

PROJECT ABSTRACT
BRAZIL
EMBRATEL TELECOMMUNICATIONS CORPORATE LOAN
(BR-L1029)

Project description

Empresa Brasileira de Telecomunicações S/A (Embratel, the “Borrower” or the “Company”) is a Brazilian telecommunications provider and the main operating company held by Embratel Participações S/A (Embrapar), which in turn is controlled by Teléfonos de México S.A. (Telmex).

As the incumbent long distance carrier derived from the 1998 telecommunications privatization process, Embratel is the leading Brazilian long-distance service provider but has also been developing other business lines since the opening of the market to competition in 2002.

Today, the group’s portfolio includes local and long distance telephony, Internet and corporate data services, satellite communications, and cable television. The group’s strategy of diversifying its services has been triggered by increasing competition and is in line with the industry trend of convergence. Long distance revenues, in which Embratel was originally very concentrated, have been reduced to less than 60% of Embratel’s total sales as a reflection of this strategy.

The IDB will provide an A/B loan of up to approximately US\$300 million, including an A loan of up to US\$80 million, in order to finance the Company’s 2006-2007 capital expenditure program. The Company’s capital expenditure program includes in particular (i) investments for the installation of the 900 km fiber optic cable from Porto Velho to Manaus, which will free satellite capacity to serve more remote areas of the Amazon region, where Embratel is in effect the sole operator; and, (ii) last mile access/local telephony investments to diversify its business and compete against incumbent companies.

Embratel’s investment program, in line with its business strategy of diversification and competition, will help develop telecom-related infrastructure and services and also support the development of a competitive market in the local service segment against local service incumbents.