

Embratel Participações S.A.

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

September 30, 2001

Report of Independent Public Accountants on the Special Review

(Translation of the report originally issued in Portuguese.
See Note 24 to the quarterly report.)

To the Shareholders and Board of Directors of

Embratel Participações S.A.:

- (1) We have made a special review of the quarterly report of EMBRATEL PARTICIPAÇÕES S.A. (a Brazilian corporation), which includes the individual and consolidated balance sheets as of September 30, 2001, the related statements of income for the quarter and nine-month period then ended, report on performance and other material information.
- (2) Our review was conducted in accordance with specific standards established by the Brazilian Institute of Independent Auditors - Ibracon, together with the Federal Accounting Council, and comprised: (a) inquiries of and discussions with Company's Management responsible for the accounting, financial and operating areas as to the principal criteria adopted in the preparation of the quarterly information; and (b) review of information and subsequent events that had or might have had significant effects on the financial position and operations of the Company.
- (3) Based on our special review, we are not aware of any material modification that should be made to the information contained in the quarterly report referred to in paragraph (1), for it to be in accordance with accounting practices established by the corporate law in Brazil and presented in accordance with standards laid down by Brazilian Securities Commission (CVM), specifically applicable to the preparation of quarterly information.
- (4) The individual and consolidated balance sheets as of June 30, 2001, presented for comparative purposes, were reviewed by us, and our unqualified opinion report was issued on July 25, 2001. The individual and consolidated statements of income for the quarter and nine-month period ended September 30, 2000, presented for comparative purposes, were reviewed by us, and our unqualified special report was issued on October 23, 2000.

Rio de Janeiro, October 29, 2001.

ARTHUR ANDERSEN S/C

Fernando Marotta
Engagement Partner

EMBRATEL PARTICIPAÇÕES S.A.

BALANCE SHEETS AS OF SEPTEMBER 30, 2001 AND JUNE 30, 2001

(In thousands of Brazilian reais)

(Translation of the report originally issued in Portuguese.

See Note 24 to the quarterly report.)

A S S E T S

	Notes	Company		Consolidated	
		September 30, 2001	June 30, 2001	September 30, 2001	June 30, 2001
CURRENT ASSETS		49,393	98,016	4,144,397	3,773,394
		-----	-----	-----	-----
Cash and cash equivalents	9	21,086	16,097	550,736	398,066
Trade accounts receivable, net	10	-	-	2,631,694	2,587,443
Deferred and recoverable taxes	11	28,299	36,667	743,978	593,958
Dividends and interest on capital	20	-	45,252	-	-
Other current assets	8	8	-	217,989	193,927
NONCURRENT ASSETS		12,516	12,516	686,131	650,390
		-----	-----	-----	-----
Deferred and recoverable taxes	11	-	-	293,288	251,547
Legal deposits		12,516	12,516	333,663	342,198
Other noncurrent assets		-	-	59,180	56,645
PERMANENT ASSETS		5,821,712	6,011,918	8,040,490	7,903,198
		-----	-----	-----	-----
Investments	12	5,821,712	6,011,918	195,341	351,862
Property, plant and equipment	13	-	-	7,672,618	7,551,336
Deferred fixed assets	14	-	-	172,531	-
		-----	-----	-----	-----
Total assets		5,883,621	6,122,450	12,871,018	12,326,982
		=====	=====	=====	=====

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

EMBRATEL PARTICIPAÇÕES S.A.

BALANCE SHEETS AS OF SEPTEMBER 30, 2001 AND JUNE 30, 2001

(In thousands of Brazilian reais)

(Translation of the report originally issued in Portuguese.

See Note 24 to the quarterly report.)

LIABILITIES AND SHAREHOLDERS' EQUITY

	Notes	Company		Consolidated	
		September 30, 2001	June 30, 2001	September 30, 2001	June 30, 2001
CURRENT LIABILITIES		58,725	102,719	3,618,122	3,630,528
Personnel, charges and social benefits		2	76	142,636	126,092
Accounts payable and accrued expenses	15	8	36,550	1,388,595	1,334,020
Taxes and contributions	16	35,124	42,459	582,883	529,907
Dividends and interest payable on capital	20	23,580	8,061	23,743	6,411
Proposed dividends and interest on capital	20	-	15,563	-	17,378
Loans and financing	17	-	-	1,165,900	1,293,689
Provision for contingencies	18	-	-	14,164	17,342
Employees' profit sharing		-	-	32,194	27,572
Pension plan – Telos	19	-	-	66,775	69,320
Related party liabilities	21	10	10	34,356	21,186
Other current liabilities		1	-	166,876	187,611
NONCURRENT LIABILITIES		915	915	3,045,648	2,288,448
Loans and financing	17	-	-	2,640,518	1,880,412
Pension plan – Telos	19	-	-	187,971	190,293
Taxes and contributions	16	-	-	216,244	216,828
Sundry credits		915	915	915	915
DEFERRED INCOME		-	-	130,872	137,199
MINORITY INTEREST		-	-	252,395	251,991
SHAREHOLDERS' EQUITY	20	5,823,981	6,018,816	5,823,981	6,018,816
Capital stock – paid-in		2,273,913	2,273,913	2,273,913	2,273,913
Income reserves		1,912,114	1,912,114	1,912,114	1,912,114
Treasury share		(41,101)	(41,101)	(41,101)	(41,101)
Retained earnings		1,679,055	1,873,890	1,679,055	1,873,890
Total liabilities and shareholders' equity		5,883,621	6,122,450	12,871,018	12,326,982

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

EMBRATEL PARTICIPAÇÕES S.A.

STATEMENTS OF INCOME

FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2001 AND 2000

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

(Translation of the report originally issued in Portuguese.
See Note 24 to the quarterly report.)

	Notes	Company		Consolidated	
		September 30		September 30	
		2001	2000	2001	2000
GROSS OPERATING REVENUE:					
Telecommunications services		-	-	7,601,923	6,483,625
Gross revenue deductions		-	-	(1,986,848)	(1,610,707)
		-----	-----	-----	-----
Net operating revenue	5	-	-	5,615,075	4,872,918
Cost of services	6	-	-	(3,721,045)	(3,224,301)
		-----	-----	-----	-----
Gross profit		-	-	1,894,030	1,648,617
		-----	-----	-----	-----
OPERATING REVENUES (EXPENSES)		(255,488)	420,001	(1,458,163)	(929,706)
		-----	-----	-----	-----
Commercialization of services		-	-	(797,307)	(534,459)
General and administrative		(2,449)	(2,656)	(680,112)	(387,658)
Other operating revenue (expenses), net		-	(322)	19,256	(7,589)
Equity method results		(253,039)	422,979	-	-
		-----	-----	-----	-----
OPERATING INCOME (LOSS) BEFORE INTEREST		(255,488)	420,001	435,867	718,911
		-----	-----	-----	-----
Interest income (expense)	7	1,079	(1,253)	(745,769)	(53,695)
		-----	-----	-----	-----
OPERATING INCOME (LOSS)		(254,409)	418,748	(309,902)	665,216
		-----	-----	-----	-----
Nonoperating income (expense)		(29)	-	(14,693)	(4,842)
		-----	-----	-----	-----
NET INCOME (LOSS) BEFORE TAXES AND PARTICIPATIONS		(254,438)	418,748	(324,595)	660,374
		-----	-----	-----	-----
Income tax and social contribution on profits	8	(4,059)	-	89,326	(208,449)
Employees' profit share		-	-	(27,740)	(28,130)
Minority interest		-	-	(4,402)	(5,258)
		-----	-----	-----	-----
NET INCOME (LOSS) FOR THE YEAR		(258,497)	418,748	(267,411)	418,537
		=====	=====	=====	=====
QUANTITY OF OUTSTANDING SHARES (IN THOUSANDS)		332,932,361	332,919,028	332,932,361	332,919,028
		=====	=====	=====	=====
NET EARNINGS (LOSS) PER THOUSAND SHARES		(0.78)	1.26	(0.80)	1.26
		===	===	===	===

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

EMBRATEL PARTICIPAÇÕES S.A.

NOTES TO THE FINANCIAL STATEMENTS

AS OF AND FOR THE THIRD QUARTER OF 2001

(In thousands of Brazilian reais, except as indicated)

(Translation of the report originally issued in Portuguese.
See Note 24 to the quarterly report.)

1. OPERATIONAL OVERVIEW

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

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

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

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

2. PRESENTATION OF FINANCIAL STATEMENTS

The individual and consolidated financial statements as of September 30, 2001 were prepared in accordance with accounting practices established by the Brazilian corporate law, instructions applicable to telecommunications concessionaires and rules and accounting procedures established by the Brazilian Securities Commission (CVM - Comissão de Valores Mobiliários).

3. SUMMARY OF PRINCIPAL ACCOUNTING PRACTICES

a. Cash and Cash Equivalents

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

b. Trade Accounts Receivable, Net

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

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

c. Foreign Currency Transactions

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

d. Investments

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

e. Property, Plant and Equipment

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

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

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

f. Deferred Fixed Assets

This represents the goodwill associated with the acquisition of Acessionet Ltda., which is being amortized over 5 (five) years (Note 14).

g. Income Tax and Social Contribution

The corporate income tax and social contribution on net income are recorded on an accrual basis. Deferred taxes are provided on temporary differences, as described in Notes 8, 11 and 16.

h. Provision for Contingencies

Provision for contingencies are updated through the closing dates of the financial statements based on the probable loss, according to the nature of each contingency. The basis and nature of the provisions are described in Note 18.

i. Pension Plan - Telos

The subsidiaries Embratel and Star One sponsor a separate entity that provides pensions and other post-retirement benefits for its employees (Note 19). Contributions for the defined benefit plan and defined contribution plan are recorded on an accrual basis. Contributions for the defined benefit plan are actuarially determined.

j. Deferred Income

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

k. Revenue Recognition

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

I. Interest Income (Expense)

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

m. Employees' Profit Sharing

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

n. Minority Interest

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

o. Net Earnings (Loss) per Thousand Shares

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

4. CONSOLIDATION PROCEDURES

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

The consolidated financial statements as of September 30, 2001 and June 30, 2001 include the financial statements of Embratel Participações S.A. and of its subsidiaries, directly or indirectly, as follows:

	Direct and/or indirect participation (%)	
	September 30, 2001	June 30, 2001
	Capital/ voting sock	Capital/ voting sock
Empresa Brasileira de Telecomunicações S.A. - Embratel	98.8	98.8
BrasilCenter Comunicações Ltda.	100.0	100.0
Embratel Soluções Ltda.	100.0	100.0
Embratel Americas, Inc.	100.0	100.0
Star One S.A.	80.0	80.0
Ponape Telecomunicações Ltda.	100.0	100.0
Palau Telecomunicações Ltda.	100.0	100.0
Embratel Clearinghouse Ltda. (1)	100.0	100.0
Acessonet Ltda.	-	100.0

- (1) Oroluk Telecomunicações Ltda. was re-named effective April 02, 2001, with the purpose of rendering services of (i) data analysis and processing, (ii) collection, routing and distribution of signaling messages and (iii) installation, supervision, operation and maintenance of networks.

On July 23, 2001, the subsidiary Acessonet Ltda. was merged into the subsidiary Embratel. As of June 30, 2001 (date of the balance sheet used for the merger), the subsidiary Acessonet had unsecured liabilities in the amount of R\$19,521.

5. NET OPERATING REVENUE

	Consolidated	
	Nine-month period ended September 30	
	2001	2000
Voice-		
Domestic long-distance	3,414,312	2,811,848
International long-distance	674,262	735,711
	-----	-----
	4,088,574	3,547,559
Data & Internet-		
Data & Internet	1,254,439	986,373
Wholesale	98,637	175,158
	-----	-----
	1,353,076	1,161,531
Other services	173,425	163,828
	-----	-----
Net operating revenue	5,615,075	4,872,918
	=====	=====

6. COST OF SERVICES

	Consolidated	
	Nine-month period ended September 30	
	2001	2000
Interconnection/facilities	(2,681,540)	(2,351,193)
Depreciation	(682,601)	(591,269)
Personnel	(182,837)	(162,161)
Third-party services	(120,804)	(94,076)
Other	(53,263)	(25,602)
	-----	-----
Total	(3,721,045)	(3,224,301)
	=====	=====

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

7. INTEREST INCOME (EXPENSE)

	Company		Consolidated	
	Nine-month period ended September 30		Nine-month period ended September 30	
	2001	2000	2001	2000
Interest income-				
Interest on temporary investments	1,293	1,673	66,322	126,455
Monetary variation – credit	-	-	234	2,340
Exchange variation – credit	-	-	76,215	(25,370)
	-----	-----	-----	-----
Subtotal	1,293	1,673	142,771	103,425
	-----	-----	-----	-----
Interest expenses-				
Interest charges	-	(2,926)	(214,988)	(125,108)
Monetary variation – charge	(214)	-	(28,408)	(30,847)
Exchange variation – charge	-	-	(645,144)	(1,165)
	-----	-----	-----	-----
Subtotal	(214)	(2,926)	(888,540)	(157,120)
	-----	-----	-----	-----
Total	(1,079)	(1,253)	(745,769)	(53,695)
	=====	=====	=====	=====

In the nine-month period ended September 30, 2001, the Brazilian real devalued by 36.61% against the US dollar, resulting in an exchange variation expense in the amount of R\$645,144 in the period, net of gains from hedge contracts.

8. INCOME TAX AND SOCIAL CONTRIBUTION

The Company and its subsidiaries accrue the income tax (IRPJ) and social contribution on profits (CSSL) on a monthly basis paying such taxes on monthly estimates of taxable income based on the related interim financial statements as provided for in the current tax legislation. The amounts of the prepaid Income Tax and Social Contribution are recorded as Income Tax - Estimated and Social Contribution - Estimated, and are shown as a deduction from the taxes payable (see Note 16).

Tax legislation introduced in 1995 (Law no. 8,981) limited the offset of accumulated tax losses and negative calculation basis for social contribution on profits to 30% (thirty percent) of taxable income produced in each fiscal period. On September 30, 2001, the subsidiary Embratel had R\$494,398 of tax losses and R\$383,137 of negative basis of social contribution available for offset against future taxable income (on September 30, 2000 - R\$111,400 of tax losses and R\$61,977 of negative basis of social contribution).

8.1 - Income Tax and Social Contribution Income (Expenses)

The income tax and social contribution expense is comprised of current expense of the year computed in accordance with current tax legislation, and of deferred expense, corresponding to the effects of the taxes on the temporary differences originated or realized in the year. The deferred income tax and social contribution for the nine-month periods ended September 30, 2001 and 2000 totals R\$109,947 and R\$48,866 respectively, and were calculated on the allowance for doubtful accounts, accelerated depreciation, tax losses, temporarily nondeductible taxes, and other temporarily taxable and deductible revenues and expenses.

Composition of Income Tax and Social Contribution Income (Expenses)

	Consolidated	
	Nine-month period ended	
	September 30	
	2001	2000
Current-		
Social Contribution	(8,447)	(59,554)
Income Tax	(12,174)	(197,761)
	-----	-----
Total current expenses	(20,621)	(257,315)
	-----	-----
Deferred-		
Social contribution	30,775	12,216
Income Tax	79,172	36,650
	-----	-----
Total deferred income	109,947	48,866
	-----	-----
Total income tax and social contribution	89,326	(208,449)
	=====	=====

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

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

	Consolidated	
	Nine-month period ended September 30	
	2001	2000
Income before taxes and participation	(324,595)	660,374
Employee's profit sharing	(27,740)	(28,130)
	-----	-----
Net income (loss) before taxes	(352,335)	632,244
Social contribution income (expense) at nominal rate	31,710	(59,997)
Rate adjustment to obtain the effective rate-		
Rate adjustment from 12% to 9%	-	(5,138)
Social contribution credit constitution over the exempt international income	2,261	29,392
Undeductible financial charges	(3,929)	-
Permanent additions and deductions	(5,929)	(3,598)
Amortization of social contribution on goodwill from merger	(1,785)	(2,169)
	-----	-----
Social contribution benefit (expense) on income statement	22,328	(41,510)
	-----	-----
Income tax income (expense) at the nominal rate - 25%	88,084	(165,094)
Rate adjustment to obtain the effective rate-		
Undeductible financial charges	(10,914)	-
Permanent additions and deductions	(5,232)	(9,856)
Fiscal incentives	-	6,603
Amortization of income tax on goodwill from merger	(4,958)	-
Other	18	1,408
	-----	-----
Corporate income tax credit (expense) on statement of income	66,998	(166,939)
	-----	-----
Total (corporate income tax + social contribution)	89,326	(208,449)
	=====	=====

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

9. CASH AND CASH EQUIVALENTS

	Company		Consolidated	
	September 30, 2001	June 30, 2001	September 30, 2001	June 30, 2001
Cash and bank deposits	20,807	15,483	241,703	72,206
Foreign short-term investments	-	-	137,687	89,526
Marketable securities	279	614	171,346	236,334
	-----	-----	-----	-----
Total	21,086	16,097	550,736	398,066
	=====	=====	=====	=====

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

10. TRADE ACCOUNTS RECEIVABLE

	Consolidated	
	September 30, 2001	June 30, 2001
National entities/clients	3,275,272	3,130,262
Foreign administrators	331,715	281,787
	-----	-----
Subtotal	3,606,987	3,412,049
Allowance for doubtful accounts	(975,293)	(824,606)
	-----	-----
Total	2,631,694	2,587,443
	=====	=====

11. DEFERRED AND RECOVERABLE TAXES

	Company		Consolidated	
	September 30, 2001	June 30, 2001	September 30, 2001	June 30, 2001
Income tax withheld at source	26,314	34,682	48,548	39,661
Recoverable income tax/social contribution	113	113	34,651	2,210
Deferred tax assets-				
Provision for write-off of property, plant and equipment	-	-	11,807	22,443
Accelerated depreciation	-	-	32,370	44,015
Tax losses	-	-	123,600	33,533
Negative basis of social contribution	-	-	34,482	2,056
Allowance for doubtful accounts	-	-	331,600	280,366
Cofins/PIS – temporarily nondeductible	1,872	1,872	89,263	89,263
Goodwill on the acquisition of investments	-	-	38,213	40,761
Other deferred taxes (provisions)	-	-	63,220	117,045
ICMS	-	-	178,867	125,086
Other	-	-	50,645	49,066
	-----	-----	-----	-----
Total	28,299	36,667	1,037,266	845,505
	=====	=====	=====	=====
Current	28,299	36,667	743,978	593,958
	=====	=====	=====	=====
Noncurrent	-	-	293,288	251,547
	=====	=====	=====	=====

As part of the agreement for the sale of a minority shareholding in the subsidiary Star One S.A., in January 2001, SES Participações Ltda. (the Brazilian subsidiary of the new minority shareholder) was merged into Star One S.A.. Deferred Income Tax and Social Contribution credits (Assets), in the amount of R\$38,213 as of September 30, 2001 (R\$40,761 as of June 30, 2001) resulted from that merger, and were recognized in Star One S.A.'s financial statements as a deferred asset and with a corresponding credit to a special reserve for goodwill in the shareholders' equity of the referred subsidiary, as foreseen in article 6 of CVM Instruction no. 319/99.

12. INVESTMENTS

	Company	
	September 30, 2001	June 30, 2001
Investments - at equity-		
Empresa Brasileira de Telecomunicações S.A.	5,821,673	6,011,875
Embratel Soluções Ltda.	58	62
Ponape Telecomunicações Ltda.	10	10
Negative goodwill on purchase of stock	(29)	(29)
	-----	-----
Total	5,821,712	6,011,918
	=====	=====

The consolidated investments balance on September 30, 2001 and June 30, 2001, of R\$195,341 and R\$351,862, respectively, refer substantially to interest in international joint ventures.

13. PROPERTY, PLANT AND EQUIPMENT

	Annual depreciation rates (%)	Consolidated			
		September 30, 2001		June 30, 2001	
		Cost	Accumulated depreciation	Net book value	Net book value
Construction in progress	-	1,492,645	-	1,492,645	1,545,207
Switching equipment	7.69	1,559,647	(663,046)	896,601	704,362
Transmission equipment	10.00 to 20.00	6,916,609	(3,104,549)	3,812,060	3,931,307
Buildings and ducts	4.00	1,250,477	(588,344)	662,133	659,833
Other assets	5.00 to 20.00 (*)	1,649,965	(840,786)	809,179	710,627
Total		12,869,343	(5,196,725)	7,672,618	7,551,336

(*) Except for land, which on September 30, 2001 and June 30, 2001 amount to R\$169,878 and R\$165,959, respectively.

14. DEFERRED FIXED ASSETS

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

15. ACCOUNTS PAYABLE AND ACCRUED EXPENSES

	Consolidated	
	September 30, 2001	June 30, 2001
Suppliers	940,654	957,351
Foreign companies	347,679	289,883
Consignment for third-parties/other	100,262	86,786
Total	1,388,595	1,334,020

16. TAXES AND CONTRIBUTIONS

	Company		Consolidated	
	September 30, 2001	June 30, 2001	September 30, 2001	June 30, 2001
Indirect taxes-				
ICMS	-	-	126,572	116,866
PIS/Cofins	12,524	12,522	52,435	47,504
PIS/Pasep - in suspension	-	-	94,176	94,176
Cofins - judicial deposit (increase of tax rate from 2% to 3%)	-	-	174,049	174,049
ISS	-	-	6,352	5,218
Other	-	-	16,853	11,474
Income taxes-				
Income tax on interest on capital	22,600	22,600	22,600	22,600
Income tax in suspension - Federal Senate Resolution no. 82/92	-	-	179,612	175,623
Income tax - estimate	-	7,337	59,914	41,201
Social contribution - estimate	-	-	21,124	12,001
Deferred taxes - liabilities-				
Law no. 8,200/91 - supplementary monetary restatement	-	-	45,440	46,023
	-----	-----	-----	-----
Total	35,124	42,459	799,127	746,735
	=====	=====	=====	=====
Current	35,124	42,459	582,883	529,907
	=====	=====	=====	=====
Noncurrent	-	-	216,244	216,828
	=====	=====	=====	=====

17. LOANS AND FINANCING

	Consolidated			
	September 30, 2001		June 30, 2001	
	Principal	Interest	Total	Total
Financial Institutions	3,700,723	54,910	3,755,633	3,110,478
Suppliers	50,086	699	50,785	63,623
	-----	-----	-----	-----
Total	3,750,809	55,609	3,806,418	3,174,101
	=====	=====	=====	=====
Current	1,110,291	55,609	1,165,900	1,293,689
	=====	=====	=====	=====
Noncurrent	2,640,518	-	2,640,518	1,880,412
	=====	=====	=====	=====

The loans and financing with financial institutions were primarily denominated in foreign currency. Part of the debt is hedged against devaluation of the Brazilian Real through “swap” operations, as described below:

	Amounts	%	Average cost of debt	Maturity
Hedged short term debt (notional amount)	806,136	69.1	99.03% CDI p.a..	Up to 12 months
Unhedged short term debt	359,764	30.9	9.28% p.a. in US\$*	Up to 12 months
	-----	-----		
Total short term debt and current portion of Long term debt	1,165,900	100.0		
	=====	=====		
Hedged long term debt (notional amount)	1,103,613	41.8	98.42% CDI p.a.	Up to 2.7 years
Unhedged long term debt	1,536,905	58.2	9.09% p.a. in US\$ (*)	Up to 9.1 years
	-----	-----		
Total long term debt	2,640,518	100.0		
	=====	=====		
Total hedged debt	1,909,749	50.2		
Total unhedged debt	1,896,669	49.8		
	-----	-----		
Total debt (net of hedge gains)	3,806,418	100.0		
	=====	=====		

(*) Various interests rates in different currencies expressed in US dollars equivalent as if all loans were US denominated.

To improve financial statement disclosure, during the third quarter of 2001, the Company started reporting accounts receivables from hedge contracts as a reduction of the related Loans and Financing account balance. As of September 30, 2001 such receivables amounted to R\$264,736.

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

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

a. Mode/Objective

	September 30, 2001	June 30, 2001
Local currency-		
Permanent assets financing-		
Financial institutions	24,298	25,053
	-----	-----
Total in local currency	24,298	25,053
	=====	=====
Foreign currency-		
Working capital	2,107,863	1,607,752
Permanent assets financing-		
Financial institutions	1,623,472	1,476,931
Suppliers	50,785	64,365
	-----	-----
Total in foreign currency	3,782,120	3,149,048
	=====	=====

b. Repayment Schedule

Noncurrent debt is scheduled to be repaid as follows:

Year	September 30, 2001	June 30, 2001
2002	59,258	270,937
2003	1,200,911	471,390
2004	602,309	505,788
2005 and after	778,040	632,297
	-----	-----
Total	2,640,518	1,880,412
	=====	=====

c. Breakdown by Currency

Up-dated by	Exchange rate as of September 30, 2001 (in R\$)	September 30, 2001	June 30, 2001
Real	-	24,298	25,053
US dollar	2.671300	2,669,128	2,322,877
French-Franc	0.371342	215,509	171,057
German Marc	1.245430	13,712	10,891
Japanese Yen	0.022362	883,771	644,223
		-----	-----
Total		3,806,418	3,174,101
		=====	=====

d. Guarantees

Loans and financing operations are guaranteed primarily by promissory notes.

18. PROVISION FOR CONTINGENCIES

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

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

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

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

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

a. Labor Claims

The provision for loss on labor claims amounted to R\$14,164 on September 30, 2001 (R\$17,342 on June 30, 2001). Such amount represents Management's estimate, based on legal advice of probable loss on numerous suits filed by current and former employees.

a.1 - INSS (National Institute of Social Security)

On September 5, 2001, the subsidiary Embratel became aware of an unfavorable decision of the Social Security Council of Appeal, on a claim regarding the applicability of Social Security charges (INSS) to certain fringe benefits, such as vacation bonus, life insurance etc. The total amount of the INSS assessment is R\$55,000. Having exhausted appeals at the administrative levels, the Company immediately filed a court appeal, and a temporary injunction was granted reducing the claim by more than 80%. In light of the chances of success on the judicial appeal and in view of the analysis done internally and by external counsel, which have identified a series of mistakes in the calculations of the claims made by INSS, no loss provision was recorded relating to this assessment.

b. Tax Contingencies

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

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

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

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

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

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

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

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

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

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

b.2 - Income Tax on Inbound International Income

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

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

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

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

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

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

b.3 - ICMS for Services Provided

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

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

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

The subsidiary Embratel received a number of fines for non-payment of ICMS for services provided, including international services and others, also considered by the Company as exempt or non-taxable. The Company's Management, based on the facts currently available, considered the probability of loss on this issue to be remote. The fines concerning facts that may lead to losses, according to the legal counsel, represent a total of approximately R\$171 million as of September 30, 2001. As a result of this evaluation, no provision was recorded in the financial statements.

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

b.4 - PIS/Cofins Taxes

On August 21, 2001, the subsidiary Embratel received two tax claims from the Federal Revenue Agency (Brazilian Tax Authority), totaling R\$501 million, including fines and interest, for prior years' PIS/Cofins taxes. The first claim, in the amount of R\$159 million, is related to PIS charges prior to 1995, which were offset according to Complementary Law no.7/70. In similar cases, both the Taxpayers' Council, and more recently the Federal Court of Justice (STJ), in a decision of its First Section, were favorable to the offset done by the Company. The second claim, in the amount of R\$342 million, is related to Cofins exemption on the exportation of telecommunication services for revenues through the end of 1999. Embratel understands that these revenues were exempt, based on legal opinions on the legislation in effect at that time. Also regarding the Cofins claim, there were substantial mistakes in the calculations of the tax auditor, that would immediately reduce the claim by R\$226 million. Additionally, contradictory arguments were made in support of the claim, which demonstrate the lack of basis for the assessment, facilitating our legal defense and making it likely that the entire case will be dismissed.

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

c. Other Taxes

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

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

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

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

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

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

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

19. PENSION PLAN - TELOS

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

Embratel sponsors two benefit plans: a defined benefit plan and a defined contribution plan, both managed by Telos. The rate of contribution to the first plan (the defined benefit plan) for the year of 2000, which is the same as that forecast for the year of 2001, is 19.8% over the salary of the active participants in this plan (72 participants).

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

On September 1, 1999, a statement of recognition, acknowledgement of debt, acceptance and amortization of actuarial insufficiency was signed between the subsidiary and Telos, and approved by Brazilian pensions regulator ("Secretaria de Previdência Complementar"). In accordance with this statement, the actuarial insufficiency recognized in favor of Telos will be paid over the next 20 years, based on the monthly flow of benefits to the employees covered by the defined contribution plan. The unamortized balance of the liability is increased monthly at the rate of remuneration of Telos assets. As of September 30, 2001, the outstanding balance payable to Telos amounts to R\$255,643 (R\$259,613 on June 30, 2001), which is not included in the total assets of the plans reported below.

As of September 30, 2001, Telos shows the following balances (unaudited):

Technical reserves-	
Mathematical reserves	1,505,969
Defined benefit plan-	
Benefits provided	710,200
Benefits to be provided	8,826
Defined contribution plan-	
Benefits provided	170,796
Benefits to be provided	616,147
Technical surplus	28,575

Total reserves	1,534,544
	=====
Assets of the plans-	
Fixed-income market	1,239,415
Variable-income market	223,147
Real state market	82,692
Operations with participants	35,034

Total assets of the plans	1,580,288
	=====
Sponsor contributions in the period	19,618
	=====

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

Upon the issuance of CVM Deliberation number 371, on December 13, 2000 which approved the IBRACON pronouncement on accounting for employee benefits, new accounting guidelines were instituted for recording and disclosure of employee benefit plans. These guidelines are

mandatorily applicable for all accounting periods starting on or after January 1, 2002. The effects of these new guidelines, if any, must be disclosed in the financial statements of the fiscal year ending December 31, 2001. The effects of applying these new guidelines must be recorded as an adjustment of shareholder equity at December 31, 2001 or they may be recognized in results on a prospective basis over a five-year period, or, over the average period of service or the estimated remaining life of the employees, whichever is lower.

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

20. SHAREHOLDERS' EQUITY

a. Capital Stock

The authorized capital on September 30, 2001 and June 30, 2001 is comprised of 700 billion common or preferred shares. The capital, subscribed and fully paid, amounts to R\$2,273,913 as of September 30 and June 30, 2001. It is comprised of 334,399,028 thousand shares of no-par value, held (in-groups of one thousand shares) as follows: 124,369,031 common shares and 210,029,997 preferred shares. The book value per share (groups of one thousand shares, expressed in reais) as of September 30, 2001 and June 30, 2001, amounts to R\$17,42 and R\$18.00, respectively.

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

b. Income Reserves

Legal Reserve

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

Unrealized Earnings Reserve

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

c. Treasury Shares

At the end of the third quarter of 2001, the Holding Company held 1,466,667 thousand, respectively, of its own preferred shares in treasury, at a weighted average cost, per thousand shares, expressed in reais, of R\$28.02, respectively.

During the nine months of 2001, the Company sold 13,333 thousand shares at an average price of R\$23.13 per lot of thousand shares, resulting in a discount of R\$65,000 charged to retained earnings

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

d. Dividends

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

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

e. Stock Option Plan

The plan, approved at the Shareholders' General Meeting held on December 17, 1998, granted to the directors and employees the option of acquiring preferred shares in the proportion of 33.33% in each annual period, as from the granting date. The options must be exercised within

10 years of the grant date. The acquired shares will maintain all of the rights pertaining to the shares of equal class and type, including dividends. The summarized information on the plan is as follows:

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

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

Open options as of December 31, 2000	3,553,432
Options sold in 2001	(13,333)
Options cancelled in 2001	(382,292)

Open options as of September 30, 2001	3,157,807
	=====
Exercise price of the purchase options on September 30, 2001, annually updated based on IGP-M -12% (per thousand shares, expressed in reais) for options granted as from September 1999 and on monthly IGP-M for previous ones, as follows-	
Options granted in December, 1998	24.80
	=====
Options granted in March, 1999	37.73
	=====
Options granted in July, 1999	29.13
	=====
Options granted in September, 1999	28.65
	=====
Options granted in October, 1999	21.74
	=====
Options granted in April, 2000	32.20
	=====
Options granted in May, 2000	32.65
	=====
Options granted in September, 2000	34.21
	=====

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

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

	Net loss for the nine-month period ended September 30, 2001	Net loss for the nine-month period ended September 30, 2000
	<u>2001</u>	<u>2000</u>
Company	(258,497)	418,748
	-----	-----
Recognition of the effects from the merging process which occurred in the subsidiary Star One (note 11)	(8,914)	-
Losses in subsidiaries BrasilCenter and Embratel Americas (recorded directly to Shareholder's Equity in the Parent Company Embratel)	-	(211)
	-----	-----
Consolidated	(267,411)	418,537
	=====	=====

21. TRANSACTIONS WITH RELATED PARTIES

After the privatization, the main transactions with related parties started being carried out with WorldCom, according to usual market conditions for these types of operations. Balances receivable and payable as of September 30, 2001 and June 30, 2001, resulting from such transactions are as follows:

	Company		Consolidated	
	September 30, 2001	June 30, 2001	September 30, 2001	June 30, 2001
	<u>2001</u>	<u>2001</u>	<u>2001</u>	<u>2001</u>
ASSETS:				
Current-				
Foreign telecommunications operators	-	-	91,400	67,729
Proposed dividends	-	17,028	-	-
Interest on capital – Embratel	-	28,224	-	-
LIABILITIES:				
Current-				
Foreign telecommunications operators	-	-	69,520	48,542
Other liabilities	10	10	34,356	21,186

Under the terms of the concession contract with Anatel and in accordance with the shareholders' approval on November 18, 1998, in the nine-month periods ended September 30, 2001 and 2000, the amounts of R\$28,604 and R\$48,748, respectively, were charged to General and Administrative Expenses for consulting services rendered by WorldCom International, Inc., a subsidiary of WorldCom.

22. INSURANCE (UNAUDITED)

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

23. FINANCIAL INSTRUMENTS

a. Miscellaneous

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

b. Swap - Interest and Currency

The subsidiary Embratel used derivative operations to protect against the variation of foreign currency loan principal and interest against the Real. The par values of such operations, at the end of the third quarter of 2001, totaled R\$1,570,269 (R\$1,052,131 in the second quarter) and were not recorded in the balance sheet.

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

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

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

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

Deferred Taxes - Assets and Liabilities

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

Loans and Financing

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

Limitations

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

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

	Consolidated	
	September 30, 2001	
	Book value	Market value
Deferred and recoverable taxes	1,037,266	974,617
	-----	-----
Assets	1,037,266	974,617
	=====	=====
Taxes and contributions	799,127	761,726
Loans and financing	3,806,418	3,802,192
	-----	-----
Liabilities	4,605,545	4,563,918
	=====	=====

24. TRANSLATION OF THE REPORT ORIGINALLY ISSUED IN PORTUGUESE

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

* * * * *

EMBRATEL PARTICIPAÇÕES S.A.

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

NET REVENUES

R\$ 000	3Q01	3Q00	2Q01	% Var Y-o-Y	% Var Q-o-Q	9M01	9M00	% Var Y-o-Y
Voice	1,392,985	1,296,859	1,367,510	7.4%	1.9%	4,088,574	3,547,559	15.3%
Data Communications	458,644	413,527	434,780	10.9%	5.5%	1,353,076	1,161,531	16.5%
Other Services	60,240	51,400	235,828	17.2%	3.5%	173,425	163,828	5.9%
Total Net Revenues	1,911,869	1,761,786	1,860,480	8.5%	2.8%	5,615,075	4,872,918	15.2%

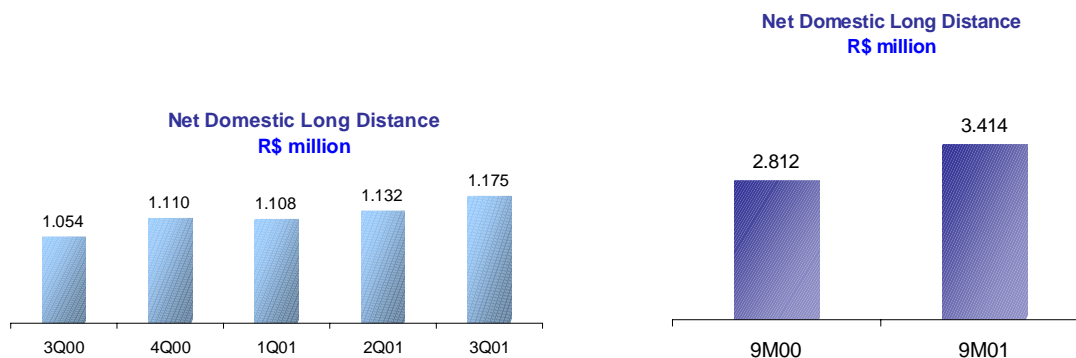
VOICE SERVICES

R\$ 000	3Q01	3Q00	2Q01	% Var Y-o-Y	% Var Q-o-Q	9M01	9M00	% Var Y-o-Y
Domestic Long Distance	1,174,637	1,054,111	1,131,682	11.4%	3.8%	3,414,312	2,811,848	21.4%
International Long Distance	218,348	242,748	235,828	-10.1%	-7.4%	674,262	735,711	-8.4%
Total Voice	1,392,985	1,296,859	1,367,510	7.4%	1.9%	4,088,574	3,547,559	15.3%

Domestic Long Distance

Domestic long distance revenues rose to R\$1.2 billion in the third quarter of 2001 compared to R\$1.1 billion in the third quarter of 2000, representing an 11.4 percent growth year-over-year. Traffic growth was the main cause for the increase in revenues in the period of comparison.

Year-to-date, domestic long distance revenues were R\$3.4 billion, corresponding to a 21.4 percent increase when compared to the nine months of 2000. Growth in domestic long distance traffic (resulting from the growth in the number of lines), traffic mix and new alternative calling plans, which contributed to the increase in the average revenue per minute, were responsible for the increase.

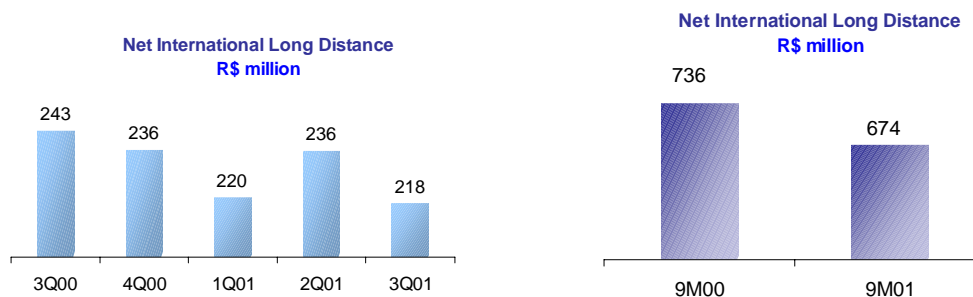


International Long Distance

International long distance revenues were R\$218 million, a 10.1 percent decrease compared to R\$243 million in the third quarter of 2000. The main cause of the decrease was the reduction in tariffs due to price declines. Compared to the second quarter of 2001, international long distance revenues fell 7.4 percent. The reduction was the consequence of single digit rate promotions adopted by the company in major international routes for a period of approximately 7 weeks. This selective promotion maintained Embratel's competitiveness in these markets and allowed us to retain customers while growing outbound traffic by a total of 17.9 percent relative to the second quarter of 2001. This reversed the decline in traffic observed in the previous two quarters of the year.

Embratel's management of international relationships during the aggressive outbound pricing campaign succeeded in securing additional commitments of inbound minutes.

On an year-to-date basis, international long distance revenues were R\$674 million compared to R\$736 million in the nine months of 2000. Embratel believes international revenues will continue to experience price declines.



DATA COMMUNICATION SERVICES

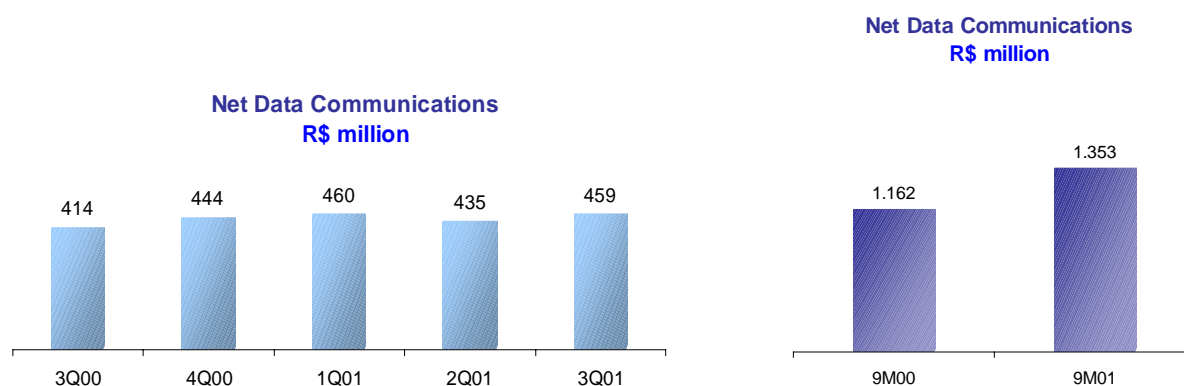
R\$ 000	3Q01	3Q00	2Q01	% Var Y-o-Y	% Var Q-o-Q	9M01	9M00	% Var Y-o-Y
Data & Internet	430,136	363,265	403,097	18.4%	6.7%	1,254,439	986,373	27.2%
Wholesale	28,508	50,262	31,683	-43.3%	-10.0%	98,637	175,158	-43.7%
Total Data	458,644	413,527	434,780	10.9%	5.5%	1,353,076	1,161,531	16.5%

Third quarter data revenues rose 10.9 percent to R\$459 million compared to the same quarter of 2000. Data growth was a combination of growth in core data services and a continued decline in wholesale revenues.

Core data services revenue which includes corporate networks, frame relay services and Internet grew 18.4 percent when compared to the same quarter of the previous year. Internet revenues continued to grow in excess of forty percent. Internet revenues have been impacted by lower dial-up access usage related to the energy savings requirements by households and the overall decline in the Internet market. Aggressive price competition slowed down during the quarter, although we continue to see price reductions at contract renewals.

Additionally, the continued devaluation of the Real is causing a reassessment of current data price levels which will likely result in price increases across various product lines. While we expect wholesale revenues to continue to decline, wholesale prices may be impacted by this overall reassessment.

On an accumulated basis, core data and Internet services grew 27.2 percent compared to the first nine months of the previous year. Wholesale revenues declined 43.7 percent in the same period. Total accumulated data revenues were R\$1.4 billion, representing a 16.5 percent growth compared to the first nine months of 2000. These growth rates are in line with our full year growth expectations.



OPERATING INCOME BEFORE INTEREST

R\$ 000	3Q01	3Q00	2Q01	% Var Y-o-Y	% Var Q-o-Q	9M01	9M00	% Var Y-o-Y
Net Revenues	1,911,869	1,761,786	1,860,480	8.5%	2.8%	5,615,075	4,872,918	15.2%
Cost of Services	(1,273,249)	(1,141,337)	(1,239,697)	11.6%	2.7%	(3,721,045)	(3,224,301)	15.4%
Operating Revenues (Expenses)	(517,037)	(362,296)	(478,866)	42.7%	8.0%	(1,458,163)	(929,706)	56.8%
Operating Income before Interest	121,583	258,153	141,917	-52.9%	-14.3%	.435,867	718,911	-39.4%
Depreciation/Amortization effect	268,961	216,833	259,848	24.0%	3.5%	778,617	630,547	23.5%
Operating Income before Interest, Depreciation and Amortization (EBITDA)	390,544	474,986	401,765	-17.8%	-2.8%	1,214,484	1,349,458	-10.0%

EBITDA was R\$391 million compared to R\$475 million in the third quarter of 2000. EBITDA margin was 20.4 percent this quarter compared to 27.0 percent in the third quarter of 2000. The increase in operating expenses is attributable to continued higher bad debt provisions that increased by R\$86 million from the year-ago quarter to R\$169 million (8.8 percent of net revenues or 6.5 percent of gross revenues). The new Universal Service taxes drove an additional increase of R\$26 million from the prior year and PIS/Cofins taxes on the hedge income caused an additional R\$9 million increase. Embratel reduced the overall work-force in September creating severance costs of R\$12 million.

Year-to-date EBITDA was R\$1.2 billion compared to R\$1.3 billion in the same period a year ago. This decrease was mainly caused by additional taxes and increases in provision for doubtful accounts. The total amount booked for doubtful receivables in 2001 is R\$490 million.

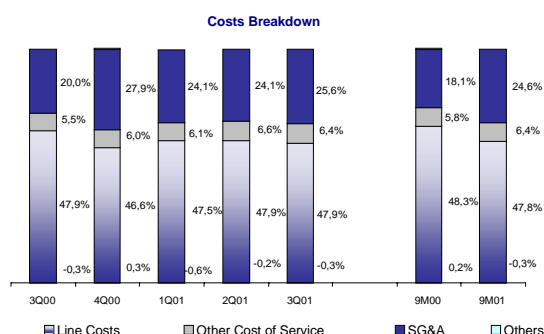


Exhibit 13
Ebitda
R\$ million

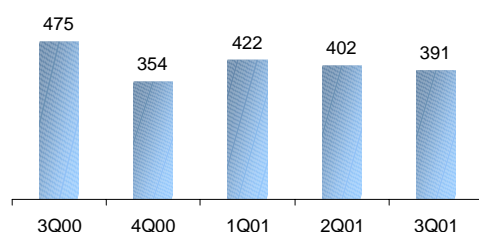
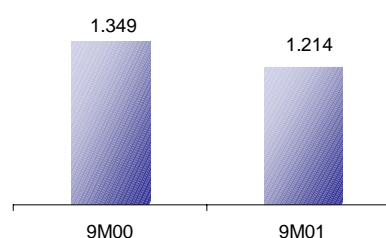


Exhibit 14
Ebitda
R\$ million



NET INCOME

	3Q01	3Q00	2Q01	% Var Y-o-Y	% Var Q-o-Q	9M01	9M00	% Var Y-o-Y
Net Income/(Loss) (R\$ million)	(194.835)	145.067	(38.829)	-234.3%	-401.8%	(267.411)	418.537	-163.9%
Shares Outstanding (million shares)	332,932	332,919	332,932			332,932	332,919	
Earnings per 1000 shares (R\$)	(0.59)	0.44	(0.12)			(0.80)	1.26	

The net loss for the third quarter of 2001 was R\$195 million. The loss was created by the effect of the devaluation of the Real vis-a-vis the US dollar (15.9 percent in the quarter) on the Company's foreign currency debt (see Financial Position below).

Embratel chose not to implement the Provisional Measure 03/2001, which would have allowed deferral of the unusual foreign exchange losses incurred in 2001. The decision was made to apply a consistent treatment under both Brazilian and US accounting rules and adopt a conservative approach.

On an accumulated basis, the net loss reached R\$267 million in the nine months of 2001 compared to a net income of R\$419 million in the nine months of 2000. The foreign exchange and monetary variation losses, net of the offsetting hedge income, totaled R\$597 million.

FINANCIAL POSITION

Embratel Participações ended the quarter with a cash position of R\$551 million. Total debt outstanding as of September 30, 2001 was R\$3.8 billion (net debt of R\$3.3 billion). R\$1.2 billion corresponded to short term debt and current portion of long term debt. New debt, net of repayments obtained in the quarter, was R\$341 million.

ACCOUNTS RECEIVABLES

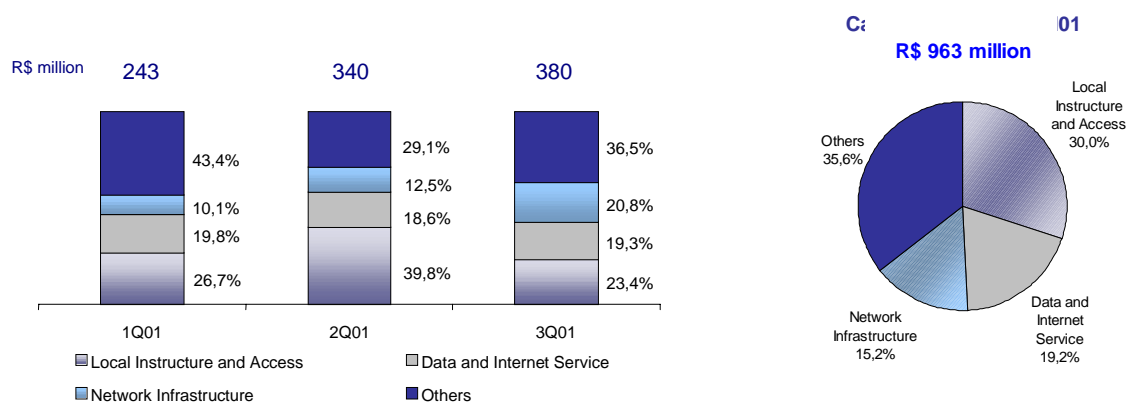
The Company's net receivable position on September 30, 2001 was R\$2.6 billion, representing R\$44 million increase from the second quarter of 2001. Gross receivables were R\$3.6 billion in the third quarter of 2001 compared to R\$3.4 billion in the second quarter of 2001. Provision for doubtful accounts balance was R\$975 million at the end of the third quarter of 2001.

The Company continues to increase the number of blocked lines - totaling over 500,000 at the end of September - and to send client names to the credit scoring agencies.

Embratel is concerned that general economic conditions may cause further deterioration in consumer credit quality. The Company continues to monitor the situation closely.

CAPITAL EXPENDITURES

During the third quarter, capital expenditures were R\$380 million. The breakdown of this expenditure is the following: local infrastructure and access - 23.5 percent; data and Internet services - 19.3 percent; network infrastructure - 20.8 percent and others - 36.5 percent. Cumulative capital expenditure has been R\$963 million in 2001. The Company is monitoring capital expenditures closely to maintain capital expenditures within the planned amount of R\$1.5 billion despite the devaluation of the currency.



STAR ONE LAUNCHES BROADBAND INTERNET SERVICES VIA SATELLITE

This quarter, Star One launched the commercial pilot of broadband Internet services via satellite. The service is directed to medium and small companies (up to 10 PCs) and the residential market located in areas untapped by broadband wireline and fiber. The service is a partnership between Embratel (broadband), UOL (Internet access) and Gilat (technology and equipment). In the initial phase, the service is being provided in a simple format with one Internet provider. In a second phase, the client will have the flexibility to choose any Internet provider.

Also this quarter, Star One finalized the agreement with Alcatel to acquire its first KU band satellite. This satellite, to be completed in 2004, will enable Star One to meet demand for broadband services, mainly Internet, as the above mentioned service. The satellite will have 44 transponders and will be launched in the 67°W orbital position covering the Andian countries, Mercosur, Brazil and the US.

Embratel is the premier communications provider in Brazil, offering a wide array of advanced communications services over its own state-of-the-art network. It is the leading provider of data and Internet services in the country. Service offerings include: advanced voice, high-speed data communication services, Internet, satellite data communications and corporate networks. Embratel is uniquely positioned to be the all-distance telecommunications network of South America. The Company's network has countrywide coverage with 28,868 km of fiber cables comprising 1,068,657 km of optic fibers.

* * * * *

STATEMENTS OF INCOME OF SUBSIDIARIES/AFFILIATES

EMPRESA BRASILEIRA DE TELECOMUNICAÇÕES S.A. - EMBRATEL

STATEMENTS OF INCOME

CONSOLIDATED WITH EMBRATEL'S SUBSIDIARIES

FOR THE NINE-MONTH PERIODS ENDED SEPTEMBER 30, 2001 AND SEPTEMBER 30, 2000

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

(Translation of the report originally issued in Portuguese.
See Note 24 to the financial statements.)

	<u>September 30</u>	
	<u>2001</u>	<u>2000</u>
GROSS OPERATING REVENUE:		
Telecommunications services	7,601,923	6,483,625
Gross revenue deductions	(1,986,847)	(1,610,707)
	-----	-----
Net operating revenue	5,615,076	4,872,918
Cost of services	(3,721,044)	(3,224,301)
	-----	-----
Gross profit	1,894,032	1,648,617
	-----	-----
OPERATING REVENUES (EXPENSES)	(1,455,713)	(926,740)
	-----	-----
Commercialization of services	(797,307)	(534,459)
General and administrative	(677,663)	(385,014)
Other operating revenue (expenses)	19,257	(7,267)
	-----	-----
OPERATING INCOME BEFORE INTEREST	438,319	721,877
Interest expense	(746,853)	(52,448)
	-----	-----
OPERATING INCOME	(308,534)	669,429
Nonoperating income (expense)	(14,664)	(4,842)
	-----	-----
NET INCOME (LOSS) BEFORE TAXES AND PARTICIPATIONS	(323,198)	664,587
Income tax and social contribution on profits	93,386	(208,449)
Employees' profit share	(27,740)	(28,130)
Minority interest	(7,657)	-
	-----	-----
NET INCOME (LOSS) FOR THE YEAR	(265,209)	428,008
	=====	=====
QUANTITY OF OUTSTANDING SHARES (IN THOUSANDS)	4,723,844	4,723,844
	=====	=====
NET EARNINGS (LOSS) PER THOUSAND SHARES	(56.14)	90.61
	=====	=====

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