book value
	2007			
	Cost	Accrued amortization	Net book value	
Pre-operating expenses	1,183	(512)	671	788
Goodwill ⁽¹⁾	177,395	(108,596)	68,799	108,910
Total	178,578	(109,108)	69,470	109,698

⁽¹⁾ Goodwill amounts are well-founded and are being amortized based on future profits forecasts, and refers to the goodwill paid by the former parent company of CT Torres and PMS on their acquisition, which were later capitalized by them. Based on an economic appraisal report, goodwill capitalized into CT Torres has been amortized in 6 years. Capitalized goodwill in subsidiary PMS was originally to be amortized over 8 years, beginning January 2003. In 2007, after the specialists' review, the period for goodwill amortization decreased to 4 years, causing amortization expense to increase by R\$12,231 for the year ended December 31, 2007.

20. Accounts Payable and Accrued Expenses

	Consolidated	
	2007	2006
Suppliers	893,296	987,494
Foreign administrators	46,152	57,480
Consignments for third parties	92,848	54,740
Total	1,032,296	1,099,714

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21. Taxes and Contributions

	Company		Consolidated	
	2007	2006	2007	2006
Indirect taxes				
ICMS (value-added tax)	-	-	378,950	412,091
PIS/COFINS (social/finance contributions) ⁽¹⁾	618	-	69,189	57,824
FUNTTTEL (Note 24.2.h)	-	-	35,400	19,495
IRPJ and CSLL	-	-	30,089	55,456
ANATEL concession renewal fee (Note 1)	-	-	-	44,561
ISS (municipal service tax)	-	-	4,095	2,576
Others	54	71	29,778	35,207
Legal obligation				
FUST ⁽²⁾	-	-	2,097	2,011
Deferred tax liabilities				
IRPJ and CSLL Law No. 8,200/91 – supplementary monetary restatement	-	-	32,248	33,799
Other	-	-	2,412	-
Total	<u>672</u>	<u>71</u>	<u>584,258</u>	<u>663,020</u>
Current	<u>672</u>	<u>71</u>	<u>542,151</u>	<u>619,707</u>
Noncurrent	<u>-</u>	<u>-</u>	<u>42,107</u>	<u>43,313</u>

⁽¹⁾ In 1999, the Company and its subsidiaries questioned the change introduced by Law No. 9,718/99 which increased: (a) taxable income for the calculation of PIS and COFINS, including financial income and exchange variations and (b) the COFINS tax rate from 2% to 3%. Despite questioning it, the Company and its subsidiaries continued to record the total amount of the tax liability and made a court deposit during the period comprising August 1999 to April 2001. As from May, 2001, and based on case law, the Company and its subsidiaries decided to discontinue making these deposits and began to pay PIS and COFINS according to the terms of prevailing legislation. On August 29, 2002, was published the Provisional Measure (PM) No. 66, that allowed the liquidation of the tax obligations that were been discussed on court without fine. Subsidiary Embratel has decided then, based on referred PM and on petition presented on court to call off the doubt, to presents the provisions for taxes and contributions, in an amount of R\$173,122, net of its deposits on court on same amount.

⁽²⁾ Amounts net of judicial deposits of R\$68,604 on December 31, 2007 (R\$39,233 on December 31, 2006), according to CVM Deliberation No. 489/05.

EMBRATEL PARTICIPAÇÕES S.A.

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22. Loans and Financing

	Consolidated					
	2007			2006		
	Current	Noncurrent	Total	Current	Noncurrent	Total
Local currency						
Finame	2,230	203	2,433	5,150	2,413	7,563
ICMS financing	6,151	19,709	25,860	4,380	26,158	30,538
Leasing	27	-	27	466	34	500
Subtotal	<u>8,408</u>	<u>19,912</u>	<u>28,320</u>	<u>9,996</u>	<u>28,605</u>	<u>38,601</u>
Foreign currency						
Bank loans	338,836	1,203,100	1,541,936	641,276	985,603	1,626,879
Foreign debt securities - "Notes"	318,327	-	318,327	2,061	382,168	384,229
Star One C-1 and Star One C-2 satellite financing	69,308	407,965	477,273	49,451	468,851	518,302
Swap/exchange currency forward ⁽¹⁾	147,013	85,978	232,991	66,581	16,983	83,564
Subtotal	<u>873,484</u>	<u>1,697,043</u>	<u>2,570,527</u>	<u>759,369</u>	<u>1,853,605</u>	<u>2,612,974</u>
Total debt	<u><u>881,892</u></u>	<u><u>1,716,955</u></u>	<u><u>2,598,847</u></u>	<u><u>769,365</u></u>	<u><u>1,882,210</u></u>	<u><u>2,651,575</u></u>

⁽¹⁾ In 2007, subsidiaries Embratel and Star One have derivatives (Swap) related to the debt and others due to the protection of future cash flows, in face of the market opportunity. In the table above, it is shown the income result from derivatives related to the debt. The summary of all operations is described in Note 23.c. In 2006, this subsidiaries also had Forward derivatives.

Loans and financing contracted are for covering the Company and its subsidiaries operating needs. On December 31, 2007, the debt position was as shown below:

	Amount	%	Average cost of debt
Local currency	8,408	1.1	60.94% CDI
Foreign currency	726,471	98.9	US\$ + 8.78%
Current	<u>734,879</u>	<u>100.0</u>	US\$ + 8.68%
Local currency	19,912	1.2	41.50% CDI
Foreign currency	1,611,065	98.8	US\$ + 5.49%
Noncurrent	<u>1,630,977</u>	<u>100.0</u>	US\$ + 5.41%
Local currency	28,320	1.2	47.27% CDI
Foreign currency	2,337,536	98.8	US\$ + 6.51%
Total debt (no hedging effect)	<u>2,365,856</u>	<u>100.0</u>	US\$ + 6.42%
Hedge result – current	147,013		
Hedge result – noncurrent	85,978		
	<u>232,991</u>		
Total debt	<u><u>2,598,847</u></u>		

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As described in Note 23, subsidiaries Embratel and Star One entered into swap agreements for the purpose of mitigating fluctuation risks related to exchange parity between the local currency and another foreign currency. On December 31, 2007, total foreign currency debts – current is hedged by such instruments. Considering the total foreign currency debts, the hedged portion corresponds to 70.4% thereof.

a) Repayment schedule

A breakdown of long term amortization of the principle as of December 31, 2007 and the corresponding maturity dates are shown below:

	<u>Consolidated</u>
2009	93,406
2010	119,178
2011	366,098
2012 to 2013	<u>1,138,273</u>
Total	<u><u>1,716,955</u></u>

b) Percentage breakdown of the total debt by foreign/original index:

	<u>Consolidated (%)</u>	
	<u>2007</u>	<u>2006</u>
US Dollar	98.6	96.8
Euro	0.3	1.7
TJLP – Long Term Interest Rate	0.1	0.3
Real	<u>1.0</u>	<u>1.2</u>
Total	<u><u>100.0</u></u>	<u><u>100.0</u></u>

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c) Foreign currency bank loan

In 2007 and 2006, subsidiary Embratel obtained foreign currency loans, as presented below:

<u>Funding</u>	<u>2007</u>	<u>2006</u>
January	66,396	-
March	-	72,092
April	406,040	105,955
May	-	327,300
July	-	217,760
September	-	109,845
October	174,509	-
November	-	263,056
December	-	96,570
Total	<u>646,945</u>	<u>1,192,578</u>

In those periods, subsidiary Embratel settled R\$428 million and R\$252 million, respectively, referred to the principal amounts falling due during the year.

d) Foreign debt securities – Notes

In June 2004, subsidiary Embratel conducted a “note” exchange offer in the amount of US\$275 million issued in December 2003, for the purpose of aligning debt securities with Securities and Exchange Commission – SEC. The securities issued prior were private and the new ones are public issues. The new notes carry the same terms as the securities issued previously, and have maturities in 2008 and carry an interest rate of 11% p.a.

In April 2005, the subsidiary Embratel has decided to prepay 35% of the emission value, maximum amount as defined contractually. The payment amounted to US\$96 million, that resulted in the portfolio of loans’ contracts in the amount of US\$178 million.

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e) Star One C-1 satellite financing

On April 19, 2002, subsidiary Star One entered into a financial agreement with BNP Paribas in order to finance 85% of the Star One C-1 satellite manufacturing price and 100% of the related insurance payable to Coface. The total amount of the credit was US\$122,337, with a 36-month grace period and payment in 14 semiannual installments, resulting into nine and half year note. The annual interest rate during the grace period would be 6 months LIBOR plus 0.75% p.a., and during the repayment period an annual fixed rate of 5.96% p.a.

As the original agreement for the purchase of Star One C-1 satellite was renegotiated due to certain project modifications, the price and the payment schedule were modified. Consequently, the credit agreement was amended on August 13, 2003. This amendment, which replaced the original contract, was signed with BNP Paribas (primary bank) and Société Générale, with the amounts equivalent to 85% of the new price of the Star One C-1 satellite to be delivered in orbit, and 100% of the related insurance signed with Coface. The amount of the credit was increased to US\$194,172 (US\$19,461 related to 100% of the credit insurance premium), with a grace period of 38 months and payment in 14 equal and consecutive half-yearly installments, resulting in 10 years period. The interest rate during the grace period will be the 6 months LIBOR plus 0.75% p.a., and in respect of the payment period a fixed rate of 3.93% p.a. The income tax on the interests is a liability of the creditor.

On June 1, 2004, the Credit Agreement was amended once again due to other modifications of the satellite project, reducing the credit to US\$185,232 (US\$18,547 related to 100% of the credit insurance premium). All others conditions remained the same.

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As of December 31, 2007, the amount drawn totaled US\$172,121, which represented the disbursements to Thales and the loans and premium payments to Coface. The current credit agreement includes the following clauses and obligations:

- e.1) A promissory note in favor of BNP Paribas was issued, in the outstanding amount of principal and interest in US dollars. The promissory note has characteristics attributable under French Laws. It is a legal instrument that can be executed judicially for the purpose of reinforcing guarantees offered to creditors, and represents a commitment to pay said amounts, in case the Company delays the payments contractually scheduled.
- e.2) Beginning July 1, 2005, subsidiary Star One will deposit monthly into an account, "Debt Service Reserve Account", an amount in Reais equivalent to one-twelfth (1/12) of the first semi-annual payment of principal and interest. Upon commencement of the repayment period, and until the end of loan agreement, subsidiary Star One will maintain a deposit in Reais equivalent in U.S. Dollars to 125% of a semi-annual payment of principal and interest.
- e.3) In the event that the guaranty defined in item (e.2) above is not available, the guaranty will be provided by the receivables resulting from the Transponders Lease Agreement executed between subsidiaries Star One and Embratel.
- e.4) In the event that the guaranties defined in items (e.2) and (e.3) above are not available, subsidiary Embratel, shareholder of subsidiary Star One, guarantees the deposits to be made in the debt service reserve account, limited to US\$122,337 and beginning on July 1, 2006.
- e.5) At any time credit agreement term, subsidiary Embratel has to have at least 51% of the share capital voting rights of subsidiary Star One.
- e.6) Subsidiary Star One shall comply with some financial covenants such as the ratio of total debt and income before taxes, interest, depreciation and amortization ("EBTIDA"). Up to December 31, 2007, subsidiary Star One has complied with all covenants.

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On May 9, 2006, the financing agreement for Star One C-1 satellite was once again amended and the guarantees described in items e.2, e.3 and e.4 above were released.

f) Star One C-2 satellite financing

On June 7, 2005, subsidiary Star One sign a financial agreement with BNP Paribas and Société Générale in the amount corresponding to 85% of construction cost of Star One C-2 satellite and 100% of the insurance premium agreed with Coface. The total amount was equivalent to US\$136,535 (US\$7,165 equivalent to 100% of the insurance premium). The agreement has a grace period of 27 months, 10 equal and consecutive semi-annual installments, and the interest rate would be 4.09% p.a. The current credit agreement includes the following clauses and obligations:

- f.1) A promissory note in favor of BNP Paribas was issued, in the outstanding amount of principal and interest in US dollars. The promissory note has characteristics attributable under French Laws. It is a legal instrument that can be executed judicially for the purpose of reinforcing guarantees offered to creditors, and represents a commitment to pay said amounts, in case the Company delays the payments contractually scheduled.
- f.2) During the contractual period, subsidiary Embratel is committed to maintain its total shares with right of vote higher than 51% of total shares on Star One.
- f.3) Subsidiary Star One has assumed some commitments with creditors banks, involving debt levels, the minimum profit before financial income, taxes, depreciation e amortization (“EBITDA”), those whom are, attend until December 31, 2007.

Until December 31, 2007, US\$117,985 was disbursed by the banks including the disbursements to Thales, the loans and payments of premium to Coface and interest accrued through that date.

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g) ICMS Financing

In September 2002, subsidiary VSA began the financing of 60% of the amount of ICMS effectively calculated on operating income, through an agreement entered into with the Rio de Janeiro State Government and the Banco do Brasil, as its financial agent. The credit line is R\$940,000, during a 60 month period, and there is a grace period of 84 months and repayment term of 60 months, carrying interest at rates of 4.5% to 6% p.a. and a service fee equal to 1% of the each installment released.

h) Guarantees

The guarantees pledged in connection with outstanding loans and financing were substantially compressed of promissory notes, which although not represent actual guarantees, are legal instruments that can be executed judicially in the event of default.

i) Covenants

Subsidiaries Embratel and Star One are bound by financial covenants to the creditor banking institutions principally involving the level of indebtedness, financial expense limits and minimum earning before financial result, income taxes, depreciation and amortization (“EBITDA”), which as of December 31, 2007, are in compliance.

23. Financial Instruments

Assets and liabilities originating from financial instruments are recorded in the balance sheet by approximate market values.

a) General comments

Subsidiaries Embratel and Star One carry 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, marketable securities and loans. Management of these risks is carried through a hedging policy based on the measurement of the Company’s financial risk.

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b) Risk management

The daily market risk estimate is performed through statistical instruments such as the Value at Risk (VaR) parameter, which enables consolidation of interest and exchange risks on a common and integrated measurement for all financing transactions. In addition to the calculation of VaR, the Stress-Test methodology is also used whereby it is possible to estimate the loss in an extreme situation in a country's macroeconomic scenario.

In such way, a system named EBTaR (Embratel at Risk) which applies this methodology has been developed. This system also validates the VaR obtained and uses the Back-Test as a historical one-year series.

The Company and its subsidiaries carry out all transactions with reputable banks, which reduces the risks. The Company's management recognizes an allowance for doubtful accounts in an amount considered sufficient to cover possible risks of realization of the accounts receivable and, therefore, management believes that the credit risk is measured and recorded in the financial statements.

c) Exchange swap and currency forward

Subsidiaries Embratel and Star One used derivative instruments with banks to protect its investments against foreign interest rate and currency fluctuations in comparison to the Brazilian real, which impact the amount in local currency required for the payment of foreign currency liabilities as shown below:

Agreements summary					
	Date	Maturity	Reference value (US\$)	Book value (R\$)	Market value (R\$)
Swap	Sundry	01/02/08 to 05/15/12	925,355	232,991	306,256

In addition, subsidiaries Embratel and Star One performed derivative transactions to protect new loans. These transactions were made in advance to reflect a market opportunity, which are classified as other current and noncurrent liabilities based on the corresponding maturity.

Agreements summary					
	Date	Maturity	Reference value (US\$)	Book value (R\$)	Market value (R\$)
Swap	Sundry	01/02/08 to 11/13/09	409,183	47,781	55,253

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Losses derived from these transactions are due to the variation of indices contracted and are recorded on an accrual basis in the consolidated “Financial Income (Expense), Net” (Note 10).

d) Criteria, assumptions and limitation in the market value calculations

- Cash and cash equivalents, current accounts receivable and payable – The carrying values of financial instruments approximate their corresponding market values due to the short-term maturities of these instruments.
- Loans and financing and swap transactions (hedge and forward) – The market value is calculated using projections of the yields associated with each instrument at the present value, using the term structure of the interest rate and the exchange coupon, prevailing on the financial market for the current date.
- Limitations – The market values are calculated as a specific time on the basis of available market information and data regarding the financial instruments. The changes in the assumptions can significantly impact the estimates.

The financial instrument recorded as assets and liabilities, which market values differ from their carrying values are shown below:

	Consolidated			
	2007		2006	
	Book value	Market value	Book value	Market value
Loans and Financing	2,598,847	2,466,600	2,651,575	2,366,257

24. Provision for Contingencies

In the normal course of business, the Company and its subsidiaries are parties to legal proceedings and potential discussions which were or may be raised by the competent authorities, including among others civil, regulatory, tax, social security and labor issues.

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A significant portion of the contingencies involves issues that are extremely complex and unique to the Company and/or the telecommunications industry, arising from different interpretations of the laws in effect, which are not yet covered by consolidated jurisprudence.

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

Based on the facts currently available and on the legal advisors' opinion, the subsidiaries' management believes that the outcome of a significant portion of current and potential disputes will be favorable to the Company and its subsidiaries, and for those claims which the unfavorable outcome is considered probable, a provision has been recorded.

The Company and its subsidiaries comply with CVM Deliberation No. 489/05, which approved Accounting Standard and Procedure No. 22 issued by IBRACON ("NPC 22"), and discloses in explanatory notes any and all information on possible contingent liabilities. The Company discloses and provides for contingent losses whenever the related liabilities are considered probable and can be reasonably estimated.

The amounts involved are described as follows:

Nature	Consolidated			
	Probable		Possible	
	2007	2006	2007	2006
Provisions				
Labor	90,208	88,790	97,018	79,673
Tax	627,003	1,034,527	2,334,115	1,228,690
Civil	162,964	159,743	312,603	288,180
Total provisions	880,175	1,283,060	2,743,736	1,596,543
Deposits in court				
Labor	(29,119)	(25,046)		
Tax	(11,230)	(13,287)		
Civil	(10,753)	(6,555)		
Total deposits in court	(51,102)	(44,888)		
Total provisions, net	829,073	1,238,172		

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The roll forward of the consolidated probable contingencies balances, for the year ended December 31, 2007, is shown below:

	Roll forward						Balances on 12/31/2007
	Balances on 12/31/2006	Additions	Reversals	Payments	Transfers to accounts payable ⁽¹⁾	Monetary variations ⁽²⁾	
Labor	88,790	19,103	(665)	(16,874)	-	(146)	90,208
Tax	1,034,527	58,126	(42,577)	(108,779)	(313,897)	(397)	627,003
Civil	159,743	38,872	(5,128)	(38,002)	(426)	7,905	162,964
	<u>1,283,060</u>	<u>116,101</u>	<u>(48,370)</u>	<u>(163,655)</u>	<u>(314,323)</u>	<u>7,362</u>	<u>880,175</u>
		<u>67,731</u>					

⁽¹⁾ Mostly ICMS credits referring to Agreement 72/06.

⁽²⁾ Recorded in financial income (expense), net in Note 10.

24.1. Labor contingencies

Subsidiaries Embratel, VSA, VSP, Star One, TdB and BrasilCenter set up a provision for labor claims, which substantially refer to salary differences and leveling, overtime pay, etc.

The provision was set up by management, on the basis of the opinion of its legal advisors, based on previously adjudged cases and the history of losses in similar cases.

24.2. Tax contingencies

Claims	Consolidated			
	Probable		Possible	
	2007	2006	2007	2006
ICMS (a)	58,180	495,901	904,235	357,137
Income tax on inbound international income (b)	528,624	506,795	-	64,396
IRPJ/CSLL (Income tax and social contribution) (c)	2,855	-	84,637	94,885
IRRF/CIDE (d)	-	-	134,187	27,274
INSS (Brazilian Social Security Institute) (e)	-	-	32,898	30,412
PIS (f)	599	514	165,462	160,764
COFINS (g)	18,009	17,333	282,985	243,080
FUST/FUNTTTEL (h)	-	-	246,254	147,020
Other (i)	18,736	13,984	483,457	103,722
Total	<u>627,003</u>	<u>1,034,527</u>	<u>2,334,115</u>	<u>1,228,690</u>

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a) ICMS

On August 7, 2006, ICMS Agreement No. 72 (“Agreement 72/06”) was published in the Federal Official Gazette (DOU), authorizing the Brazilian States and the Federal District to partially forgive, by decreasing ICMS rates, and to amnesty monetary restatement, interest and fines on the payment of debts, accrued or not, in connection with the nonpayment of ICMS levied on communication services, whose relevant taxable events have occurred by July 31, 2006.

Subsidiaries Embratel and TdB, in states under Agreement 72/06, made payments through December 31, 2007, totaling R\$584,162, in addition to the amount paid in installments in São Paulo state, thereby closing the discussions in question, including all related administrative and court proceedings in progress in those states.

With regard to those states in which that benefit has not yet been introduced, subsidiary Embratel, upon analyzing NPC 22 requirements, considered that it is likely that debts covered by ICMS Agreement 72/06 will be settled, the Company recognized a provision of R\$14,922 (R\$393,624 on December 31, 2006), thus reducing its exposure to possible losses.

Additionally, subsidiary Embratel has tax contingencies for the nonpayment of ICMS related to credits supposedly improperly recorded. Total contingencies assessed as probable losses amount to R\$36,130 on December 31, 2007 (R\$78,767 on December 31, 2006), and those contingencies assessed as possible losses by the Company’s legal advisors reached the historical approximate amount of R\$126,531 on December 31, 2007 (R\$83,431 on December 31, 2006).

Subsidiary Star One was assessed in Rio de Janeiro in the amount of R\$744,176 on December 31, 2007 (R\$236,000 on December 31, 2006), in which is demanded ICMS on the rental of transponders and on broadband Internet services. Additionally, subsidiary Star One was assessed in the Federal District, in the amount of R\$19,806 for nonpayment of ICMS over of satellite capacity and other accessory obligations. The management of subsidiary Star One and their legal advisors have evaluated the chances of loss in the cases as possible.

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Subsidiaries VSA, VSP and TdB set up a provision for ICMS in the amount of R\$7,128 on December 31, 2007 (R\$23,510 on December 31, 2006). Tax delinquency notices in the amount of R\$13,722 on December 31, 2007 (R\$17,900 on December 31, 2006) were considered possible losses by these subsidiaries' management and its legal advisors.

b) Income tax on inbound international income

In March 1999, subsidiary Embratel was assessed by the Federal Revenue Service in the amount of R\$287,239, for the periods 1996 and 1997, and the appeal filed by the subsidiary is still pending decision within the jurisdiction of the highest administrative level. Considering the procedural peculiarities involving this case, the Company's legal advisors and the management of subsidiary Embratel considered it a probable loss, setting up a provision of R\$528,624 on December 31, 2007 (R\$506,795 on December 31, 2006).

In June 1999, subsidiary Embratel was further assessed for the same subject relating to 1998, and the Company's legal advisors assessed the outcome of this case as a possible loss on December 31, 2006, in the amount of R\$64,396. Due to an unfavorable decision at the administrative level, a petition for a Writ of Mandamus was filed. A final decision was awarded on February 6, 2007, and the tax credit definitely ceased to exist.

c) IRPJ/CSLL (Income Tax and Social Contribution)

Subsidiary Embratel has a CSLL contingency in the amount of R\$76,855 referred to the compensation occurred in 1999, wherein collection has been suspended based on a writ for preliminary injunction granted to the Company. The Company's management and legal advisors assessed the outcome of this case as a possible loss.

In January 2007, subsidiary Embratel was notified of a decision by the Rio de Janeiro Brazilian IRS Office (DRF/RJ), whereby the tax deficiency notice for alleged IRPJ underpayment, for the year 1998, in the historical amount of R\$264,652, was deemed valid. Because of the amendment to the notice by the IRS, the likelihood of loss in this case has been reassessed from possible to remote by the management of subsidiary Embratel and its legal advisors.

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Subsidiary Embratel has a tax contingency in the amount of R\$18,030 for unpaid IRPJ for the months June, October and December 1998. For November and December, after a decision ruled out by the Brazilian IRS, the remaining historical amount was R\$4,122, which was paid on December 20, 2007, and a provision was set up for June 1998, in the amount of R\$2,855, on December 31, 2007.

In June 2007, subsidiary Embratel was served a tax deficiency notice that required the tax loss carryforwards to be reduced by R\$22,889, and the consequent write-off of deferred tax assets related to IRPJ and CSLL, in the respective amounts of R\$5,722 and R\$2,060, on account of disallowance of expenses considered nondeductible by the tax auditors. The management of this subsidiary and its legal advisors assess the likelihood of loss in this case as possible.

d) IRRF/CIDE

In March 2007, subsidiary Embratel was served a tax deficiency notice by the Brazilian IRS, in the amount of R\$131,236, for underpayment of withholding income tax - IRRF (R\$84,072) and Social Contribution Tax for Intervention in the Economic Order - CIDE (R\$47,164) on transfers foreign operators as compensation for completing international calls abroad – referred to as Sainte traffic – in the period between January 2003 and September 2004, by virtue of the Brazilian IRS's interpretation expressed in Interpretative Declaratory Ruling (ADI SRF) No. 25/04. The management of this subsidiary and its legal advisors assess the likelihood of loss in this case as possible.

Subsidiary Embratel was also served a tax delinquency notice in May 2004 filed by the Brazilian IRS for non-collection of CIDE on transfers abroad, amounting to R\$2,951 on December 31, 2007 and 2006, whose likelihood of loss were assessed as possible by the management of this subsidiary and its legal advisors, and a tax deficiency notice, received in September 2006, for alleged non-collection of withholding income tax (IRRF) on transfers abroad, which was partially paid, there being a remaining balance payable of R\$24,323 on December 31, 2006, which decreased to R\$1,666 and was paid in August 2007, and thereby the tax credit definitely ceased to exist.

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e) INSS (National Institute of Social Security)

Subsidiary Embratel has contingencies referring to collection of social security tax, in the period from 1996 to 2004, assessed as possible losses by the management of this subsidiary and its legal advisors, totaling a historical amount of R\$30,642 on December 31, 2007 (R\$30,412 on December 31, 2006).

Subsidiaries PMS and BrasilCenter have tax contingencies for non-collection of social security tax amounting to R\$2,256. The management of these subsidiaries and their legal advisors assess the likelihood of loss in these cases as possible.

f) PIS

In August 2001, subsidiary Embratel was assessed by the Federal Revenue Agency in the total amount of R\$159,000 on December 31, 2007 and 2006, related to the contributions to PIS before 1995, which were offset according to Complementary Law No. 7/70. Current likelihood of loss in this case has been assessed as possible by subsidiary Embratel's management and legal advisors.

In June 2007, subsidiary Embratel was notified by the Brazilian IRS of a debt amounting to R\$190,701 for lack of approval of PIS credit offset, based on a final unappealable court decision. With the decision issued by Brazilian IRS Office, received in November 2007, the legal advisors of subsidiary Embratel reassessed the likelihood of loss in this case from possible to remote.

Subsidiaries VSA, VSP and PMS have tax delinquency notices related to PIS, in the amount of R\$6,003 on December 31, 2007 (R\$1,723 on December 31, 2006). The management of these subsidiaries and their legal advisors assess as possible the likelihood of loss in these cases.

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Subsidiary TdB received tax assessments referring to the requirement of PIS payment from 1999 to 2004, in the amount of R\$1,058 on December 31, 2007 (R\$555 on December 31, 2006), of which R\$599 on December 31, 2007 (R\$514 on December 31, 2006) has been accrued in the financial statements, and R\$459 on December 31, 2007 (R\$41 on December 31, 2006) and the likelihood of loss in these cases has been rated as possible, in the opinion of this subsidiary' management and legal advisors.

g) COFINS

In August 2001, subsidiary Embratel was assessed by the Federal Revenue Agency in the amount of R\$342,000, related to the exemption of COFINS on the revenues generated from the export of telecommunications in 1999. Based on a decision awarded by the Brazilian IRS Appellate Division (DRJ), in February 2004, the amount of said notice was reduced to R\$236,600. Current likelihood of loss in this case has been assessed as possible by subsidiary Embratel's management and legal advisors.

Subsidiary Embratel has tax contingencies for alleged underpayment of COFINS for May 1999, in the amount of R\$16,879 on December 31, 2007 (R\$16,308 on December 31, 2006). Current likelihood of loss in this case has been assessed as probable by subsidiary Embratel's management and legal advisors.

Subsidiaries VSA and VSP have tax notices for alleged non-collection of COFINS, in the amount of R\$42,289 on December 31, 2007 (R\$4,314 on December 31, 2006). Current likelihood of loss in this case has been assessed as possible by these subsidiaries' management and legal advisors.

Subsidiary TdB received tax assessments referring to the requirement of COFINS payment from 1999 to 2004, in the amount of R\$5,226 on December 31, 2007 (R\$3,191 on December 31, 2006) of which R\$1,130 on December 31, 2007 (R\$1,025 on December 31, 2006) has been accrued in the financial statements, and R\$4,096 on December 31, 2007(R\$2,166 on December 31, 2006), and the likelihood of loss in these cases has been rated as possible, in the opinion of this subsidiary' management and its legal advisors.

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h) FUST/FUNTTEL

In January 2006, subsidiaries Embratel, VSA, VSP, TdB and PMS proposed a writ of mandamus with an injunction request, in order to challenge ANATEL's Abridgment No. 1/2005. In this lawsuit the subsidiaries intend to have assured their concession to continue to collect FUST in accordance with the taxable profit provided for in Law No. 9,998/00 and Instruction No.º 29/03 issued by the ANATEL Supervisory Board for the Universal Goals General Plan, in the amount of R\$115,190. From January to April 2006, the subsidiaries had judicially deposited the total FUST amount in accordance with Abridgment No. 01/2005 interpretation. Since May 2006, the subsidiaries have been depositing in court the amount under dispute and paying the remaining portion. The subsidiaries' management and legal advisors assess the chances of an unfavorable outcome in this case as possible.

Subsidiaries TdB, PMS, Embratel, VSA and VSP were served notices filed by ANATEL for alleged underpayment of FUST in the amount of R\$92,171 on December 31, 2007 (R\$31,393 on December 31, 2006), mainly due to the exclusion of interconnection and EILD costs from the FUST tax base. The subsidiaries' management and legal advisors assess the chances of an unfavorable outcome in this case as possible.

Subsidiaries Embratel, VSA, VSP and Star One received tax debt notices filed by the Ministry of Communications, whereby they are required to pay FUNTTEL in the amount of R\$38,893 on December 31, 2007 (R\$437 on December 31, 2006). The likelihood of loss has been assessed as possible, in the opinion of the subsidiaries' management and legal advisors.

In December 2006, subsidiaries VSP, TdB and PMS were summoned through publication with regard to FUNTTEL tax debt notices. It was not possible to identify the related amount, source of debt and period of assessment, since the publication did not include these elements, as such, a petition for a writ of mandamus seeking injunctive relief to suspend the effects of said publication was filed, and the injunction was granted in January 2007. These amounts are not provisioned in the financial statements.

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i) Other tax contingencies

Subsidiary Embratel was served an assessment filed by the Brazilian IRS in the form of a fine for not filing electronic files relating to 2001 in compliance with the format defined in Revenue Procedure No. 86/2001, in December 2006, in the amount of R\$97,933 and in July 2006 in the amount of R\$370,685, for the period from 2002 to 2005. Management and legal advisors understand that the likelihood of loss is possible in this case.

On December 31, 2007, the Company has provided the amount of R\$11,098 (R\$9,915 on December 31, 2006) for the legal dispute of its subsidiary VSA, aiming to secure the right to CPMF non-taxation on the translation of symbolic foreign exchange agreements, and also for the dispute on the Municipal Real Property Tax (IPTU) exemption of subsidiary VSP. The Company also has a CSLL tax contingency in the amount of R\$605 on December 31, 2007 and 2006, rated as a possible loss in the opinion of the management of this subsidiary and its legal advisors.

The subsidiary also has tax contingencies related to CPMF, in the amount of R\$473 on December 31, 2007 and 2006, to ISS, in the amount of R\$331 on December 31, 2007, and to Rural Property Tax (ITR), in the amount of R\$888 on December 31, 2007. The management of this subsidiary and its legal advisors rate the likelihood of loss in these cases as possible.

Subsidiary PMS has tax notices related to ISS and IRPJ, totaling R\$7,745 on December 31, 2007, and the likelihood of loss in these cases is rated as possible, in the opinion of the management of this subsidiary and its legal advisors.

Subsidiary BrasilCenter has a tax contingency related to ISS, amounting to R\$3,569 at December 31, 2007, and the likelihood of loss in this case is rated as probable, in the opinion of the management of this subsidiary and its legal advisors.

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Additionally, subsidiaries VSA and VSP filed applications for declaration that the additional FGTS payments instituted by Complementary Law No. 110/2001 were not due. Based on the evaluation of the management of subsidiaries VSA and VSP and that of their legal advisors, the chances of loss in these cases have been classified as probable and a provision was recorded for the amounts involved in the total of R\$1,663 on December 31, 2007 and 2006.

The company TdB has tax contingencies referred to IRRF, CPMF, II, IPI, IRPJ and others on total amount of R\$7,203 on December 31, 2007 (R\$7,117 on December 31, 2006), of which R\$2,406 on December 31, 2007 and 2006, referred to CPMF and IRRF, were classified as probable loss and R\$4,797 on December 31, 2007 (R\$4,711 on December 31, 2006), were classified as possible of loss, on the opinion of this subsidiary's management and its legal advisors.

24.3. Civil contingencies

Claims	Consolidated			
	Probable		Possible	
	2007	2006	2007	2006
ANATEL and public institutions (a)	44,666	40,382	179,313	156,456
Disputes with third parties (b)	118,298	119,361	133,290	131,724
Total	162,964	159,743	312,603	288,180

a) ANATEL and public institutions

a.1) Implementation of the new domestic telephone number system

As a result of the inconveniences caused to telephone system users by the telecommunications carriers on July 3, 1999, the implementation date for the new domestic dialing system, subsidiary Embratel was officially notified by ANATEL to pay a fine in the amount of R\$55,000 related to the administrative proceeding related to the period during which the carriers implemented the change in the dialing codes. Subsidiary Embratel filed a lawsuit contesting the validity of the fine and the lower court decision was announced, lowering the amount from R\$55,000 to R\$50,000. At the second judicial level, subsidiary Embratel prevailed, and the eventual appeals by ANATEL, which have no suspensive effect, are still pending.

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Based on the same facts, subsidiary Embratel was cited in several lawsuits aiming alleged inconveniences caused to users, and presented its defense in each suit. Among the existing suits with estimated amounts, subsidiary Embratel is the defendant in suits filed by third parties aiming payments at historic amounts of R\$2,739 on December 31, 2007 (R\$2,709 on December 31, 2006) which are awaiting sentence. In another suit, the state of Rio de Janeiro has filed a tax execution in the amount of R\$8,500.

In connection with the unfavorable outcome in a proceeding filed by a third party, subsidiary Embratel set up a provision for R\$2,059 on December 31, 2007 (R\$20 on December 31, 2006).

Embratel's management and its legal advisors, assess the chances of loss as possible in the penalty required by ANATEL and third parties. In relation to the tax execution from the state of Rio de Janeiro, Embratel and its legal advisors assess the chances of loss as probable. The restated amount totals R\$12,965 on December 31, 2007 (R\$11,048 on December 31, 2006).

a.2) Administrative Suits for Noncompliance with Obligations (PADOs)

Due to noncompliance with quality targets, defined by ANATEL in the General Plan of Quality Targets for Fixed Telephone Services (PGMQ), ANATEL filed several PADO's against subsidiaries Embratel, VSA, VSP, PMS and TdB.

The Company and its subsidiaries have been making efforts and carrying on arguments, successfully in some cases, to avoid penalties. Such arguments, which, most of the times, are technical and/or legal, may contribute to a meaningful reduction of the fine initially applied or to the conclusion of the PADO without the application of any penalty.

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However, based on the opinion of these subsidiaries' management and respective legal advisors, the chances of loss related to the PADOs of subsidiaries Embratel, VSA and VSP were classified as probable and therefore provisioned in the monetary updated amount of R\$29,642 on December 31, 2007 (R\$29,314 on December 31, 2006).

Other PADOs filed for failure of subsidiary Embratel to comply with quality targets were rated as possible losses, in the historical amount of R\$108,500 on December 31, 2007 (R\$93,149 on December 31, 2006).

In relation to subsidiary Embratel's fines of R\$18,074 on December 31, 2007 (R\$10,598 on December 31, 2006) the chances of loss were classified as possible.

Subsidiary TdB has PADOs due to the supposed noncompliance of quality targets, which are not been applied fine sanction, because it is related to the first penalty of the Company to certain target.

Due to other infractions against the regulatory legislation, not related to quality, which are been appreciated by the regulatory agency, were established other PADOs related to subsidiaries Embratel, VSA, VSP, TdB and PMS, classified by management its legal advisors as possible loss. The amounts of the sanctions that could be applied are not yet measured.

a.3) Portable Vésper

Due to the issuance of Resolution No. 271, of August 6, 2001, which approved the use of Portable User Terminals to provide fixed telephone services through a cordless fixed access line, subsidiaries VSP and VSA began marketing Portable Vésper as an alternative to their tabletop "ATs" (Access Terminal Stations).

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On July 19, 2002, the mobile phone service providers filed suit to suspend immediately the sale of the product by subsidiary VSA, as well as the indemnification for losses caused by the unauthorized sale of Portable Vésper. On September 27, 2004, the Negative Conflict of Competence was judged, dismissing ANATEL of being a part, and declaring the State Justice as competent to decide on the claim. The management of subsidiary VSA and its legal advisors have classified the chances of loss as possible. The value involved if the claim is lost is not yet measured.

b) Disputes with third parties

Subsidiaries VSP and VSA, based on their legal advisors' opinion, on precedents set, and on the history of loss in similar cases, carried out an analysis of their disputes with third parties, set out below:

- 1) Customers: For litigation with customers where the likelihood of loss is rated as probable, a provision was set up in the amount of R\$2,782 on December 31, 2007 (R\$4,604 on December 31, 2006). Disputes where the likelihood of loss is rated as possible total R\$2,027 on December 31, 2007 (R\$8,150 on December 31, 2006).
- 2) Service providers and real property lessees: For litigation with service providers and real property lessees where the likelihood of loss is rated as probable, a provision was set up in the amount of R\$996 on December 31, 2007 (R\$1,719 on December 31, 2006). Disputes where the likelihood of loss is rated as possible total R\$2,217 on December 31, 2007 (R\$2,294 on December 31, 2006).

Subsidiary Embratel filed lawsuits claiming the annulment of charges by third parties, and considers that the chances of loss in the total amount of R\$33,002 on December 31, 2007 (R\$33,494 on December 31, 2006) to be probable.

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With respects to the unconstitutionality of the provisions of the regulations which introduced procedures burdening the installation and passage ways for telecommunications equipment, subsidiary TdB filed a lawsuit and an injunction was granted, suspending the effects of the regulation related to the requirement of pecuniary retribution and imposition of sanctions until the last deliberation. The subsidiary's management and its legal advisors understand that the chances of loss as probable, in amount of R\$13,839 on December 31, 2007 (R\$11,740 on December 31, 2006). The suits in which losses were classified as possible amount to R\$516 on December 31, 2007 (R\$6,471 on December 31, 2006).

Subsidiary Embratel, based on its legal advisors' opinion, on precedents set, and on the history of loss in similar cases, carried out an assessment of its disputes with third parties, set out below:

- 1) Customers: Customers: For litigation with customers where the likelihood of loss is rated as probable, a provision was set up in the amount of R\$33,592 on December 31, 2007 (R\$35,642 on December 31, 2006). Disputes where the likelihood of loss is rated as possible total R\$73,590 on December 31, 2007 (R\$87,517 on December 31, 2006).
- 2) Service providers and real property lessees: For litigation with service providers and real property lessees where the likelihood of loss is rated as probable, a provision was set up in the amount of R\$4,972 on December 31, 2007 (R\$5,416 on December 31, 2006). Disputes where the likelihood of loss is rated as possible total R\$31,506 on December 31, 2007 (R\$4,324 on December 31, 2006).
- 3) Sundry disputes: For other disputes of diverse natures, and considering the advanced procedural steps of such proceedings, settlements closed (transferred to accounts payable), and the arguments presented by its legal advisors, subsidiary Embratel believes the likelihood of loss in certain disputes can be rated as probable, totaling the restated amount of R\$22,018 on December 31, 2007 (R\$19,824 on December 31, 2006). Other disputes where the likelihood of loss is rated as possible total R\$21,533 on December 31, 2007 (R\$22,968 on December 31, 2006).

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Subsidiary BrasilCenter, based on its legal advisors' opinion, on precedents set, and on the history of loss in similar cases, assessed the likelihood of loss in a dispute filed by a third party as possible, in the amount of R\$42 on December 31, 2007.

Subsidiary PMS, based on its legal advisors' opinion, on precedents set, and on the history of loss in similar cases, assessed the likelihood of loss in a dispute filed by third parties as possible, in the amount of R\$1,859 on December 31, 2007.

Embratel and other operators are co-defendants in several suits seeking indemnifications for alleged pain and suffering and pecuniary damages arising from the collection procedures for services rendered by subsidiary Embratel.

In one Public Civil Suit, in which the plaintiff is the Federal Attorney's Office, subsidiary Embratel's management and its legal advisors classified the chances of loss as probable, amounting to R\$7,097 on December 31, 2007 (R\$6,922 on December 31, 2006).

Subsidiaries Embratel, VSA and VSP, and other operators are involved in several class action suits filed by the Federal Attorney's Office and/or States and Associations involving issues related to the compensation for pain and suffering and pecuniary damages allegedly caused to consumers. In the understanding of the management of the subsidiary and its legal advisors, the chances of loss are probable or possible; however the amounts of any damages awarded are not yet measurable, and therefore, no provisions have been recorded.

25. Actuarial Liability – 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 subsidiary Embratel on August 1, 1975.

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Subsidiaries Embratel and Star One sponsor the post-retirement benefit plans offered to their employees in the forms of: (a) Variable Contribution (Embratel and Star One); (b) Defined Benefit (Embratel); and (c) Medical and Health Care Plan for retirees who have been enrolled in the Direct Benefit plan (Embratel). Actuarial studies of the benefits area prepared at the end of each year in compliance with the CVM Deliberation No. 371, issued at December 13, 2000, to identify whether the contribution rates are sufficient to set up the reserves necessary for the payment of current and future payments. The referenced plans are the sole post-retirement benefits of the Company.

The sponsor contribution rate referring to the old plan (defined benefit plan) for the years 2007 and 2006 is 17.82% of the salary of the participants enrolled in this plan (5 participants on December 31, 2007). For the defined contribution plans, the sponsor's contribution ranges from 3% to 8% of the participant's applicable salary in addition to the extraordinary contribution provided for in the plan's regulation for financing administrative expenses and the balance of the account projected for benefits in the events of disability and death of the enrolled participant.

After privatization, subsidiary Embratel introduced a defined contribution plan, through Telos, which has been reviewed by the Federal Government and was approved on November 19, 1998 and was also sponsored by subsidiary Star One beginning November 1, 2000. The new employees are automatically enrolled in the new plan and any enrollment in the defined benefit plan was interrupted.

On September 1, 1999, a statement of recognition, acknowledgement of debt, acceptance and amortization of actuarial insufficiency was signed between subsidiary Embratel and Telos, and approved by the Brazilian pension's 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 in the month as to which they refer or the actuarial goal, whichever higher. As of December 31, 2007, the outstanding balance payable to Telos amounts to R\$98,778 (R\$113,413 on December 31, 2006).

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Upon the issuance of CVM Deliberation No. 371, at December 13, 2000, which approved the IBRACON pronouncement on accounting for employee benefits, new accounting guidelines for recording and disclosure of the effects arising from employee benefit plans were instituted and presented in the sponsors' financial statements.

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

Consequently, at December 31, 2001, 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, 2007, this liability amounted to R\$371,372 (R\$333,767 on December 31, 2006).

Reconciliation of the assets and liabilities acknowledged in the financial statements of December 31, 2007:

	Defined Benefit Plan (PBD)	Defined Contribution Plan (PCD)	Medical Insurance (AMAP)
Actuarial liabilities - present value	(1,174,347)	(2,124,309)	(398,268)
Fair value of the plan assets	1,454,221	2,163,521	35,043
Present value of the liabilities below (above) the fair value of the assets	279,874	39,212	(363,225)
Actuarial gains unrecognized	(174,591)	(17,411) ⁽²⁾	(8,147)
Actuarial assets (liabilities), net	105,283	21,801	(371,372)
Actuarial assets unrecognized	(105,283) ⁽¹⁾	(21,801) ⁽³⁾	-
Contractual debt	-	(98,778)	-
Net actuarial liabilities	-	(98,778)	(371,372)

⁽¹⁾ Unrecorded actuarial assets owed mainly to the following reasons: (a) no forecast to reduce the future contributions; and (b) there are no indications that assure that this surplus will be maintained over the next few years.

⁽²⁾ This mainly refers to profits computed on the nonpayment of interest and fines on income tax for the January 1, 1997 to August 31, 2001 period according to that provided by Normative Instruction No. 126 of the Federal Revenue Agency (SRF), of January 25, 2002, and Provisional Measure No. 2,222, of September 4, 2001. Said profits are being deferred in compliance with paragraphs 53 and 54 of CVM Deliberation No. 371, issued at December 13, 2000.

⁽³⁾ Unrecorded actuarial assets owed to the agreement signed on September 1, 1999 (Acknowledgement, acceptance and amortization of the actuarial deficit Term). According to this agreement, subsidiary Embratel commits to paying the stipulated amount within a maximum term of 20 years without review forecast of the liability in the event of the reduction of the actuarial deficit in the future. On December 31, 2007, the amount of the contractual debt was R\$98,778.

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Statement of changes in actuarial liabilities:

Actuarial liabilities as of December 31, 2005	442,599
Charges and interest on actuarial liabilities	5,262
Actuarial adjustment – CVM Deliberation No. 371	33,312
Payments made in the period (defined contribution plan)	<u>(33,993)</u>
Actuarial liabilities as of December 31, 2006	447,180
Charges and interest on actuarial liabilities	9,043
Actuarial adjustment – CVM Deliberation No. 371	37,606
Payments made in the period (defined contribution plan)	<u>(23,679)</u>
Actuarial liabilities as of December 31, 2007	<u>470,150</u>
Current	<u>40,758</u>
Noncurrent	<u>429,392</u>

Net consolidated income (expense) with the retirement plan, according to the criteria established in Brazilian Securities Commission – CVM Deliberation No. 371/00 and based on the actuarial calculation performed by an independent actuary, present the following breakdown:

	PBD		PCD		AMAP	
	2007	2006	2007	2006	2007	2006
Cost of current service (including interest)	(60)	(55)	(338)	(402)	(8)	(7)
Interests on actuarial obligations	(122,207)	(117,248)	(106,830)	(85,914)	(41,862)	(38,490)
Expected return on plans assets	138,469	127,962	95,469	80,613	4,258	5,179
Actuarial gains (losses) not recognized	-	-	(1,445)	(77)	-	-
Net income (loss)	<u>16,202</u>	<u>10,659</u>	<u>(13,144)</u>	<u>(5,780)</u>	<u>(37,612)</u>	<u>(33,318)</u>

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Main actuarial assumptions used:

a) Economic assumptions

(i) Discount rate for present value of actuarial liability	10.77% p.a.
(ii) Expected rate of returns on plan assets	10.77% p.a.
(iii) Long term annual inflation rate	4.5% p.a.
(iv) Wage and benefits capacity	0.98 ⁽¹⁾
(v) Health care cost trend rate	8.68% p.a.

⁽¹⁾ The capacity factor serves the purpose of reflecting the lag of the monetary values shown on the date of the study, taking into consideration the timing and indices used for the recover of inflationary losses.

b) Biometric assumptions

(i) Table of general mortality rate	UP-94
(ii) Table of mortality rate of disability	CSO-41
(iii) Table of entry into disability	Mercer disability onset chart
(iv) Turnover	Not used

26. Shareholders' Equity

a) Capital stock

The Special Shareholders' Meeting held on October 17, 2007 approved a capital increase in the amount of R\$142,207, through the issue of 19,932,005,180 new shares, 10,330,893,779 common shares and 9,601,111,401 preferred shares. This capital increase was paid up, mostly through capitalization of dividends receivable by the Company's majority shareholders (Telmex Solutions Telecomunicações Ltda., Startel Participações Ltda., New Startel Participações Ltda., and Controladora de Servicios de Telecomunicaciones, S.A. de C.V.), deriving from the payment of dividends for the fiscal year ended December 31, 2006.

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On December 31, 2007, the authorized capital is 1 trillion and 200 billion common or preferred shares (1 trillion common or preferred shares on December 31, 2006). The subscribed and fully paid-in capital stock at the close of the year 2007 amounts to R\$5,217,148 (R\$5,074,941 on December 31, 2006), comprised of 1,008,690,660 thousand shares (988,758,654 thousand on December 31, 2006), without par value and distributed as follows (in thousand share lots): 522,811,226 common shares (512,480,332 common shares on December 31, 2006) and 485,879,434 preferred shares (476,278,322 preferred shares on December 31, 2006). The book values per share as of December 31, 2007 are R\$7.92 on December 31, 2007 (R\$7.41 on December 31, 2006), per thousand share lot, expressed in reais.

b) Income reserves

b.1) Legal reserve

Setting up 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.

b.2) Unrealized income reserve

This reserve originated from the Telebrás spin-off (Note 1), and resulted 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 subsidiary Embratel. On December 31, 2007, the amount realized was R\$483,876. During 2006, there was no realization of such reserve.

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In connection with Circular Letter CVM/SEP/SNC No. 01/2005, the Unrealized Earnings Reserve balance which originated under the old criteria will keep its original characteristics, i.e., the realized amount will compose the basis for calculation of dividends.

b.3) Investment reserve

On December 31, 2007, the Company set up the investment reserve through allocation of the remaining adjusted net income for the year, in the amount of R\$961,968.

On December 31, 2006, the amount of R\$51,605 was reversed from the Investment Reserve to Retained Earnings (accumulated losses), for the payment of dividends and other uses.

c) Dividends

The Company's articles of incorporation provides for minimum mandatory dividends of 25%, calculated on annual net income, adjusted as prescribed by Brazilian Corporation Law.

Net income of the year	840,788
Legal reserve	(42,040)
Realization of unrealized earning reserve	<u>483,876</u>
Adjusted net income – dividend calculation base	1,282,624
Statutory minimum dividend %	<u>25%</u>
Minimum dividend proposed	<u>320,656</u>
Total shares	1,008,690,659,487
Value per thousand common shares	0.3032844402
Value per thousand preferred shares	0.3336128842

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Preferred shares do not have voting rights except under limited circumstances and they are assured (i) preemptive rights in the payment of minimum non-cumulative dividends of 6% p.a. on the amount resulting from the subscribed capital divided by the total number of Company shares, or (ii) receipt of dividends 10% higher than that paid on each common share in the event of liquidation of the Company.

On December 31, 2007, the Company has recorded R\$114,287 of dividends receivable from its subsidiary Embratel and R\$23,869 of dividends receivable from its subsidiary TdB (R\$21,835 on December 31, 2006), and received R\$10,000 of interim dividends from this subsidiary during the year.

In addition, the Company has recorded, on December 31, 2007, interest on capital receivable from its subsidiary Embratel, amounting to R\$5,680, net of withholding income tax.

d) Allocation of adjusted net income

Net income of the year	840,788
Legal reserve	(42,040)
Realization of unrealized earning reserve	483,876
	<hr/>
Adjusted net income	1,282,624
Proposed dividends – 25%	(320,656)
	<hr/>
Investment reserve	(961,968)
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e) Stock option plan

The stock option plan was approved at the Annual Shareholders General Meeting held at December 17, 1998 and is regulated by the Management Commission of the stock option plan within the limits of its authority.

The contracts grant to directors and employees the option of acquiring preferred shares at a pre-defined price on the grant date, establishing terms and conditions under which the beneficiary is eligible to exercise the option (vesting period), within the maximum limit of 10 years.

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The acquired shares will maintain all of the rights pertaining to the shares of equal class and type, including dividends.

According to rules established in the Stock Options Plan, upon the change in shareholding control of the Company on July 23, 2004, the granted options became exercisable, and may be exercised within the original concession terms received by each beneficiary.

Number of purchase options of preferred shares (thousand share lot)

Open options as of December 31, 2005	3,170,159
Options cancelled in 2006	(565,775)
Options sold in 2006	<u>(1,708,059)</u>
Open options as of December 31, 2006	896,325
Options cancelled in 2007	(63,400)
Options sold in 2007	<u>(19,450)</u>
Open options as of December 31, 2007	<u>813,475</u>
Weighted average exercise price of the purchase options on December 31, 2007 (per thousands of shares, expressed in reais)	<u>7.75</u>

As required by CVM Official Letter No. 01/07, item 25.10, had the Company opted for accruing, in the statements of income, the loss in sales of treasury shares incurred during the year, net income for the year ended December 31, 2006 would have been decreased by R\$5,818, totaling R\$100,028.

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27. Transactions with Related Parties

Transactions with related parties are conducted according to conditions and terms similar to those practiced by the market, and the most important balances and values are shown below:

	Consolidated	
	2007	2006
Asset		
Current:		
Accounts receivable		
Techoel	-	27
Claro Group	241,127	447,418
NET	16,993	7,508
Accounts receivable (call center)		
Claro Group	9,986	7,468
NET	17	941
Foreign administrators		
Telmex – México	1,684	2,274
Telmex – Chile	1,326	1,215
Telmex – Argentina	2,010	3,346
Telmex – USA	8,658	5,369
Telmex – Colombia	64	44
ATT – USA	8,179	11,945
Other current assets		
NET	66,717	31,922

- (a) Amounts receivable from Claro Group refer mainly to long-distance telephone traffic originating from prepaid and postpaid terminals of this Company's users and from international roaming terminals in the CLARO network. This also includes telecommunication services provided directly to CLARO, referring mainly to transmission capacity supplied.
- (b) Amounts receivable from NET refer mainly to NET subscriber IP telephone services, as well as other voice services (0800 and VIPLINE), and to Internet services provided by subsidiary Embratel. They also include prepaid expenses classified as other current assets, referring to fiber optic supply services and cost sharing for NET subscriber IP telephone services.
- (c) Call center amounts receivable refer to telephone services provided by subsidiary BrasilCenter to Claro Group and NET.
- (d) Amounts receivable from foreign administrators refer to long-distance telephone traffic originating from terminals abroad to be received by terminals in Brazil.

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	Consolidated	
	2007	2006
Liabilities		
Current:		
Accounts payable		
Claro Group	166,826	354,926
NET	27,045	10,691
Foreign administrators		
Telmex – México	1,443	1,766
Telmex – Chile	746	651
Telmex – USA	2,097	1,078
Telmex – Argentina	647	1,643
Telmex – Colombia	83	-
Telmex – Peru	12	-
Telmex – Uruguay	5	-
ATT – USA	638	2,051

(a) Amounts payable to NET, Claro Group and foreign administrators refer to the use of these companies' networks for originating or terminating long-distance calls.

In the parent company, there is one transaction with related parties, namely, a loan with subsidiary Embratel, effective beginning June 22, 2006, whose balance in current liabilities is R\$73,424 on December 31, 2007 (R\$179,177 on December 31, 2006). Interest on such loan for the year ended December 31, 2007, totaled R\$2,296 (R\$11,915 on December 31, 2006). Significant information on this loan agreement is: (i) interest rate: 100% CDI; (ii) maturity of the principal balance: September 10, 2008; and (iii) guarantee: none.

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	Consolidated	
	2007	2006
Statements of income		
Operating revenue:		
Domestic traffic		
Claro Group	120,682	155,556
NET	91,526	49,387
International traffic		
Telmex – México	1,557	2,768
Telmex – Argentina	1,165	789
Telmex – USA	12,233	16,235
Telmex – Chile	675	603
Telmex – Colombia	320	44
ATT – USA	15,139	13,616
Broadband Internet services		
Telmex – Argentina	133	-
Call Center		
Claro Group	92,157	49,236
NET	11,237	7,500
Cost of services provided:		
Domestic traffic		
Claro Group	(777,766)	(769,252)
NET	(81,517)	(6,397)
International traffic		
Telmex – Mexico	(1,034)	(860)
Telmex – Argentina	(596)	(688)
Telmex – USA	(1,845)	(666)
Telmex – Chile	(540)	(679)
Telmex – Colombia	(393)	-
Telmex – Peru	(33)	-
Telmex – Uruguai	(26)	-
ATT – USA	(6,122)	(8,966)
Sale of services:		
Claro Group	(63,961)	(64,402)
NET	(9,873)	(4,253)
General and administrative:		
Claro Group	(8,325)	(641)
Financial:		
Interest on loans – Inbursa bank ⁽¹⁾	-	(155)

⁽¹⁾ Interest rate: three month Libor + spread of 0.9%.
Maturity of principal: November 30, 2006.
Guarantee: promissory note.

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On November 22, 2005, subsidiary Embratel published a notice of material event informing the market of its association with NET, to provide telecommunication services to NET customers. On February 8, 2006, the parties signed a memorandum of understanding establishing the new business model aimed at sharing results, to provide subscribers with integrated video, broadband and voice (*triple-play*) services through NET's bidirectional network. The sale of this new product (Net Fone) was initiated at the end of March 2006.

Not only does subsidiary Embratel benefit from NET's network, but it also has access to its subscribers' database and distribution channels.

Additionally, it was signed the "Contrato de Locação de Fibra Ótica" (Fiber Optic Lease Contract) that permits subsidiary Embratel to lease NET's surplus fiber. This agreement allows subsidiary Embratel to increase its access network to the market as a whole and represents an important step for the Company to speed up the time to market of integrated telecommunication services (local and long distance voice, data, broadband, Internet, image and outsourcing).

The main transactions carried out by the Company involving NET are recorded based on prices and conditions defined as follows:

- Special projects - these are paid based on the percentage of costs incurred for each project.
- Network access expense - these are paid in accordance with the increase in Net Fone subscribers' base.
- Fiber optic lease expense - these are paid in accordance with a specific agreement under usual market conditions.

Subsidiary Embratel has also entered into an agreement with Claro Group, since October 2006, having as object the acquisition by Claro of the Backbone Capacity for its use, made up of the own capacity of subsidiary Embratel necessary for the interconnection of Claro Backbone stations and other stations that come to be added to the topology of this Backbone. The capacity designed for connection of Claro's radio-base stations with the other network elements or satellite capacities is not included in the agreement, and will only be made available through specific agreement.

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28. Insurance (unaudited)

The Company's management considers that all assets and liabilities of any material value and risks related thereto have been covered by insurance.

a) Subsidiary Embratel

On December 31, 2007, subsidiary Embratel had Operating Risk type insurance policies for the total risk amount of R\$13,436,786, and maximum indemnity limit equal to R\$672,373, including own equipment and that of third parties housed on its premises and including coverage for loss of profits. The assets and liabilities and material risks are covered by insurance in accordance with the concession contracts.

b) Subsidiary Star One

On December 31, 2007, the subsidiary had Operating Risk type insurance policies, including loss of profits, for the total material damage risk amount of R\$271,161, and maximum indemnity limit for material damages equivalent to R\$151,152.

The insurance policies for in-orbit satellites B3 and B4 and the 11 AMC12 transponders have been renewed until September 13, 2008.

In-orbit satellite C1 insurance policy is effective up to November 14, 2008.

c) Subsidiaries VSP and VSA

On December 31, 2007, these subsidiaries had Operational Risk insurance, including loss of profits. The total coverage of the Operational Risk policy is R\$1,764,565 and the maximum limit of indemnity is equivalent to R\$469,959.

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d) Subsidiary TdB

On December 31, 2007, the subsidiary had Operating Risk type insurance policies, including loss of profits, for the total material damage risk amount of R\$487,474, and maximum indemnity limit for material damages equivalent to R\$102,272.

e) Subsidiary PMS

On December 31, 2007, the subsidiary had Operating Risk type insurance policies, including loss of profits, for the total material damage risk amount of R\$324,891, and maximum indemnity limit for material damages equivalent to R\$43,261.

f) Subsidiary BrasilCenter

On December 31, 2007, the subsidiary had Operating Risk type insurance policies, including loss of profits, for the total material damage risk amount of R\$115,329, and maximum indemnity limit for material damages equivalent to R\$51,611.

29. Director's Fees

During the years 2007 and 2006, director's fees were recorded as Operating Expenses in the amount of R\$461 (consolidated R\$11,384 in 2007 and R\$9,803 in 2006).

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30. Commitments with ANATEL (unaudited)

The table below shows the main indicators of commitments in connection with the Universal Goals General Plan (UGGP) and Quality Goals General Plan (QGGP) related to the concession for rendering domestic long-distance (DLD) and international long-distance (ILD) services of subsidiary Embratel:

Indicator	Position in December 2007	Target for 2006/2020
Rate of international long distance calls completed in each period of the greatest conventional switching telephone services		
Daytime	63.3%	70.0%
Nighttime	60.9%	70.0%
Rate of domestic long distance calls completed in each period of the greatest conventional switching telephone services		
Daytime	72.9%	70.0%
Nighttime	71.1%	70.0%
Rate of calls completed to telephone answering services of up to 10 seconds per period of greatest conventional switching telephone serviced ⁽²⁾		
Daytime	99.9%	95.0%
Nighttime	99.5%	95.0%
Requests for public use telephone repairs per 100 telephones in service	22	8
Number of accounts with complaints of errors in each 1000	0.5	2
Number of telephones in public use (TUP) in service	1,618	(1)

Notes:

(1) There is no regulation, one target established for the indicator.

(2) Beginning 2006, the targets (except for the rate of international long distance calls completed) started to be determined separately at the CN (national code) level; for purposes of reporting one single figure for these cases, the arithmetic mean of the figures shown on ANATEL's website was used.

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31. Agreements with Operators

Subsidiary Embratel formalized agreements with fixed and mobile telecommunication companies, thus settling disputes at the administrative, legal and business levels arising among the parties over several years, establishing guidelines and commitments that will govern their relationship, and aiming to avoid new disputes in the future.

These agreements settled long-standing disputes among the parties, especially those involving unsettled transactions relating to interconnection and co-billing services pending from prior years. None of these transactions involve present or future periods.

The Company's management believes that the agreements will enable a better operating relationship with these companies and an enhanced ability to assess business among the parties, as the agreements include clearer regulations that can lead to a solution of pending matters and prevent future disputes among the parties.

The effect of these agreements in the consolidated figures was as follows:

	Consolidated	
	2007	2006
Net operating revenue	6,320	12,758
Cost of services and goods sold	2,947	(3,489)
Sale of services	6,617	2,492
Other operating income (expenses), net	(40,774)	7,674
Income tax and social contribution ⁽¹⁾	(1,894)	21,768
Total	(26,784)	41,203

(1) Includes the tax effects of current income tax and social contribution.

EMBRATEL PARTICIPAÇÕES S.A.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007 and 2006

(In thousands of reais)

32. Subsequent Events

a) Changes introduced by Law No. 11.638/07

Law No. 11,638/07, enacted on December 28, 2007, amends and revokes certain provisions of Law No. 6,404, dated December 15, 1976 and Law No. 6,385 of December 7, 1976.

The requirements of this new law apply to financial statements for fiscal years ended on or after January 1, 2008. The Company is analyzing the impacts of the changes introduced by the new law, which refer mainly to presentation of statements of cash flow and value added, creation of an account subgroup denominated “Adjustments to asset valuation” in shareholders’ equity, the new criteria established for classification and valuation of investments in financial instruments, including derivatives, and the concept of discount to present value applicable to long-term assets and liabilities as well as to short-term assets and liabilities having a significant effect on financial reporting. Any impacts of the changes introduced by the new law will be calculated and recognized in 2008.

b) Merger of VSA and VSP into subsidiary Embratel

On February 29, 2008, the Special Shareholders’ Meeting approved the merger of VSA and VSP into subsidiary Embratel, as part of the corporate reorganization and streamlining process.

The Company’s management, based on the studies conducted, expects that this operation will bring forth significant benefits to the businesses, including but not limited to enhancing rationalization of both organizational structure and operating and administrative costs.

Determination of the effects of this operation is nearing conclusion, and will be reported and disclosed in the financial statements for the quarter ending March 31, 2008.