

ENVIRONMENTAL AND SOCIAL STRATEGY
EMBRATEL
January 2007

I. PROJECT DESCRIPTION

A. Project investments

- 1.1 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).
- 1.2 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.
- 1.3 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.
- 1.4 The IDB will provide an A/B loan of approximately US\$300 million, which includes an US\$80 million A loan from the Bank, 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.
- 1.5 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.

B. Project rationale

- 1.6 Embratel’s investment program will facilitate the expansion and modernization of its network, allowing the Company to: (i) improve its network through transmission investments focused on expanding Embratel’s backbone transmission capacity; and (ii) develop and strengthen competition in local

services as one of the main players emerging out of the ongoing consolidation of the sector in that segment of services.

- 1.7 The network access investments for local services have the main purpose of increasing last mile access for Embratel's corporate clients (large, mid-sized and small companies and telecom companies), using one of the following access solutions: fiber optic, metallic and copper cables and radio transmission.¹ Equipment purchased related to these investments, such as routers, splitters, cable modems, etc, aims to provide the necessary communication capacity to connect clients.
- 1.8 The transmission investments program includes investments made in the following areas:
 - i. Backbone: designed and conceived to use all the available transmission technologies (fiber optic routes interconnecting state capitals and connecting certain cities such as Manaus and Porto Velho, previously only served by satellites) to ensure that the company has national coverage. In past years, the investment program focused on enabling the backbone to converge into new technologies and uses (using Internet Protocol, for instance). Equipment associated with these investments includes radios, converters, multiplexers, etc.
 - ii. Information technology: includes investments related to transmission that are getting more important to the Company since the future of telecommunications services is increasingly relying on its convergence and flexibility, ultimately provided by integrated software solutions.

II. ENVIRONMENTAL AND SOCIAL STRATEGY

- 2.1 Preliminary information indicates that the investment program of Embratel is expected to have minimal negative environmental and social impacts as approximately 98% of the total CAPEX relates to the expansion and upgrade of equipments (routers, switches, cable modems, network cards, computers, and PABX, among the principal), as part of two main components. The first and principal component comprises projects to build the "last mile" access to Embratel's clients, mostly upgrades of the existing networks, mainly in the urban areas. In each case, Embratel analyzes the client's service requirements in light of its existing network. Therefore, civil works are inexistent or minimal and require only standard construction permits, with no EIA or EAs required. The second component comprises expansion of transmission systems, also involving minimal civil works using the existing FURNAS and Eletronorte aerial transmission lines. The operational phase is not expected to have negative impacts, other than those that can be easily and effectively mitigated by appropriate standard management

¹ In a total of 3,500 km of aerial network throughout several regions of Brazil using the existent Furnas and Eletronorte transmission lines.

practices. Therefore, the Project Team proposes the Project be classified as Category C, per the IDB Environment and Safeguard Compliance Policy. In addition, the Project Team has not identified any additional potential key risks.²

- 2.2 During the environmental and social due diligence, the Bank will review the proposed CAPEX to confirm that even the minimal environmental, social and health and safety impacts will be properly mitigated. The Bank will also: (i) review Embratel's operations in terms of potential material liabilities; and (ii) assess Embratel's Environmental, Social and Health and Safety Management Systems, including the Company's capacity and commitments.

² A number of Embratel's operations are ISO 14001 certified since 1999, has been ranked in 2º in the Brazilian Environmental Benchmarking and implements a Social Responsibility Program.