

Project Abstract

Project Name:	Telemar Bond Guarantee
Project Number:	BR-0402
Country:	Brazil
Issuer:	Telemar Norte Leste S.A.
Eligible Project Cost:	Approximately US\$270 million
IDB Partial Credit Guarantee:	Up to 25 % of the eligible cost
Status:	Due Diligence
Date:	May 19, 2004 (original information posted on October 16, 2003)

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The Company

Tele Norte Leste Participações S.A. (“Tele Norte Leste” or “TNL”) is one of the resulting companies of the restructuring and privatization of Telebrás in July 1998. TNL was allocated all the share capital held by Telebrás in the sixteen operating subsidiaries that provided fixed-line telecommunications service in the sixteen states covered by Region I (Maranhão, Piauí, Ceará, Rio Grande do Norte, Paraíba, Pernambuco, Alagoas, Sergipe, Bahia, Roraima, Amapá, Amazonas, Pará, Rio de Janeiro, Minas Gerais and Espírito Santo). Region I covers approximately 64% of the country, has a population of 93 million and produces approximately 40% of the country’s GDP.

TNL is a holding company that has the control (direct or indirect) of three operating subsidiaries that carries its main businesses in three segments: *Telemar Norte Leste S.A.* (“Telemar”) is the fixed line operator, *TNL PCS S.A.* (“Oi”) is the mobile service operator, and TNL Contax S.A. (“Contax”) is the call center service company that manages the relationship between business and their clients.

Transaction Summary

The operation involves the IDB (the “Bank”) providing Telemar with a Partial Credit Guarantee (“PCG”) for a domestic corporate bond denominated in Reais (“R\$”). The objective of the PCG would be to maximize the tenor of the transaction being considered by providing a credit enhancement to attract institutional investors. IDB’s guarantee is expected to cover up to 25 percent of the eligible project cost (of approximately US\$270

million) and is going to be applied to a approximately US\$170 million bond to partially finance the overall 2002-2004 investment program (“Capex”).

Proceeds of the issue will be used to support its fixed line activities undertaken by TNL’s subsidiary, Telemar. The expenditure will allow Telemar to expand its activities and modernize its equipment to improve service and efficiency. More specifically, the eligible Capex to be financed with proceeds of the bond to be guaranteed by the Bank is a sub-set of the Company’s overall Capex. The areas involved will be mainly urban and suburban in nature and located in the State of Rio de Janeiro.

Project Benefits

Telecommunications is an important factor toward development. The investment program aims at expanding the network and improving the quality of telecommunication services rendered, thereby augmenting the area and number of persons benefited by higher quality services. The Project under consideration consists of a series or sub-set of inter-locking initiatives at the corporate level in order to assist Telemar to stay competitive in a liberalized market in face of increasing competition.

IDB Participation

The Bank’s additionality in this project will be related to the impact on the capital market development and also to facilitate development in the telecom sector. For the capital market this will be realized through the catalytic impact of the transaction on other capital market activities, and evident in the increased number of issuers from varying sectors, who would subsequently gain access to local funding. The Bank’s additionality will also pertain to fostering development in the telecom sector and thus increase the quality and level of access to telecom services for residential and commercial interests. This in turn would have specific benefits including: contributing to economic development, increasing social cohesion, and increasing competitiveness of local industries.

Environmental and Social Impact

Potential Impacts and Risks

Preliminary analysis indicates that Telemar’s 2002-2004 capital expenditure program is expected to have minimal negative environmental, social, health and safety or labor impacts and/or risks since it relates to the expansion and mostly upgrades of the existing fixed telephone network. Main activities will refer to expansion of number of lines in the concession area (installation of cables, construction of cable galleries and tubes, relocation of terminals and other equipment, etc.), digitalization of networks, introduction of new services, information systems and other improvements. The areas involved will be mainly urban and suburban in nature and located in the State of Rio de Janeiro.

None of the planned works are legally required to undergo thorough environmental licensing procedures (EIA or equivalent), though possibly some specific sites may be subject to review and/or authorization by environmental entities (e.g., in cases involving impact on vegetation, historical sites, sensitive land-use, etc.). Land acquisition required

by the project will be very limited. In general, the construction services are subcontracted. In the case of urban systems, contractors need to comply with municipal regulations, which are, in general, rigorous.

Most of the impacts associated with the construction phase will be temporary and present low to moderate magnitude. Nuisance such as noise, dust and other emissions from preparatory and excavation works, as well as from operation and movement of construction related vehicles and other machinery will be generated locally during the limited installation and construction activities. Interferences with existing urban infrastructures (e.g., sidewalks, roads, water distribution, sewer collectors, electric grid, etc.) may occur in some situations. The potential health and safety risks to workers are those typical of construction activities. In general, these works occur on a limited scale, are temporary and associated impacts can be mitigated with standard construction environmental management procedures.

No major negative impacts are envisioned in relation to the operation of the components to be installed or constructed in association with the investment program. However, some of the existing facilities in the areas involved may present environmental liabilities that need to be assessed (e.g., used batteries handling and storage, concerns regarding electromagnetic radiation in urban areas, fire risks in Company office buildings and warehouses, etc.). In addition, evaluation of possible existing environmental, social, and health and safety liabilities at corporate level may be required to assess associated risks.

Environmental and Social Strategy

The Bank, as part of the due diligence process, will analyze the environmental and social aspects of the investment plan, as well as of the Company, and prepare an Environmental and Social Management Report (ESMR) containing a background information about the project and a Plan to avoid, mitigate, compensate and monitor the key negative social/environmental impacts of the project.

The due diligence activities will specifically, in connection with the Project, evaluate the following:

Regulatory Requirements

Assessment of investment plan and Company compliance status with applicable Brazilian (national, state and municipal) environmental, social, and health and safety regulatory requirements (e.g. laws, regulations, standards, permits, authorizations, applicable international treaties and conventions, etc.), project specific legal requirements (e.g. concession contract, etc.), and Bank policies.

Impacts and Control Measures Associated with Investment Program

Evaluation of the proposed activities of the investment program and the concession to confirm that the project's direct and indirect environmental, social, and health and safety impacts and risks will be properly mitigated.

Company Environmental, Social, Health and Safety Aspects

Evaluation of Telemar 's (a) environmental and social, and health and safety management systems, including plans and procedures, responsibilities and resources, training, auditing, and reporting, and in particular all the system components necessary to ensure future projects and works, which will be implemented, will not generate significant negative impacts; (b) Company assets and activities in terms of potential environmental liabilities or risks; and (c) as applicable, action plan to correct or mitigate the environmental, social, or health and safety non-compliances, liabilities, or management system gap.