

# Valuation Report pursuant to CVM Instruction Number 361\*

\*(Free English Translation of Portuguese Original)

**Embratel Participações S.A.**

Corporate Finance. May 1, 2006.

## Important Notice

- Banco ABN AMRO Real S.A. (“**ABN AMRO**”) was retained by TELÉFONOS DE MÉXICO S.A. DE C.V. (“**Offeror**”), the controlling shareholder of EMBRATEL PARTICIPAÇÕES S.A. (“**Embrapar**” or the “**Company**”), to render an economic-financial valuation (“**Valuation**”) of EMBRATEL within the context of a public tender offering for acquisition of shares for cancellation of Company’s registration as a public company, in accordance with art. 4 § 4 of Law 6.404/76, as amended, and of Instruction No. 361, dated March 5, 2002, of the Comissão de Valores Mobiliários – CVM (the “**Offering**”).
- The Valuation of the Company, subject to the disclaimers listed below, includes a valuation (i) of its direct and indirect subsidiaries, including Embratel S.A. (“**Embratel**”), Vesper São Paulo S.A. and Vesper S.A. (together, “**Vesper**”), Telmex do Brasil Ltda. (“**TDB**”), Star One S.A (“**Star One**”) and Primesys Soluções Empresariais S.A. (“**Primesys**”), hereinafter collectively referred to as “**Subsidiaries**”, and (ii) of its affiliated companies, GB Empreendimentos e Participações S.A. (“**GB Empreendimentos**”) and Net Serviços de Comunicação S.A. (“**Net**”), hereinafter collectively referred to as “**Affiliates**”.
- The Valuation is the intellectual property of ABN AMRO and was prepared by ABN AMRO exclusively in compliance with art. 4º § 4º of Law 6.404/76, as amended, and for no other purpose. The Valuation shall not be used by third parties nor for any other purpose and can not be disclosed to or utilized by third parties, nor distributed, reproduced or used for any other purpose without the previous and written consent from ABN AMRO, except for disclosure of the Valuation, in its entirety, by the Offeror for the purposes of the Offering and exclusively in order to comply with applicable legal and regulatory requirements including its full disclosure to the *Comissão de Valores Mobiliários - CVM* and to the U.S. *Securities and Exchange Commission - SEC* pursuant to applicable regulations. The Valuation was prepared exclusively in Portuguese, and in the case that it is translated to another language, the Portuguese version shall prevail for all purposes.
- ABN AMRO did not make and will not make any recommendation, nor will it express any explicit or implicit opinion with respect to the terms and conditions of the Offering.
- The Valuation is based on data from March 31, 2006.

## Important Notice (cont.)

6. The Company and its Subsidiaries were valued by discounted cash flow methodology, observing what is outlined in paragraph 7 below. To calculate the equity value of the Company, the following criteria were adopted: (i) using Financial Statements (as defined below) dated as of March 31, 2006, net debt, net contingencies, accrued liabilities, dividends and interest on accrued capital stock (“**Net Indebtedness**”) were subtracted from the financial-economic total value (enterprise value) of the Company and its Subsidiaries; (ii) GB Empreendimentos was valued based on the economic value of its participation in Net, and (iii) Net Indebtedness of GB Empreendimentos was discounted from its enterprise value.
7. For purposes of the Valuation of the Affiliates of the Company, ABN AMRO used the market value of Net calculated using the weighted average price of the preferred shares issued by Net on the *Bolsa de Valores de São Paulo – BOVESPA* during the period of 90 (ninety) days before April 29, 2006.
8. The Company, its Subsidiaries and Affiliates were valued as independent, “stand alone” operations, and the subsequent success or failure of the Offering was not considered in the results of the Valuation. ABN AMRO does not express any opinion about any effect on the Company that could potentially be generated from the consummation of the Offering.
9. The Valuation took the following financial statements provided by the Company: (i) annual fiscal year financial statements as of December 31, 2005 and quarterly financial statements as of March 31, 2006 of the Company, respectively, audited and revised by Ernst & Young Auditores Independentes S.S. (“**Ernst & Young**”); (ii) unaudited or revised, tentative fiscal year balance sheets as at December 31, 2005 and from the quarter ending as of March 31, 2006 of GB Empreendimentos; (iii) annual fiscal year financial statements as of December 31, 2005 and quarterly financial statements as of March 31, 2006 of Embratel, respectively audited and revised by Ernst & Young; and (iv) annual fiscal year financial statements as of December 31, 2005 and quarterly statements as of March 31, 2006 of Star One, respectively audited and revised by Ernst & Young (hereinafter collectively referred to as “**Financial Statements**”).

## Important Notice (cont.)

10. The Valuation was conducted by ABN AMRO based on information that was provided by the Offeror and/or by the Company or discussed with representatives from the Offeror and/or of the Company who were referred to ABN AMRO by the Offeror (“**Designated Representatives**”) as well as other available public information in addition to projections, estimates and analyses derived by ABN AMRO, based upon its expertise and experience. Estimates and projections that were provided to ABN AMRO or discussed with ABN AMRO, especially those whose occurrence depends upon future or uncertain events (including projections of earnings, expenses, investments, operating income or net income), were based on the opinion of the Designated Representatives with regard to these events.
11. ABN AMRO based its Valuation upon, among other things, the following information or documents that were provided to ABN AMRO up to April 28, 2006: (i) public information about the industry of the Subsidiaries and Affiliates of the Company; (ii) public information about the macroeconomic parameters where the Company, its Subsidiaries and Affiliates have a relevant presence; (iii) business plans from the Company’s Subsidiaries for the period from 2006 to 2015 that were developed and approved by their respective management; (iv) historical financial and operating information of the Company, its Subsidiaries and Affiliates; (v) value of Net Indebtedness of the Company and its Subsidiaries, and of GB Empreendimentos, and equity participation interests of the Company and its Subsidiaries and of GB Empreendimentos and (vi) discussions with the Designated Representatives regarding past performance of and expectations for the Company’s and its Subsidiaries’ future businesses.
12. In preparing the Valuation, ABN AMRO reviewed other studies and financial and market analyses and took into consideration other factors it deemed to be necessary, including the assessment of economic, monetary and market conditions.
13. In connection with the Valuation of Net, ABN AMRO requested Net’s business plan from the Offeror and was informed by the Offeror and by the Company that they did not have access to a management-approved business plan for Net that reflects its current and future financial, operational and commercial situation, and that they did not have either a budget for the year 2006, nor any other analyses, studies or projects after January 1, 2006. ABN AMRO did not have access to representatives from Net for discussion of their prospects for future performance, estimates and projections. For the purposes of the Valuation of Net, ABN AMRO exclusively used the methodology described in paragraph 7 above.

## Important Notice (cont.)

14. Financial Statements, public information, estimates, projections, business plans, budgets, discussions and all other information referred to in paragraphs 9 to 14 above and in this paragraph 13, such as public market information about volumes and trading prices of shares issued by Net are hereinafter collectively designated as “**Information**”.
15. The preparation of economic/financial valuations is a complex process that involves subjective judgment and is not susceptible to a partial analysis or brief description. ABN AMRO did not attribute specific importance to certain factors considered in the Valuation, but, on the contrary, undertook a qualitative analysis of the importance and relevance of all factors considered herein. As such, the Valuation must be analyzed as a whole, and the analysis of selected parts, summaries or specific aspects of the Valuation without knowledge and analysis of the Valuation in its entirety could result in an incomplete or incorrect understanding of the analysis undertaken by ABN AMRO and of the conclusions contained in the Valuation.
16. Information on the demographics, macroeconomic scenario, regulations, the telecommunications market in Brazil and the BOVESPA stock market mentioned in the Valuation were taken from, among others, recognized, reliable public sources (trade associations, government organizations and specialized publications) such as *Instituto Brasileiro de Geografia e Estatística – IBGE* (Brazilian Institute of Geography and Statistics), *Agência Nacional de Telecomunicações – ANATEL* (National Telecommunications Agency), *Banco Central do Brasil* (Central Bank of Brazil), *Comissão de Valores Mobiliários – CVM* (Securities and Exchange Commission), Bloomberg, Economática, Global Investment Return Yearbook 2006 (ABN AMRO and London Business School) and the ABN AMRO Economic Department.
17. Based on the assertions from the Designated Representatives, ABN AMRO made the following assumptions: that (i) the financial projections provided reflect the best estimates for the period in which they were provided as well as the best judgment of the management from the Company and its Subsidiaries with regard to expected future performance of the Company and its Subsidiaries and (ii) the estimates and projections that were provided to ABN AMRO or discussed among ABN AMRO and the Company, especially those whose occurrence depends upon future or uncertain events (including projected earnings, expenses, investments, operational profit or net profit) were based on the best judgment of the management of the Company and its Subsidiaries.

## Important Notice (cont.)

18. Estimates and projections contained in this Valuation are intrinsically subject to uncertainties and various events or factors that are beyond the control of the Offeror, Company, its Subsidiaries as well as ABN AMRO, especially those whose occurrence depends upon future or uncertain events. There is no guarantee that the estimates and projections used in the Valuation will be realized. Actual future results could significantly diverge from those suggested in the Valuation. As such, ABN AMRO does not assume any liability or obligation for indemnification in the case that future results differ from the estimates and projections presented in the Valuation and does not make any declaration or warranty regarding those estimates or projections. ABN AMRO does not assume any responsibility regarding the referred estimates and projections, nor regarding the form in which they were elaborated.
  
19. ABN AMRO assumes that the Information is true and complete, without any independent verification and, hence, does not assume any responsibility for the content, exactness, veracity, integrity, consistency, sufficiency or precision of such Information, including, without limitation, the statements related to projections or forecasts of the Company, of its Subsidiaries, the assumptions and estimates on which these statements and projections were based and of the information discussed with the Designated Representatives. ABN AMRO did not conduct (i) any appraisal of the assets and liabilities (contingent or not) of the Company, its Subsidiaries and Affiliates; (ii) any revision or audit of financial statements from the Company, its Subsidiaries and Affiliates and of Net Indebtedness; (iii) any technical audit of operations of the Company, its Subsidiaries and Affiliates; (iv) any valuation of the solvency of the Company, its Subsidiaries and Affiliates in accordance with any legislation regarding bankruptcy, insolvency or similar issues; or (v) any physical inspection of the properties, installations or assets of Company, its Subsidiaries and Affiliates.

## Important Notice (cont.)

20. ABN AMRO presumes and relies upon the exactness, veracity, integrity, consistency, sufficiency and precision of all Information used in the preparation of the Valuation. ABN AMRO was informed by the Offeror and by the Company that all Information provided to ABN AMRO or in some way made available to or discussed with ABN AMRO is correct; that all financial projections provided to ABN AMRO or in some way made available to or discussed with ABN AMRO were prepared in a reasonable manner and that they reflect the best estimates and valuations from the period in which they were made available; and that, from the time of delivery of the Information, documents and reports provided up to the delivery of the Valuation, to our knowledge there has not been any material alteration in the businesses, nor in the financial situation, assets, liabilities, business prospects, commercial transactions or in the number of stocks or options of the Company, its Subsidiaries and Affiliates, nor with respect to any other material factor that could alter the Information and financial projections either provided to ABN AMRO or in some way made available or discussed with ABN AMRO, or make them incorrect or imprecise in any material respect or that could have a material effect on the conclusions presented in the Valuation.
21. ABN AMRO does not make, nor will it make, expressly or implicitly, any representation, declaration or warranty with relation to the Information used for the preparation of the Valuation, nor does it assume any liability or obligation for indemnification related to the content, exactness, veracity, integrity, consistency, sufficiency and precision of such Information, each of which are the sole and exclusive responsibility of the Offeror and/or the Company. ABN AMRO did not provide any auditing, accounting or legal consulting services and the preparation of the Valuation by ABN AMRO does not include any service or opinions of such nature.
22. ABN AMRO does not take liability for any direct or indirect losses or decreased revenues that could occur as a result of the use of the Valuation.
23. ABN AMRO does not express through means of the Valuation any judgment regarding the distribution of economic value among the various types and/or classes of shares of the Company, or of its Subsidiaries or Affiliates.

## Important Notice (cont.)

24. The Valuation does not constitute a judgment, opinion or recommendation to the management of the Offeror and/or the Company, to the shareholders of the Offeror and/or the Company or to any third party with respect to the appropriateness or opportunity of the Offering or regarding the decision of making or accepting the Offering (including the decision of the Company shareholders in accepting or not accepting the Offering). In addition, the Valuation is not meant to be the basis for any decision of investment or disinvestment.
25. Except where another date is specifically indicated, the Valuation reflects the financial and accounting conditions of the Company, its Subsidiaries and Affiliates as of March 31, 2006 and is based on Information available up to April 28, 2006, such that any alteration in such conditions and Information after to such date could alter the results that have been presented herein. ABN AMRO is not obligated, at any time, to update, revise, correct or reaffirm any information contained in the Valuation nor to provide any additional information related to the Valuation.
26. Other valuations of companies and sectors prepared by ABN AMRO could treat market assumptions in a different way than was framed in this Valuation; the research departments and other departments of ABN AMRO and its affiliated companies may use other analyses, reports and publications, estimates, projections and different methodologies than those used in the Valuation, as well as such analyses, reports and publications may contain different conclusions from those set out in the Valuation.
27. ABN AMRO has provided, directly or through its affiliated companies, certain financial and investment banking services to the Company, its Subsidiaries and Affiliates, as well as to its controlling shareholders, for which it received remuneration, continues to provide these services and could, at any time, provide them again. ABN AMRO, directly or through its affiliated companies, is or could become a creditor of the Offeror and the Company, its Subsidiaries and Affiliates as well as of the controlling shareholder of the Offeror in certain financial operations.
28. In the normal course of its activities, ABN AMRO could, directly or through its affiliated companies, trade in securities of the Company and of the Offeror and of their respective controlling shareholders, subsidiaries and affiliates, on its own behalf or on behalf of its clients and, consequently, could, at any time, retain buying or selling positions with respect to such securities.

## Important Notice (cont.)

29. ABN AMRO declares that the Offeror, its controlling shareholder and its management did not direct, interfere, limit, render difficult nor undertake any action that compromised the access to, utilization or attainment of the information, goods, documents or working methodologies relevant to the quality of the conclusions presented herein, nor did they either determine or restrict the capacity of ABN AMRO to determine the methodology used to reach the conclusions presented in the Valuation or restrict the capacity of ABN AMRO to determine the conclusions presented in the Valuation.

São Paulo, May 1, 2006

BANCO ABN AMRO REAL S.A.

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Waldo Edwin Perez Leskovar  
Executive Superintendent

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Joel Michael Roberto  
Executive Superintendent



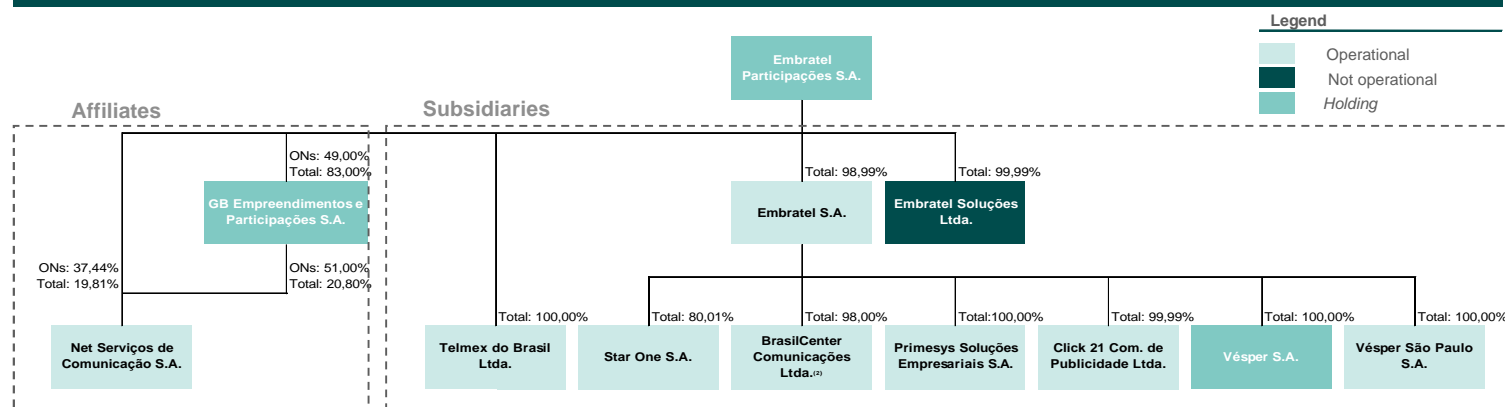
# Executive Summary

## Executive Summary

### Purpose of the study by ABN AMRO

- The Valuation is for the purpose of determining the financial-economic value of Embrapar in the context of the Offering
- Pursuant to instruction CVM No. 361 of March 2002, ABN AMRO conducted an analysis employing the following methodologies:
  - Economic value, based on an analysis of Discounted Cash Flow (“DCF”)
  - Weighted average share price per volume traded during the last twelve months
  - Shareholders’ equity per share value of the shares
- To determine the fair price of the Embrapar shares, ABN AMRO employed a methodology of economic value based on
  - the DCF in relation to the Subsidiaries, based on business plans of the operating companies
  - The weighted average price per volume traded of preferred shares of Net in the last 90 days and the net debt of GB Empreendimentos

### Current simplified corporate structure <sup>(1)</sup>



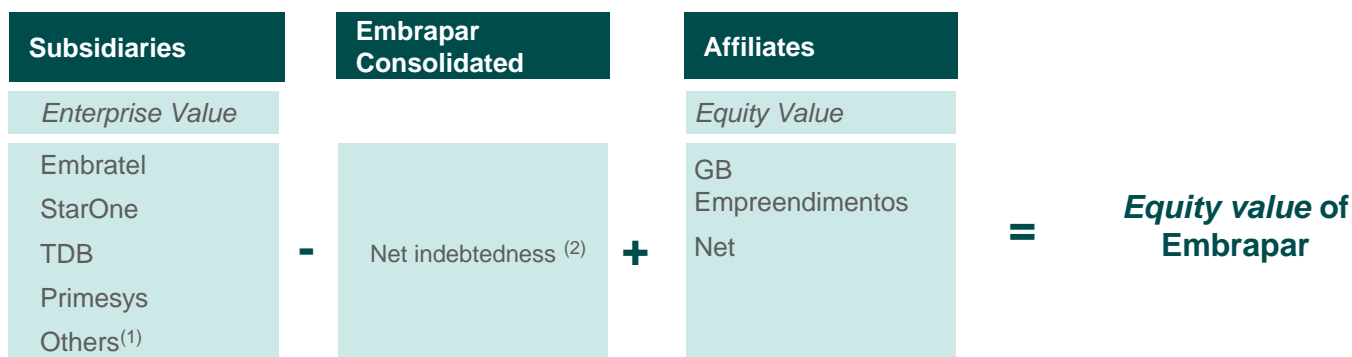
Notes: (1) only includes Brazilian companies and does not consider non-operating companies being dissolved, with the exception of Embratel Soluções Ltda., which is also in the process of being dissolved; (2) Embratel Participações S.A. has a direct share of 2.00% in BrasilCenter Comunicações Ltda. (“BrasilCenter”)  
Source: Embrapar

## Executive Summary (cont.)

### Summary of the Valuation methodology

The calculation for determining the *Equity Value* of Embrapar is summarized as follows:

- Subsidiaries
  - Economic value of the assets determined based on the DCF methodology for the operating companies. A value of zero was assigned to the non-operating companies (holding companies)
  - The consolidated Net Indebtedness of the Company was deducted from the value calculated above
- Affiliates
  - Net: *Equity Value* determined based on the market value of preferred shares in the last 90 days (details on page 32)
  - GB Empreendimentos: *Equity Value* calculated based on the economic value of its participation in Net (*Equity Value* calculated based on its market value) deducted from its Net Indebtedness
- Share participations of the Company and Affiliates used in the Valuation refer to the stock ownership as of March 31, 2006



Note: (1) includes BrasilCenter, Vésper, Click 21; (2) consolidates the Net Indebtedness of all the Subsidiaries

## Executive Summary (cont.)

### Result of Embrapar Valuation

#### Analysis of the economic value of the Subsidiaries based on the DCF

##### Enterprise value, excluding Net (R\$ million)

		WACC <sup>(1)</sup>		
Perpetuity growth rate <sup>(1)</sup>	Star One	10.94%	11.19%	11.44%
	Embrapar	11.70%	11.95%	12.20%
3.42%	0.35%	7,477	7,336	<b>7,200</b>
3.67%	0.61%	7,536	7,390	7,251
3.93%	0.86%	<b>7,598</b>	7,448	7,305

##### Equity value, excluding Net (R\$ million)

		WACC <sup>(1)</sup>		
Perpetuity growth rate <sup>(1)</sup>	Star One	10.94%	11.19%	11.44%
	Embrapar	11.70%	11.95%	12.20%
3.42%	0.35%	5,280	5,138	<b>5,002</b>
3.67%	0.61%	5,338	5,193	5,053
3.93%	0.86%	<b>5,400</b>	5,250	5,107

#### Analysis of the economic value of the Affiliates based on the market value

*Value in millions of Reais (except where indicated otherwise)*

Price of Net shares considered for the Valuation (R\$ per share) (2)	A	1.136
Total number of Net shares (million) (3)	B	<u>3,955</u>
Equity value of Net	C=(A*B)	4,493
Number of direct and indirect Net shares held by Embrapar (million) (4)	D	<u>1,466</u>
Equity value of Net held by Embrapar	E=(C*D)	1,666
Net debt of GB Empreendimentos (5)	F	0.044
Embrapar stock participation in GB Empreendimentos (6)	G	<u>83.00%</u>
Net debt of GB Empreendimentos relative to its stock participation in Embrapar	H=(F*G)	0.036
<b>Total Value of Embrapar's Ownership Interest in Affiliates</b>	<b>I=(E+I)</b>	<b>1,666</b>

Notes: (1) Nominal dollars; (2) weighted average price per traded volume of preferred shares (PN) of Net for the 90 days prior to April 29, 2006 (3) total number of Net shares (excluding Treasury Shares) at March 31, 2006; (4) number of shares held directly or indirectly by Embrapar through GB Empreendimentos at March 31, 2006 (1,466,390,024 shares); (5) calculated based on the position of March 31, 2006; (6) participation of Embrapar in GB Empreendimentos on March 31, 2006

## Executive Summary (cont.)

### Result of Embrapar Valuation

#### Analysis of the total economic value of Embrapar

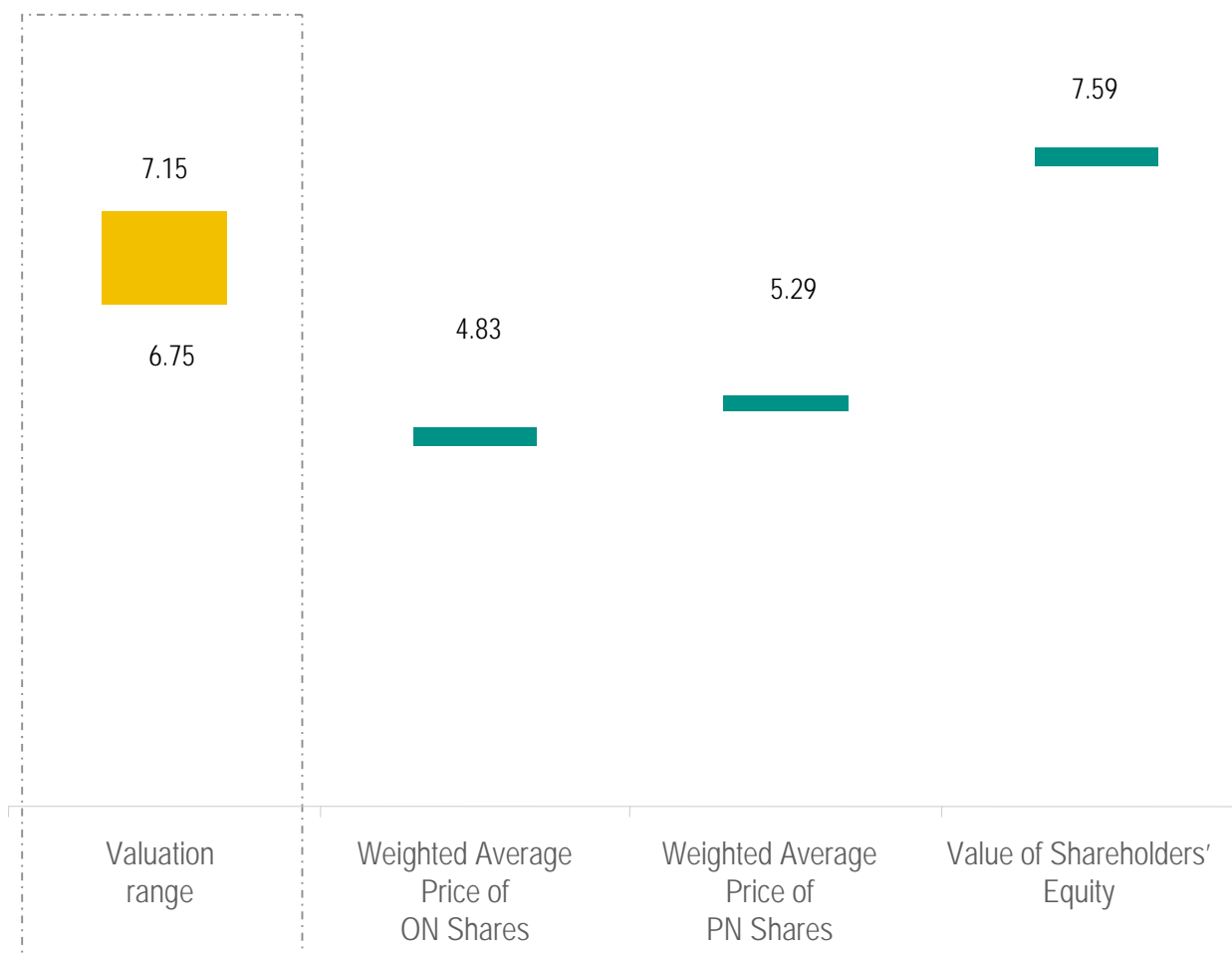
<i>Values in million of Reias (except where indicated otherwise)</i>		Mínimo	-	Máximo
Enterprise value of operating Controlled Companies <sup>(1)</sup>	A	7,200		7,598
Net debt of Embrapar Consolidated <sup>(2)</sup>	B	2,198		2,198
Equity value of Embrapar and its Controlled Companies	C=(A-B)	5,002		5,400
Net total Equity Value	D	4,493		4,493
Equity value of Net shares held by Embrapar (1,466 million shares) <sup>(3)</sup>	E	1,666		1,666
Total Equity Value	F=(C+E)	6,668		7,066
Number of Embrapar shares (million) <sup>(4)</sup>	G	987,726		987,726
Price per share (R\$ one thousand lot)	F/G	6.75	-	7.15

Notes: (1) it already considers the 80.01% share held by Embratel in Star One; (2) calculated in accordance with the definition of Net Indebtedness described in the Important Notice on page 3. The 80.01% of Net Indebtedness of Star One is being considered; (3) calculated based on the weighted average price per volume traded over the last 90 days of the PN shares multiplied by the number of Net shares as of March 31, 2006 (3,954,663,665 shares); (4) ABN AMRO considered the number of shares issued by the company and outstanding on March 31, 2006. As reported by the representatives of the Company, there were no changes in the number of shares issued by the Company and outstanding since March 31, 2006.

## Summary of Embrapar Valuations

### Value per share (R\$ per lot of one thousand shares )

The value of the shares of the Company determined by ABN AMRO is between R\$ 6.75 per lot of one thousand shares and R\$ 7.15 per lot of one thousand shares



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# Financial Advisor Information

## Representations of the Financial Advisor

- In compliance with the provisions of article 8<sup>o</sup> of Instruction No. 361, dated as of March 05, 2002 issued by the Securities Exchange Commission (Comissão de Valores Mobiliários - CVM) ABN AMRO renders the following representations:
- ABN AMRO does not own shares issued by the Company, either directly or through its controlling or controlled companies or persons associated therewith, in its own name or under its discretionary administration, except as stated below:
  - ABN AMRO FI AÇÕES IBOVESPA: 75,750,000 preferred Embrapar shares (position as of 04/28/2006)
  - SUDAMERIS FI AÇÕES INDEX: 76,000,000 preferred Embrapar shares (position as of 04/28/2006)
  - SUDAMERIS FI AÇÕES SUL ENERGY (position as of 04/28/2006)
- In compliance with the provisions of article 8, V, “b” of Instruction CVM No. 361, dated as of
- March 05, 2002, among the valuation criteria set forth in the Valuation, ABN AMRO considers the discounted cash flow methodology the most appropriate method for purposes of its valuation of the Company and its Subsidiaries, provided that the valuation of the Company’s minority interest (37,08%) in Net was based on historical market value according to the weighted average trading price of Net’s preferred shares on BOVESPA, in the period of 90 (ninety) days prior to April 29, 2006
- ABN AMRO has no conflict of interest with respect to the Offeror, the Company, their controlling stockholders and their , that would diminish the autonomy necessary for the performance of its functions with respect to the preparation of the Valuation

## Representations of the Financial Advisor (cont.)

- For the services relating to the Valuation, regardless of the outcome of the Offering, ABN AMRO will receive US\$ 500,000.00 (five hundred thousand dollars) from the Offeror. The Offeror has agreed to indemnify ABN AMRO and its affiliates for certain liabilities that may arise from the performance of the Valuation services, and has agreed to reimburse ABN AMRO for legal fees of its advisors incurred in the preparation of the Valuation
- This Valuation presents:
  - Information on Embrapar shares, including the stock composition, the accounting net worth value per share, and the average weighted price per traded volume of Company shares on BOVESPA over the last 12 months
  - Economic value of the shares based on the Discounted Cash Flow (DCF)
  - Information tables with the assumptions used in the DCF valuation

## Qualifications of ABN AMRO

- The ABN AMRO Corporate Finance department in Brazil is headquartered in São Paulo and has 14 duly certified professionals. The department also has the support of the Corporate Finance global department of the ABN AMRO Group, through sector teams in London, Amsterdam and Hong Kong, with approximately 350 professionals
- Recent experiences involving the valuation of publicly traded companies in Brazil include, among others, the valuation of TIM Celular S.A. (2006), TIM Participações S.A. (2006 and 2005), TIM Sul S.A. (2005), TIM Nordeste Telecomunicações S.A. (2005), Embratel Participações S.A. (2005), Tele Celular Sul Participações S.A. (2004), Tele Nordeste Celular Participações S.A. (2004), Telpa Celular S.A.(2004). Telasa Celular S.A. (2004), Telepisa Celular S.A. (2004), Telern Celular S.A. (2004), Telpa Celular S.A. (2004), Teleceara Celular S.A. (2004), Zivi S.A (2003), Eberle S.A.(2003), Biobrás S.A. (2002), Copene (2002), Copesul (2002) and Trikem (2002).
- The internal approval process of the Valuation independently issued by ABN AMRO includes a review by an internal committee, which includes professionals outside the Corporate Finance department of ABN AMRO

# 2

## Description of Embrapar and Net

## Embrapar: history of the industry

- In 1998, the Brazilian government dismantled the Telebras system and privatized the sector, which up to that time had been controlled by the government. Fixed telephony operations were divided in four regions: Region I (North/Northeast/part of Southeast), Region II (South/Center-West), Region III (State of São Paulo) and Region IV (all the national territory). In regions I through III, the right to explore fixed telephony services in local and long distance forms, intra-state and intra-region, was granted to a single company (Telemar in Region I, Brasil Telecom in Region II, Telefónica in Region III). Fixed telephony services in national and international long distance forms (Region IV) were also granted to a single company, Embratel
- Embrapar is the holding company created in 1998 to retain control of Embratel upon its privatization. Since 2002, Embratel is also authorized to operate a fixed telephony service in local form. Its subsidiary Star One is authorized to offer signal transmission services via satellite to the entire nation
- Immediately after privatization, ANATEL auctioned, for each of the four regions, additional licenses for fixed telephony services in intra-state and intra-region long distance forms, as well as national and international long distance services
- In 1999, the Brazilian government opened the market of inter-urban calls with the introduction of the compulsory selection of a long distance operator. Initially, operators of fixed telephony in the local and long distance intra-state and intra-region forms were not allowed to carry long distance calls among the three regions defined in the privatization process. In 2002, two of the three fixed telephony operators (Telefónica and Telemar) received from ANATEL the authorization to operate inter-regional and international long distance calls; the third one (Brasil Telecom) was authorized in 2004

Source: 20F 2004 Embrapar Report

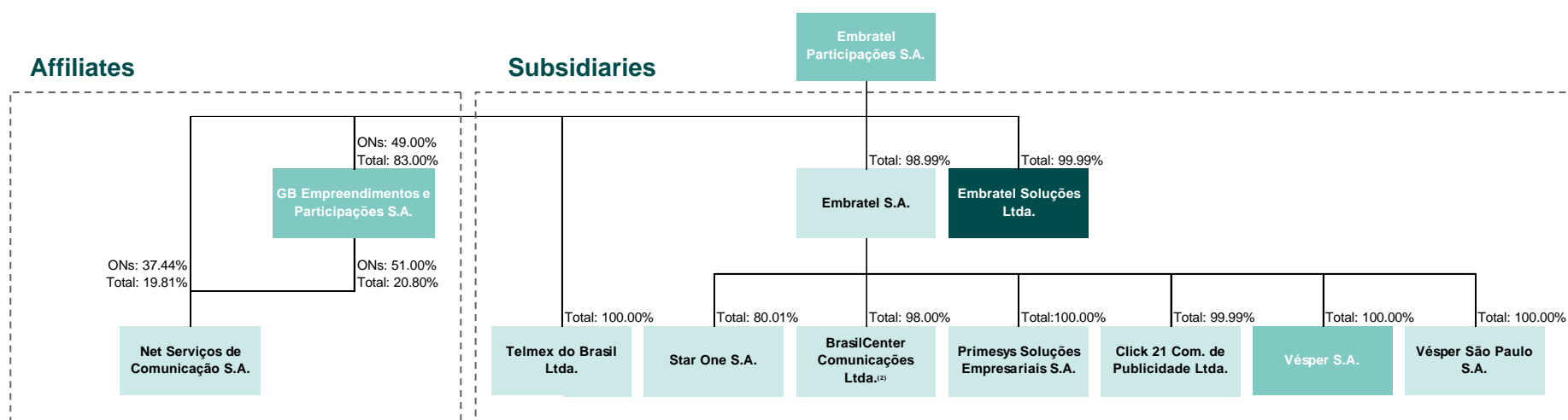
## Embrapar: competitive scenario

- Subsequently, providers of personal mobile service began to require their clients to select an operator for long distance calls originated from their mobile phones
- In the area of international long distance calls, Embratel faces competition from the so-called resellers of telephony services operating outside Brazil. Using different technology, these companies offer international calls services at significantly lower rates
- Currently, Embratel has other businesses beyond long distance calls, including data, local telephony (recently also through VoIP technology), communication via satellite and services of information technology, among others
- The increase in the number of players acting in the same segments where the Company operates meant an intensification of the competition in those markets
- The telecommunication industry is subject to rapid technological changes that may have an adverse impact on the operations of Embratel

Source: 20F 2004 Embrapar Report

## Embrapar: simplified corporate structure

- Embrapar simplified corporate structure <sup>(1)</sup>, according to information received by its Designated Representatives, is shown in the following diagram:



### Legend

Operational
Not operational
Holding

Notes: (1) only includes Brazilian companies and does not consider non-operating companies in the process of being dissolved, with the exception of Embratel Soluções Ltda., which is also in the process of being dissolved; (2) Embratel Participações S.A. has a direct share of 2.00% in BrasilCenter Comunicações Ltda.

Source: Embrapar

## Net: history of the industry

- In Brazil, Pay-TV services are provided through cable TV systems, MMDS and DTH via satellite, which are granted and regulated by ANATEL
- In accordance with Law No. 8,977/95 and Decree No. 2,206/97, cable TV operators must obtain a concession from ANATEL to be able to provide such services in Brazil. None of the concessions to provide cable TV services in a specific area are exclusive. Concessions are granted by ANATEL for a period of 15 years and they are subject to renewal for equal and successive periods. The license may only be granted to Brazilians who are citizens by birth or who have been naturalized for more than 10 years or to companies regularly incorporated under Brazilian laws. headquartered in Brazil and for whom 51% of whose voting capital stock is held by Brazilians who are citizens by birth or who have been naturalized for more than 10 years
- In 1999, ANATEL provided through Resolution No. 190, that subscription television providers may also offer audio and video signals through their cable networks, and that they may thereby offer high speed Internet access
- The Brazilian subscription television market witnessed profound growth beginning in the second half of the 90's, achieving by the end of 2005 the equivalent of 4,101 thousand subscribers

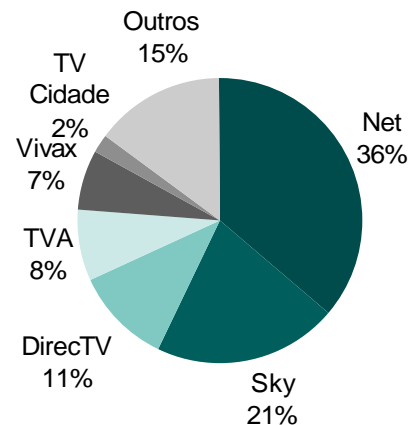
Source: Net annual report for 2005 and Brazilian Association of Television by Subscription (Associação Brasileira de Televisão por Assinatura - ABTA)

## Net: competitive scenario

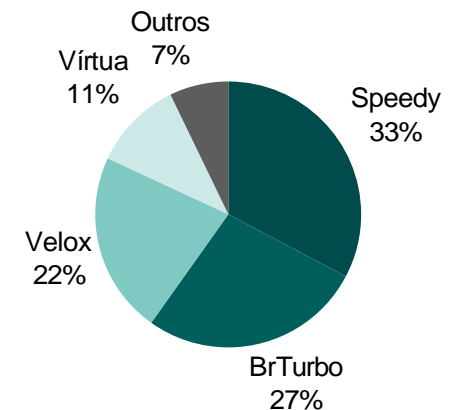
*As of March 31, Net had 1,599.5 thousand cable television subscribers and 451.6 thousand broadband subscribers*

- Net is the main provider of Pay-TV in Brazil. At December 31, 2005, Net subscribers represented 60% of the entire cable television structure in Brazil (6.7 million homes reached) and 36% of the total Pay-TV subscribers
- Starting in 2002, Net also increased its offerings of broadband services, reaching a market share of approximately 11% by the end of 2005
- Net operates in a select demographic region. As of the end of 2005 it was present in 44 cities which, according to IBGE data, represent in aggregate, more than 45% of the Brazilian GDP and comprise close to one-third of Class A and B households

Market share of Pay-TV operators (end of 2005)



Market share of broadband Internet providers (end of 2005)



# 3

## Financial-economic valuation of Embrapar

**3a**

# Methodology

## Methodological considerations

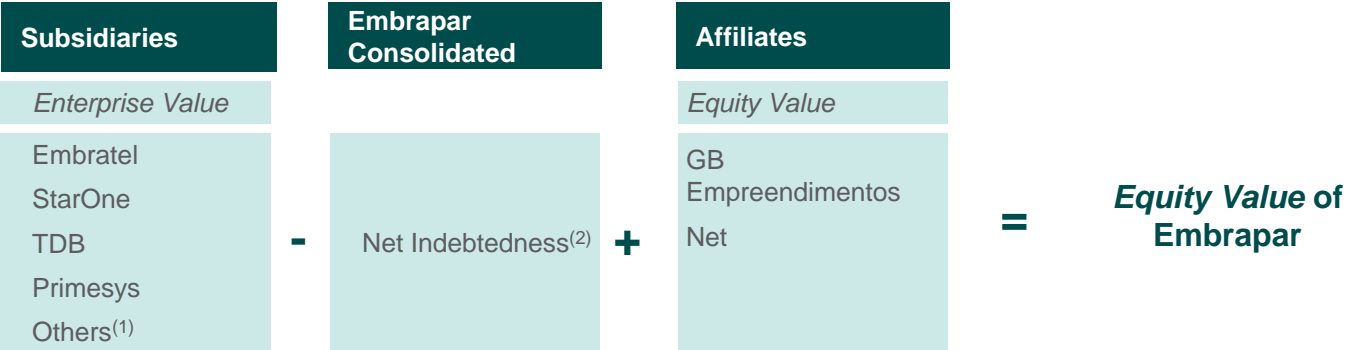
Methodology	Description
Discounted Cash Flow	<ul style="list-style-type: none"> <li>The value of the company is determined by the expectations of its future results, measured by its capacity for cash generation and the risk associated with that generation, discounted to present value by an appropriate discount rate</li> <li>This method captures the growth potential and future profit prospects, adequately reflecting the expected return in light of the country-risk and the risk intrinsic to this type of business; it is also appropriate for adequately capturing business opportunities and for adjustment for extraordinary events</li> </ul>
Average weighted price of the shares	<ul style="list-style-type: none"> <li>The weighted average quotation of a stock is the result of the daily financial volume trades in a specific period, divided by the number of shares trades in that same period</li> <li>This methodology is most applicable in cases where (i) necessary information (mainly long-term projections) to make a valuation based on the DCF method is not available and (ii) the shares have liquidity (presence in Ibovespa) and dispersion (<i>free float</i> higher than 50%)</li> </ul>
Value of the shareholders' equity per share	<ul style="list-style-type: none"> <li>The shareholders' equity per share value is determined by dividing the net worth of the company, at the date of the valuation, by its respective share base</li> <li>This methodology does not necessarily reflect the growth potential or possibilities of future profit, nor the intrinsic risk of the business</li> <li>It may also be distorted by the accounting policy adopted by the company</li> </ul>

# Methodological considerations

Summary of the valuation methodology

The calculation for determining the *Equity Value* of Embrapar is summarized as follows:

- Subsidiaries
  - economic value of the assets determined based on the DCF methodology for the operating Subsidiaries. A value of zero was assigned to the non-operating companies (holding companies)
  - The consolidated Net Indebtedness of the Company was deducted from the value calculated above
- Affiliates
  - Net: *Equity Value* determined based on the market value of preferred shares over the last 90 days (details on page 32)
  - GB Empreendimentos: *Equity Value* calculated based on its participation in Net (*Equity Value* calculated based on its market value) deducted from its Net Indebtedness
- Share participations of the Company and Affiliates used in the Valuation refer to the stock ownership as of March 31, 2006



Note: (1) includes BrasilCenter, Vésper, Click 21; (2) consolidates the Net Indebtedness of all the Subsidiaries

## Calculation Methodology of the value of Subsidiaries

### Subsidiaries

- ABN AMRO believes that the DCF methodology should be the most appropriate, should the information necessary for the preparation of a DCF be available, since DCF takes the operational cash flow of the enterprises into consideration discounted by the respective projected cost of capital. In that manner, the risk profile and the cash generation potential are projected in greater detail
- Cash flow projections were made in nominal Reais and converted to nominal Dollars in accordance with the average exchange rates expected for each year of the projected period in conformity with the table of macroeconomic projections indicated on page 44. The conversion of cash flow to nominal Dollars was made to adjust such flows to the WACC, which was expressed in nominal Dollars
- The net present value of the tax benefit related to the utilization of the tax losses and the negative Embratel C.S.L.L. base as of March 31, 2006 (VPL calculated on the basis on a WACC of 11.95%) was also added to the calculation of the Enterprise Value of the Subsidiaries
- After the net present value of the Subsidiaries was calculated in Dollars, the amount was converted into Reais at the P<sub>tax</sub> rate 800 of R\$/US\$ 2.17 on March 31, 2006
- The result of the valuation of the Subsidiaries is presented in an interval manner on the basis of the following variables:
  - WACC, in nominal Dollars, varying by 0.25 percentage points; and
  - Rate of growth in perpetuity, in nominal Dollars, varying by 0.255 percentage points; it is 0.61% in the base scenario for the Subsidiaries, except for Star One where it was 3.67%
- The base date utilized for this Valuation is March 31, 2006 and the projection horizon includes the period from 2006 to 2015

## Calculation Methodology of the Interval of Value of the Operational Subsidiaries (Net)

### Operational Subsidiaries (Net)

- For the valuation of Embrapar's holdings in Net, the utilization of Net's market value was chosen because:
  - ABN AMRO did not have access to the business plan of Net that reflects its financial, operational and commercial situation, present and future, and which was approved by its administration, or access to the budget for the year 2006 or other analyses, studies and projections as of January 1, 2006
  - ABN AMRO did not have access to Net representatives for discussions in regard to Net prospects, estimates and projections of future performance
  - The class of shares used to value Net presents broad liquidity (presence on the IBOVESPA) and dispersion (preferred shares have a *free float* greater than 50%)
  - CVM 361 instruction and Article 170 the Corporation Law provide the possibility of the adoption of such methodology
- The quotes of Net preferred shares were adopted as the market reference because:
  - They have greater liquidity than the common shares. Net PN shares form a part of the BOVESPA Index that groups the 30 most liquid securities on the Market, ON shares do not form a part of that index;
  - At the same time, they do not present any loss of value because of a *tag along* difference since Net, present at level 2 of the BOVESPA Differentiated Corporate Governing Practices, guarantees 100% of *tag along* for preferred shares
  - PN dispersion is greater than 50%
- Weighted average price by the daily traded volume of Net preferred shares were analyzed over periods of 1 year, 6 months and 3 months

## Discounted Cash Flow Method (DCF)

### Components of the Cash Flow

- The economic-financial valuations of the Embrapar Subsidiaries were based on the DCF methodology
- Non-leveraged operational cash flow utilized in the DCF valuation method was constituted in the following manner:
  - (+) Earnings Before Interest and Taxes (*EBIT*)
  - (-) Income Tax and Corporate Contribution based on *EBIT*
  - (+) Depreciation and Amortization
  - (-) Capital Expenditures (*investments in fixed assets*)

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- (+ -) Changes in Working Capital
- (=) Unleveraged Operating Free Cash Flow of the Business**

## Discounted Cash Flow Method (DCF)

### FCD Method

### Weighted Average Cost of Capital (WACC)

- The DCF valuation model calculates the value of a business by discounting future cash flows based on the *WACC (Weighted Average Cost of Capital)*. WACC is determined by the weighted average cost of debt and cost of equity within the optimal capital structure for the Company and is directly related to the risk associated with future cash flows
- WACC is determined by the weighted average cost of equity and debt of the Company. Such costs are weighted by the respective equity and debt proportions in the Company's capital structure, in accordance with the following formula:

$$WACC = \left( \frac{E}{D+E} \right) \times Re + \left( \frac{D}{D+E} \right) \times Rd$$

D : Value of the total debt of the business

E : Value of Shareholders' Equity

Re : Cost of Equity

Rd : Cost of Debt\* (1-T)

T : IR and CSLL

- Once the WACC was calculated in nominal Dollars and the financial projections were made in nominal Reais, the free non-leveraged cash flow of the business was converted into nominal Dollars

## Cost of the equity capital

### Cost of equity

- The following adjustments to the CAPM model (*Capital Asset Pricing Model*) are used to calculate the cost of equity of the Company:

$$Re = Rf + \beta (Rm - Rf) + Z$$

Re : Cost of equity of the Company

Rf : Risk-free rate of return on investment in the US

Rm - Rf : Average expected return on the stock market

$\beta$  : beta estimated for a business acting in the Subsidiaries' industry

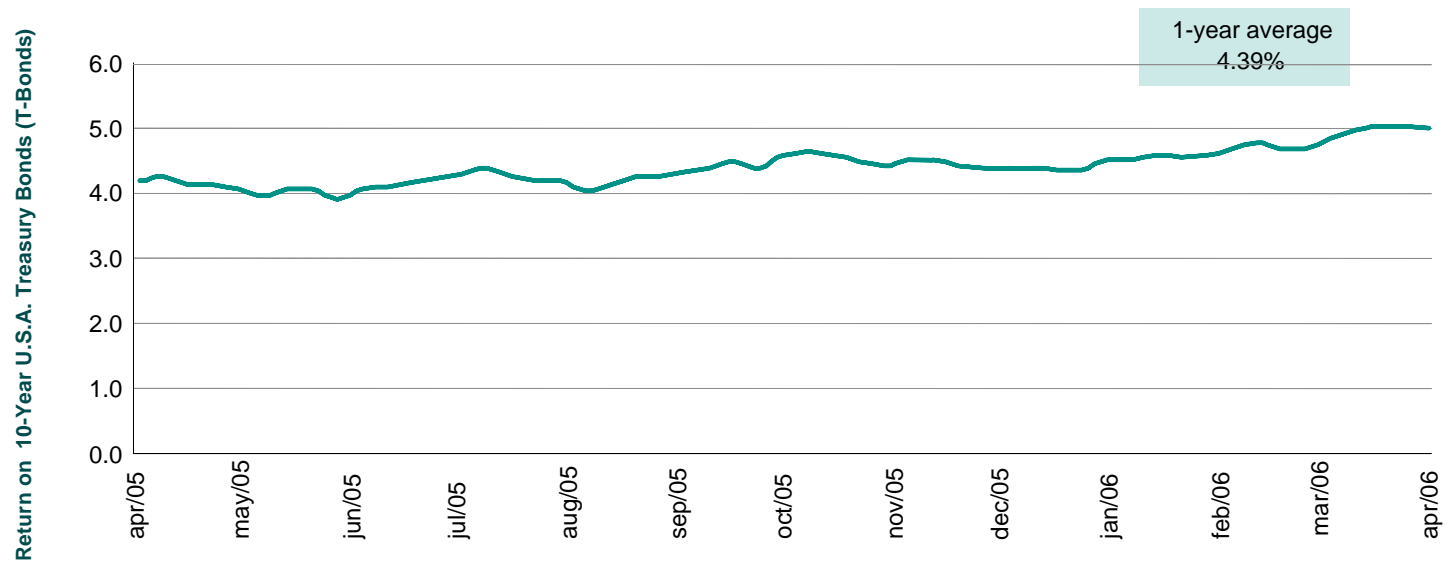
Z : Additional risk factor for businesses that operate in Brazil ("**Country Risk**")

- The methodology considered to calculate the cost of equity of the Company was based on data obtained from companies operating in the same segment in the USA and Europe, to which a country risk premium was added

## Risk-Free Rate

Risk-Free Rate

- We believe that the best estimate for the risk-free rate of return is the yield of the United States Treasury Bond. We considered the 10-year bond since it is the long-term bond with the closest duration to the Brazilian Global 27 bond, which will be used to estimate the country risk of Brazil
- The average yield over the last 12 months of the 10-year United States Treasury bond is 4.39% per annum

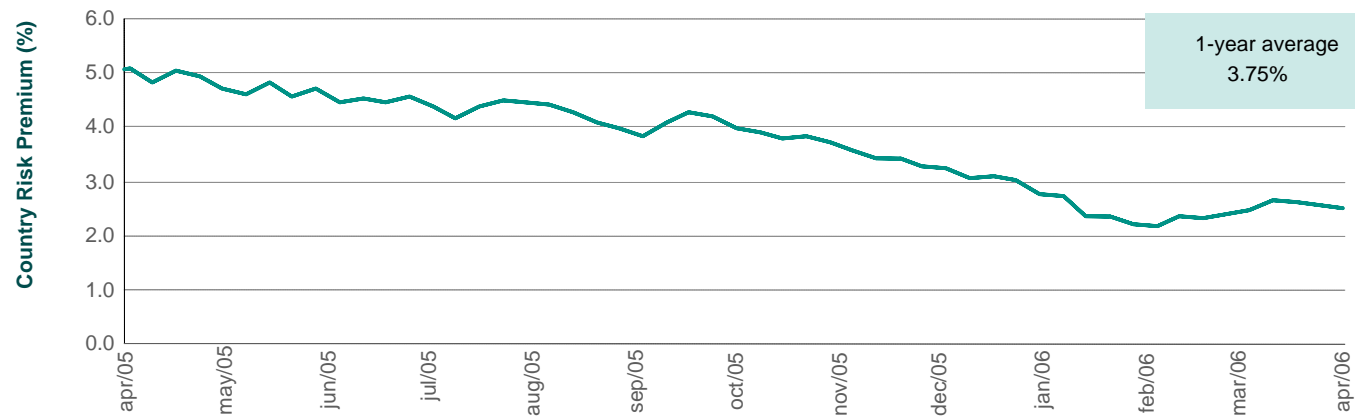


Note: average of the last 12 months prior to April 29, 2006  
Source: *Bloomberg*

## Country Risk

- We believe that the best estimate of Brazilian country risk is given by the difference (*spread*) between (i) the return on the Global 27 bond – the Brazilian sovereign long-term bond, denominated in U.S. Dollars and (ii) the return on the 10-year U.S. Treasury bond, since the two have a similar *duration*.
- The graph below shows the behavior of Brazilian country risk over the last twelve months. Given Brazil's macroeconomic stability and the country risk tendency observed, we consider that a historic series of spreads over a longer term has become less applicable and we therefore utilize the average *spread* for the last twelve months, calculated at 3.75% per annum.

### Country Risk Premium



Note: average of the last 12 months prior to April 29, 2006  
Source: *Bloomberg*

## Beta

### Beta

- Beta is a measurement of market risk / system risk / non-diversifiable risk. The beta coefficient attempts to indicate the sensitivity of the price of the stock to the variation in the price of the market portfolio, i.e., a stock that has a beta equal to 2 would tend to rise 2% when the market rises 1%
- That coefficient is calculated by means of a linear regression between a series of variations in the company's stock price and a series of variations in the price of the market portfolio
- In order to estimate the beta, we considered a sample of businesses operating in the Subsidiaries' industry. We therefore considered the average of the unleveraged betas of the businesses in the sample as a proxy for the Subsidiaries' betas
- In order to make those betas comparable, we took the beta of each business excluding the corresponding degree of indebtedness, which results in the unleveraged betas
- In order to take into account the risk derived from the Subsidiaries capital structure, we calculated the beta of the companies by means of the following formula:

$$\beta = \beta_{\text{unleveraged}} \cdot \left( 1 + (1 - T^{(1)}) \cdot \frac{\text{Debt}}{\text{Equity}} \right)$$

- The leveraged beta considered in the valuations of the Embrapar Subsidiaries were:
  - Embratel: 1.28
  - Star One: 1.02

Note: (1) marginal income tax and CSLL rate

## Market Risk Premium

### Market Risk Premium

- Market risk premium is the additional return required by investors to compensate for an element of greater uncertainty (risk) in investments in stocks *versus* investments considered risk free
- The estimate used for overall market risk is the long-term historic average (1900 to 2005) of the differences between the return on an index representing the global stock market denominated in Dollars and the return on an overall index of long-term sovereign bonds of credit risk-free countries
- ABN AMRO favors a longer period (since 1900) because that period reflects a more diverse set of economic environments such as wars, depressions and periods of expansion, that are not satisfactorily reflected in shorter periods
- ABN AMRO favors the historic focus rather than the focus on the future due to the fact that it does not believe that the market risk premium is predictable within a period of 3 to 4 years. Since the market risk premium is a random value, historic data represent a better estimate for the future. The value of the market risk premium utilized in the valuation of the Embrapar Subsidiaries is 5.10% (that value is the result of the “Global Investment Return Yearbook 2006” study carried out by ABN AMRO in conjunction with the London Business School)

## Cost of Debt and the Capital Structure

### Cost of the Debt (cost capital of third parties)

- The cost of debt is estimated based on the average long term cost observed in capital raising operations by enterprises with a credit profile similar to those of the Company's Subsidiaries. Thus the cost of future debt must represent the cost that the enterprise would pay should it issue long term bonds. That cost is directly connected to the enterprise's risk profile
- Since interest paid is deductible from income tax and the corporate contribution, we must reduce the cost of debt before taxes by the long term income tax and the corporate contribution rate in order to arrive at a post-tax cost of debt

### Capital Structure

- The weight assigned to equity in the calculation of the average weighted cost of capital must be based on the (estimated) market value of the equity and debt, since the cost of capital must reflect the remuneration required by investors in accordance with the business risk of the enterprise
- The target financial leverage (total debt / total capital) used in the valuations of the Embrapar Subsidiaries were:
  - Embratel: 32.41%
  - Star One: 21.93%

## Terminal value and perpetuity growth rate

### Terminal value and perpetuity growth rate

- The life of a business is theoretically infinite. Nevertheless, we are not able to project future cash flows in a precise manner beyond a certain period. Therefore, a part of the value of the business, known as the terminal value, will be generated by the cash flows of the years that follow the last year of the period of projection
- The calculation of the terminal value is adjusted to standardize the Star One Capex. Each year, until infinity, the free cash flow will grow in conformity with its growth rate, which is referred to as the perpetuity growth rate
- The financial projections were prepared in nominal Reais and then converted into nominal Dollars in accordance with the average exchange rates expected for each of the period projected, in accordance with the table of macroeconomic projections indicated on page 44. In that manner the perpetuity growth rate of free cash flows should, coherently, be a rate in nominal Dollars. The nominal rate of growth in perpetuity utilized by ABN AMRO is 0.61% in nominal Dollars for the Subsidiaries, except for Star One which was 3.67% in nominal Dollars

## Weighted Average Capital Cost (WACC)

WACC

### WACC

Cost of Capital for the Company (US\$)

Return on Ten-Year United States Treasury Bond (T-Bond)	4.39%
Stock Market Risk Premium	5.10%
Country Risk Premium	3.75%

### Embrapar (including Subsidiaries. but not Star One)

Non-leveraged Beta of the Sector	0.97	Cost of Debt after IR and CSLL (US\$)	6.32%
Income Tax	34.00%		
D/E	47.95%	Capital Structure:	
Leveraged Beta	1.28	% of equity	67.59%
		% of third party	32.41%
Cost of Equity Adjusted for Country Risk (US\$)	14.65%	<b>WACC (nominal US\$)</b>	<b>11.95%</b>

### Star One

Non-leveraged Beta of the Sector	0.86	Cost of Debt after IR and CSLL (US\$)	3.53%
Income Tax	34.00%		
D/E	28.08%	Capital Structure:	
Leveraged Beta	1.02	% of equity	78.07%
		% of third party	21.93%
Cost of Equity Adjusted for Country Risk (US\$)	13.33%	<b>WACC (nominal US\$)</b>	<b>11.19%</b>

**3b**

## **Embrapar Valuation (excluding participation in Net)**

## Macroeconomic Assumptions

### Principal Macroeconomic Assumptions

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Inflation (IPCA)	4.2%	4.0%	3.4%	3.3%	3.4%	3.6%	3.7%	3.7%	3.7%	3.7%
Inflation (IGPM)	3.5%	4.0%	3.9%	3.8%	5.9%	4.4%	4.1%	4.0%	4.0%	4.0%
Exchange Rate - end of period (R\$/US\$)	2.35	2.45	2.55	2.65	2.86	2.98	3.10	3.22	3.27	3.33
Average Exchange Rate during the period (R\$/US\$)	2.20	2.40	2.50	2.60	2.76	2.92	3.04	3.16	3.21	3.30
Selic Rate (average for the year)	15.2%	13.5%	13.0%	12.0%	10.9%	9.0%	9.0%	9.0%	9.0%	9.0%
Real GDP Growth	4.0%	4.0%	4.4%	4.6%	4.5%	4.5%	4.3%	4.1%	4.1%	4.1%

## Embrapar Subsidiaries: main operational assumptions

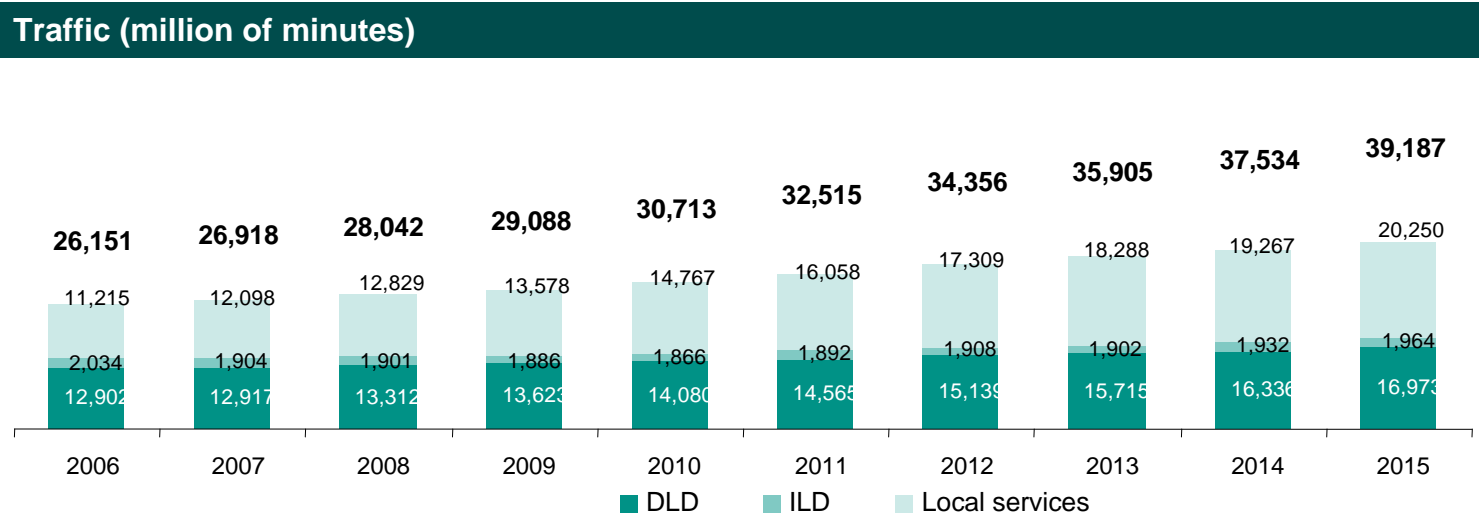
- The Valuation of Embrapar is based on: (i) public information about the sector in which the Company Subsidiaries are active; (ii) public information with regards to macroeconomic parameters where the Company and its Subsidiaries have a relevance; (iii) business plans of the Company Subsidiaries for the period from 2006 to 2015 prepared and approved by their respective managements; (iv) historical, financial and operational information about the Company and its Subsidiaries and (v) discussions with the Designated Representatives in relation to past performance and the expectations for the future of the Company and its Subsidiaries.

### Summary of the Operational Assumptions for the Valuation of Embrapar

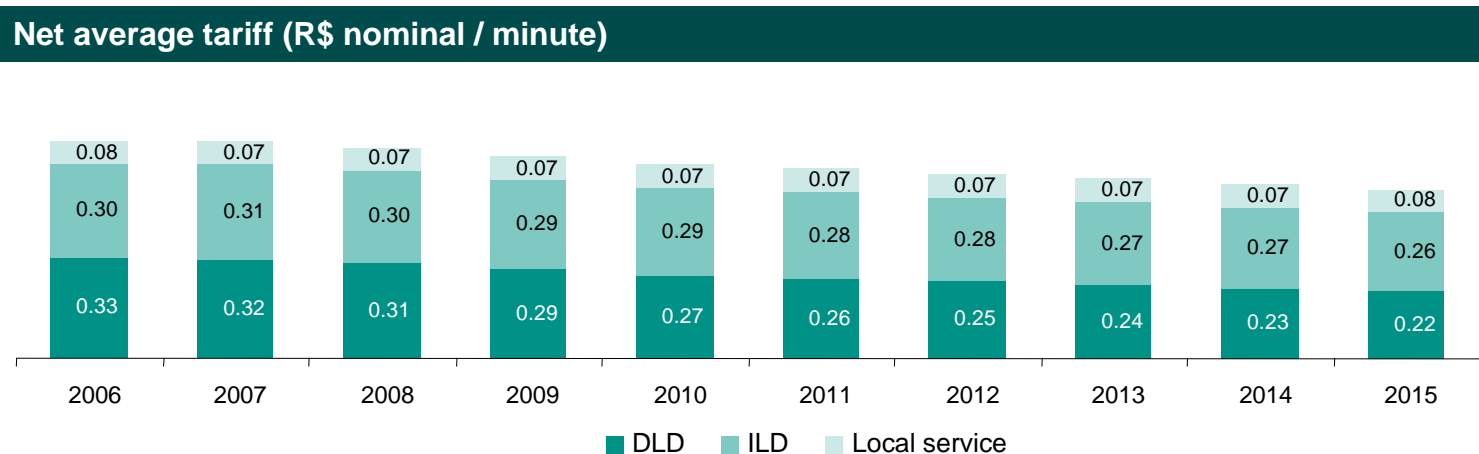
- Growth in national long distance traffic services in line with GDP, mainly coming from cellular connections, VIP phone and 0800 services and a decrease in international *long* distance traffic services as a result of the competition in relation to tariffs and a decrease in unit prices per minute is expected in long distance as a result of the stimulus of competition
- In general terms, the services of the Embrapar Subsidiaries in Data and Internet segments are growing in line with the market
- There is an expectation of the introduction of VoIP service beginning in 2006 with a strong growth on the basis of subscribers according to information furnished by the Designated Representatives
- Interconnection tariffs show a reduction in the years beginning in 2006 as a result of new regulatory developments
- Operational expenses are growing as a function of inflation and present no significant improvements in real terms
- Beginning in 2006 a biannual concession rate of 2% will be charged on revenues from long distance services
- Capex refers principally to the expansion of local services, maintenance of infrastructure for data transmission, internet services and VoIP services
- In relation to Primesys, growth is expected in its activities in line with the GDP and the maintenance of margins
- In relation to Star One, accelerated growth of revenue is predicted with respect to broadband Internet services and a greater area of coverage with the new Q-band satellites
- The costs of interconnection and of renting *transponders* is stabilizing in terms of percentages of net revenues
- Investments in new satellites to replace and maintain the present fleet were considered in the projection

## Embrapar: operational variables

*Growth in local and national long distance telephone traffic and modest drop in international long distance telephone traffic*



*Reduction in national and international long distance rates and increase in local telephone rates*

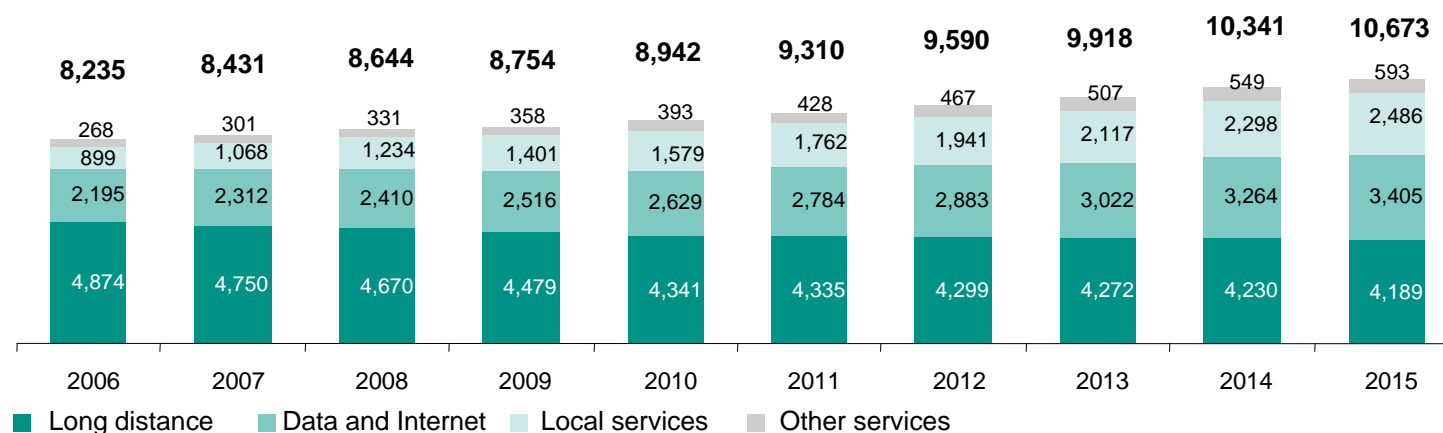


## Embrapar: Net Revenues

*Revenues for long distance telephone service represents the largest part of Embrapar revenues but their relative contribution decreases over the years.*

*Data transmission. Internet. local and other services grow over the years*

**Composition of Net Revenues (R\$ nominal millions)**

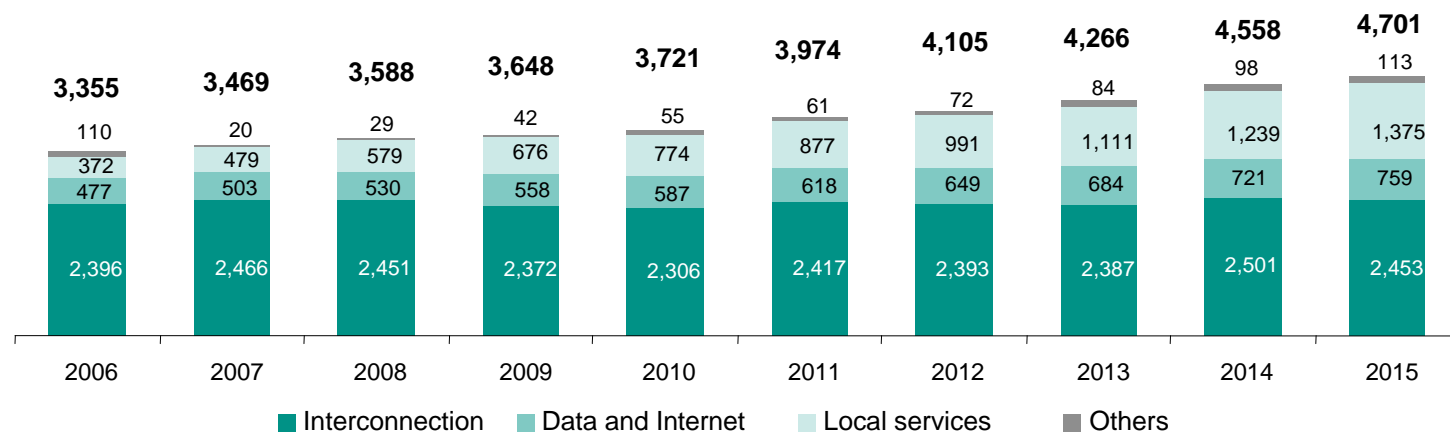


Note: Values of net revenues consider the integral consolidation of Star One revenues, with the elimination of intercompany operations

## Embrapar: Costs and Expenses

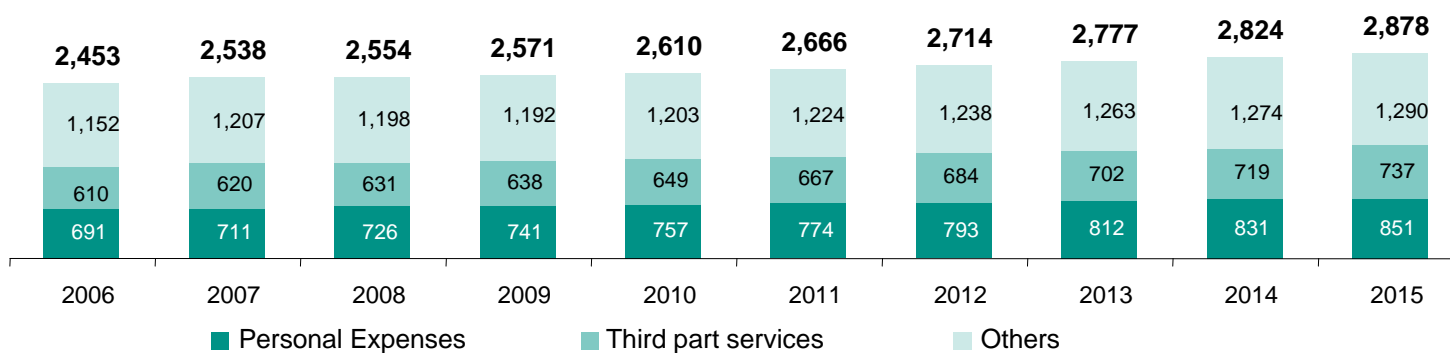
*Interconnection costs are the greatest portion of Embrapar costs*

### Composition of Costs (R\$ nominal millions)



*Personnel and third party expenses are the greatest portion of Embrapar expenses*

### Composition of Expenses (R\$ nominal millions)

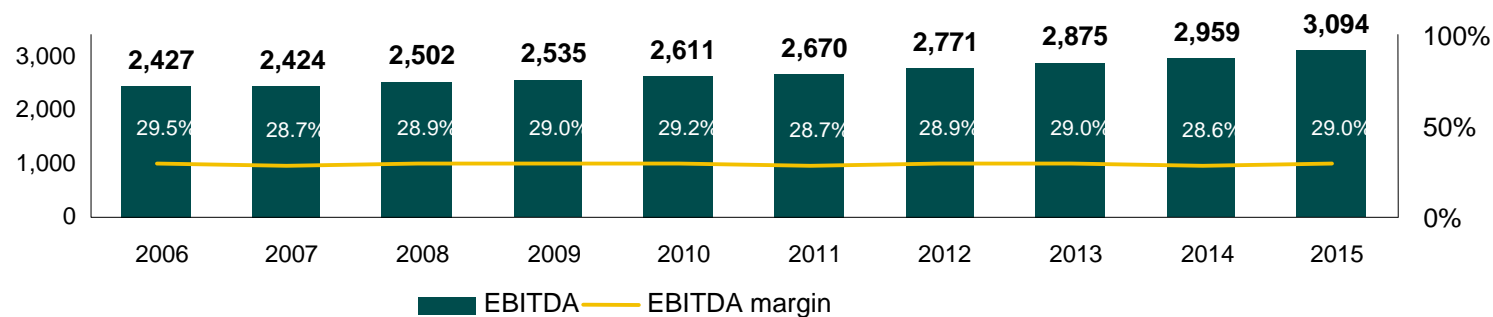


Note: Cost and expenses values consider the integral consolidation of Star One receipts, eliminating intercompany operations

## Embrapar: EBITDA and Capex

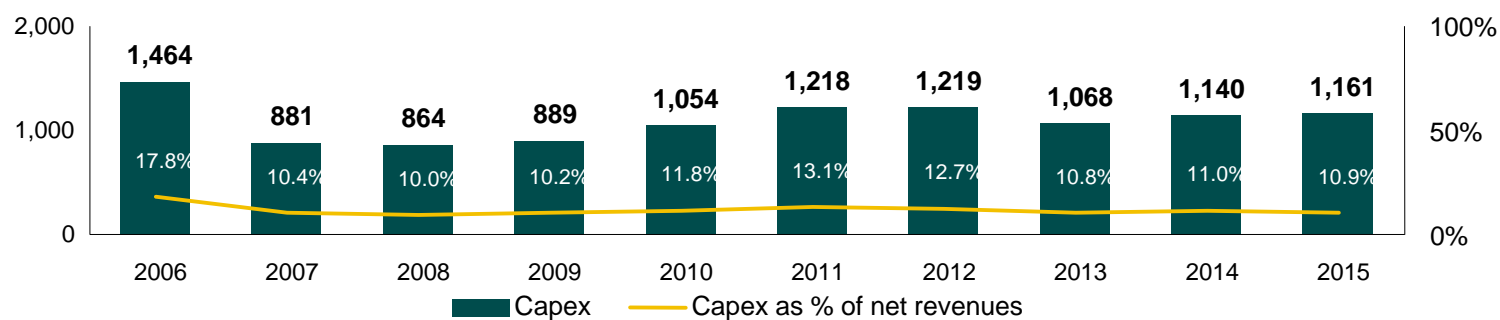
*The EBITDA margin remains stable during the period of the projection*

### EBITDA (R\$ nominal millions)



*The value observed in 2006 principally reflects investments in Star One satellites and investments for the expansion of local telephone services*

### Capex (R\$ nominal millions)



Note: EBITDA and Capex values consider the integral consolidation of Star One EBITDA and Capex, with the elimination of intercompany operations

## Embrapar: Results of Operations and Cash Flows

### DRE (R\$ nominal millions)

Ending on December 31	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
Net revenues	8,235	8,431	8,644	8,754	8,942	9,310	9,590	9,918	10,341	10,673
Operational Costs and Expenses	(5,808)	(6,007)	(6,143)	(6,219)	(6,330)	(6,639)	(6,819)	(7,043)	(7,382)	(7,579)
EBITDA	2,427	2,424	2,502	2,535	2,611	2,670	2,771	2,875	2,959	3,094
Margin (%)	29.5%	28.7%	28.9%	29.0%	29.2%	28.7%	28.9%	29.0%	28.6%	29.0%
Earnings before Taxes	880	555	641	715	588	734	918	1,025	1,056	1,221
Net profit	852	532	629	698	570	710	884	966	992	1,142

*For the perpetuity calculation it was assumed: (i) an EBITDA adjustment to reflect a long term annual concession rate (1% per year versus 2% biannual) and (ii) an average Capex to reflect the maintenance and renovation of the current fleet of Star One satellites*

### Free Cash Flow (R\$ nominal millions)

Ending on December 31	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
EBIT	1,349	1,025	1,126	1,208	1,099	1,254	1,532	1,714	1,731	1,928
Taxes on EBIT (IR and CSLL)	(459)	(348)	(383)	(411)	(374)	(426)	(521)	(583)	(589)	(655)
Depreciation and Amortization	1,078	1,399	1,375	1,327	1,512	1,417	1,239	1,161	1,228	1,166
Capex	(1,464)	(881)	(864)	(889)	(1,054)	(1,218)	(1,219)	(1,068)	(1,140)	(1,161)
Changes in Working Capital	(213)	(83)	(66)	(20)	(91)	(116)	(104)	(111)	(109)	(108)
Free Cash Flow of the Subsidiaries	291	1,112	1,189	1,216	1,092	909	927	1,113	1,121	1,169

Note: Simplified financial statements consider the integral consolidation of Star One, with the elimination of intercompany operations

# Embrapar Subsidiaries (ex-Net): Discounted Cash Flow - Interval of Value

## General Comments

- The financial-economic equity value of Embrapar takes into account its share of 80.01% in Star One and its respective Net Indebtedness as of March 31, 2006. In the case of Embrapar, the Net Indebtedness also includes the deduction of the participation of the minority shareholders in Embratel
- The valuation was conducted in nominal Dollars converted into nominal Reais at the PTAX 800 rate of exchange of R\$/US\$ 2.17 on base date of March 31, 2006
- The number of Embrapar shares<sup>(2)</sup> on March 31, 2006 was 987,726,487,230 (not including 1,032,167,077 treasury shares as of March 31, 2006)

## Sensitivity of the value of *Enterprise value*

		WACC <sup>(1)</sup>		
Perpetuity growth rate <sup>(1)</sup>	Star One	10.94%	11.19%	11.44%
	Embrapar	11.70%	11.95%	12.20%
3.42%	0.35%	7,477	7,336	<b>7,200</b>
3.67%	0.61%	7,536	7,390	7,251
3.93%	0.86%	<b>7,598</b>	7,448	7,305

## Sensitivity of the value of *Equity value*

		WACC <sup>(1)</sup>		
Perpetuity growth rate <sup>(1)</sup>	Star One	10.94%	11.19%	11.44%
	Embrapar	11.70%	11.95%	12.20%
3.42%	0.35%	5,280	5,138	<b>5,002</b>
3.67%	0.61%	5,338	5,193	5,053
3.93%	0.86%	<b>5,400</b>	5,250	5,107

Notes: (1) Nominal Dollars; (2) ABN AMRO considered the number of shares issued and outstanding by the Company on March 31, 2006. As reported by Company representatives, there were no changes in the number of shares issued and outstanding by the Company during the period since March 31, 2006

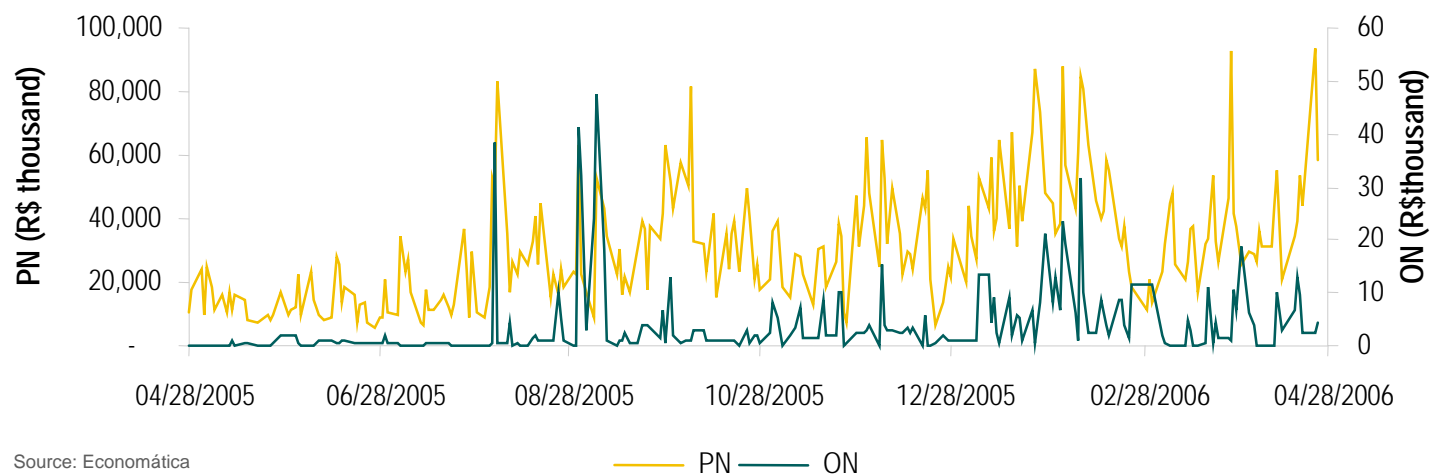
**3c**

## **Valuation of the Participation in Net**

## Analysis of Changes in the Trading Volume of ON and PN Shares

*The daily trading volume of preferred shares is more than 9,000 times higher than the volume of common shares*

### Daily Trading Volume of PNs versus ONs

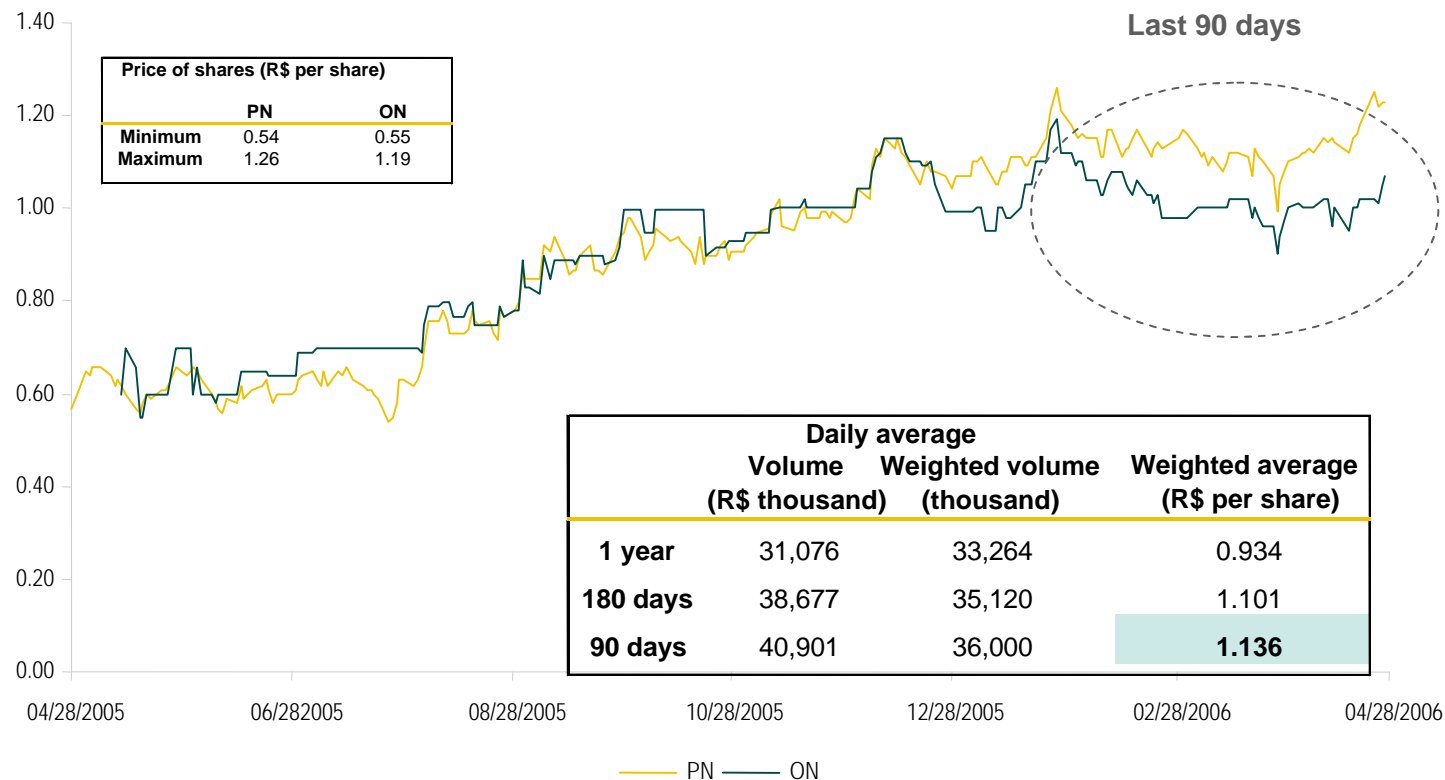


- Quotes of Net preferred shares were adopted as market references because:
  - They have greater liquidity than common shares. Net PN shares form a part of the BOVESPA Index that groups the 30 most liquid securities of the market. ON shares do not participate in that Index.
  - At the same time they do not present a loss of value due to a difference in tag along rights, since Net guarantees 100% tag along rights for preferred shares, consistent with level 2 of BOVESPA's Differentiated Corporate Governance Practices
  - PN dispersion is greater than 50%

## Analysis of the Evolution of ON and PN Share Prices

Preferred and common shares are generally trade at similar prices

### Evolution of the Price per Share Adjusted for dividends (R\$ per share)



Source: Economática

## Valuation of Participation in Net

### Period Chosen as Reference

- ABN AMRO believes that the best reference period to value Net shares corresponds to the 90 days prior to April 29, 2006, for the following reasons:
  - During the past 12 months Net concluded a financial restructuring process that had a significant impact on the value of its shares
  - Terms of the agreement with Embratel for offering joint services has continued to evolve in recent months
  - The recovery movement of the market for cable TV continues and the strong expansion of the broadband residential market in 2006

### Calculation of the Value of Net

*Value in Millions of Reais (except when indicated to the contrary)*

Price of shares of Net considered in the Valuation (R\$ per share) <sup>(1)</sup>	A	1.136
Total number of shares of Net (millions) <sup>(2)</sup>	B	3,955
Equity Value of Net	C=(A*B)	4,493
Number of shares held directly or indirectly by Embrapar (millions) <sup>(3)</sup>	D	1,466
Equity value of Net held by Embrapar	E=(C*D)	1,666
Net Debt of GB Empreendimentos <sup>(4)</sup>	F	0,444
Embrapar participation in GB Empreendimentos <sup>(5)</sup>	G	83.00%
Net debt of GB Empreendimentos in proportion to Embrapar ownership interest	H=(F*G)	0,036
<b>Total Value of Affiliates Belonging to Embrapar</b>	<b>I=(E-H)</b>	<b>1,666</b>

Notes: (1) Corresponds to the average price weighted by the trading volume of PN shares of Net during the last 90 days prior to April 29, 2006; (2) Total number of Net shares excluding treasury shares on March 31, 2006; (3) Direct and indirect participation (through Empreendimentos) of Embrapar in Net as of March 31, 2006; (4) Calculated based on the position on March 31, 2006; (5) Embrapar participation in GB Empreendimentos as of March 31, 2006

**3d**

## **Embrapar Valuation (including participation in Net)**

## Result of the Valuation of Embrapar's Subsidiaries and Affiliates

### Result of the Valuation of Embrapar

#### Analysis of the Economic Value of the Subsidiaries on the basis of DCF

##### Enterprise value, excluding Net (R\$ millions)

Perpetuity growth rate <sup>(1)</sup>	WACC <sup>(1)</sup>			
	Star One			
		10.94%	11.19%	11.44%
	Embrapar	11.70%	11.95%	12.20%
3.42%	0.35%	7,477	7,336	<b>7,200</b>
3.67%	0.61%	7,536	7,390	7,251
3.93%	0.86%	<b>7,598</b>	7,448	7,305

##### Equity value, excluding Net (R\$ millions)

Perpetuity growth rate <sup>(1)</sup>	WACC <sup>(1)</sup>			
	Star One			
		10.94%	11.19%	11.44%
	Embrapar	11.70%	11.95%	12.20%
3.42%	0.35%	5,280	5,138	<b>5,002</b>
3.67%	0.61%	5,338	5,193	5,053
3.93%	0.86%	<b>5,400</b>	5,250	5,107

#### Analysis of the Economic Value of the Affiliates on the basis of Market Value

##### Values in million of Reais (except when indicated to the contrary)

Net share price considered in Valuation (R\$ per share) <sup>(2)</sup>	<b>A</b>	1.136
Total number of shares of Net (millions) <sup>(3)</sup>	<b>B</b>	3,955
Equity value of Net	<b>C=(A*B)</b>	4,493
Number of shares held directly or indirectly by Embrapar (millions) <sup>(4)</sup>	<b>D</b>	1,466
Equity value of Net held by Embrapar	<b>E=(C*D)</b>	1,666
Net Debt of GB Empreendimentos <sup>(5)</sup>	<b>F</b>	0.044
Embrapar participation in GB Empreendimentos <sup>(6)</sup>	<b>G</b>	83.00%
Net Debt of GB Empreendimentos in proportion to Embrapar participation	<b>H=(F*G)</b>	0.036
<b>Total value of Subsidiaries belonging to Embrapar</b>	<b>I=(E-H)</b>	<b>1,666</b>

Notes: (1) Nominal Dollars; (2) Corresponds to the average price weighted by the trading volume of PN shares of Net during the last 90 days prior to April 29, 2006; (3) Total number of Net shares excluding treasury shares as of March 31, 2006; (4) Number of shares held directly or indirectly by Embrapar through GB Empreendimentos as of March 31, 2006; (5) Calculated on the basis of the March 31, 2006 position; (6) Embrapar participation in GB Empreendimentos as of March 31, 2006

## Results of the Valuation of Embrapar's Subsidiaries and Affiliates (cont.)

### Results of the Valuation of Embrapar

#### Analysis of the Total Economic Value of Embrapar

<i>Values in million of Reias (except where indicated otherwise)</i>		Mínimo	-	Máximo
Enterprise value of operating Controlled Companies <sup>(1)</sup>	A	7,200		7,598
Net debt of Embrapar Consolidated <sup>(2)</sup>	B	2,198		2,198
Equity value of Embrapar and its Controlled Companies	C=(A-B)	5,002		5,400
Net total Equity Value	D	4,493		4,493
Equity value of Net shares held by Embrapar (1,466 million shares) <sup>(3)</sup>	E	1,666		1,666
Total Equity Value	F=(C+E)	6,668		7,066
Number of Embrapar shares (million) <sup>(4)</sup>	G	987,726		987,726
Price per share (R\$ one thousand lot)	F/G	6.75	-	7.15

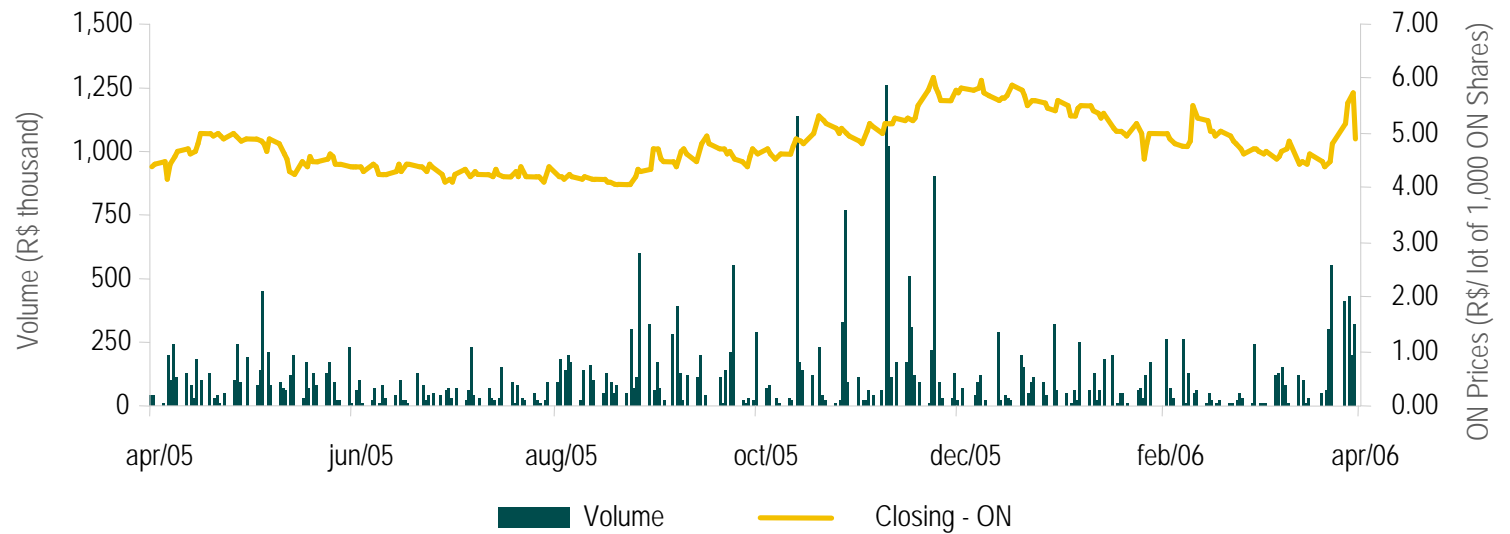
Notes: (1) The 80.01% share that Embratel holds in Star One has already been considered; (2) Calculated in conformity with the definition of Net Indebtedness described in the Important Notice on Page 3. The 80.01% Net Debt of Star One is being considered; (3) Calculated on the basis of the average price weighted by the trading volume over the last 90 days of PN shares multiplied by the base Net shares as of March 31, 2006 (3,954,663,665 shares); (4) ABN AMRO considered the number of shares issued by the Company and in circulation as of March 31, 2006. As reported by Company representatives, there were no changes in the number of shares issued by the Company and in circulation as of March 31, 2006

# 4

## Valuation by the Average Weighted Price of Shares

# Valuation by the Average Weighted Price of ON Shares of Embrapar

Price Evolution of Embrapar ON Shares and Trading Volume (EBTP3)

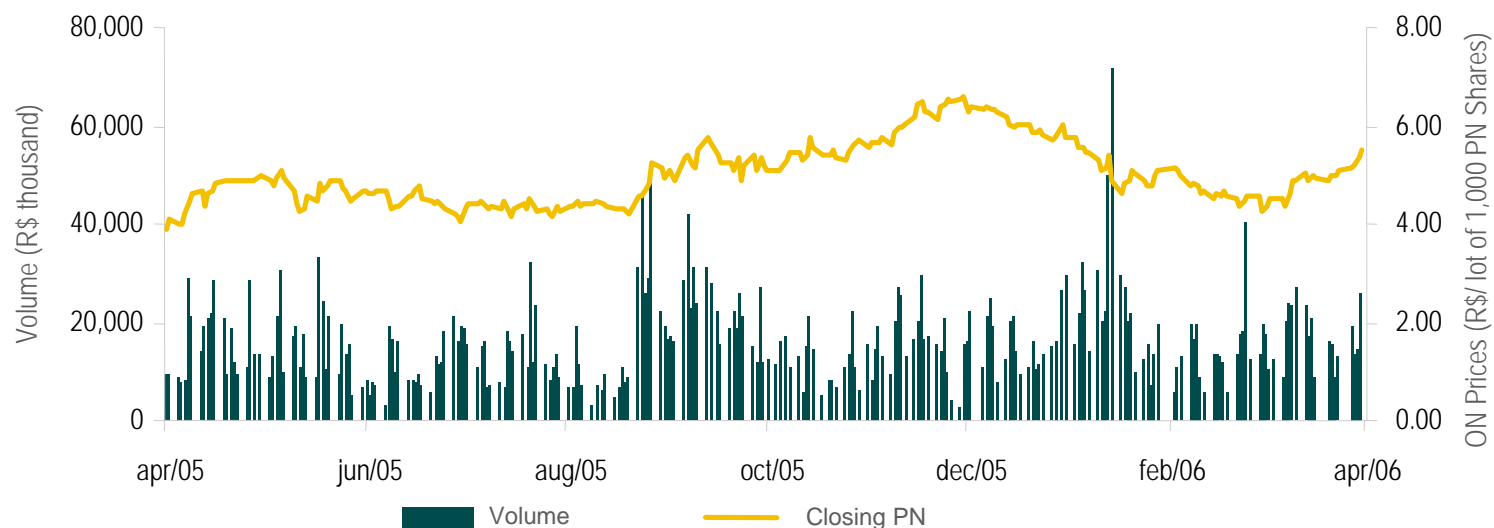


<b>EBTP 3</b>	<b>Number of titles (thd)</b>	<b>Volume (R\$ thousand)</b>	<b>Share price (R\$ / 1,000 shares)</b>
Daily average for last month	33,050	164	4.61
Daily average for last six months	26,983	140	5.12
<b>Daily average for last twelve months</b>	<b>24,612</b>	<b>115</b>	<b>4.83</b>

Source: Economática

## Valuation by the average weighted price of Embrapar PN Shares

### Price Evolution of Embrapar PN shares and Trading Volume (EBTP4)

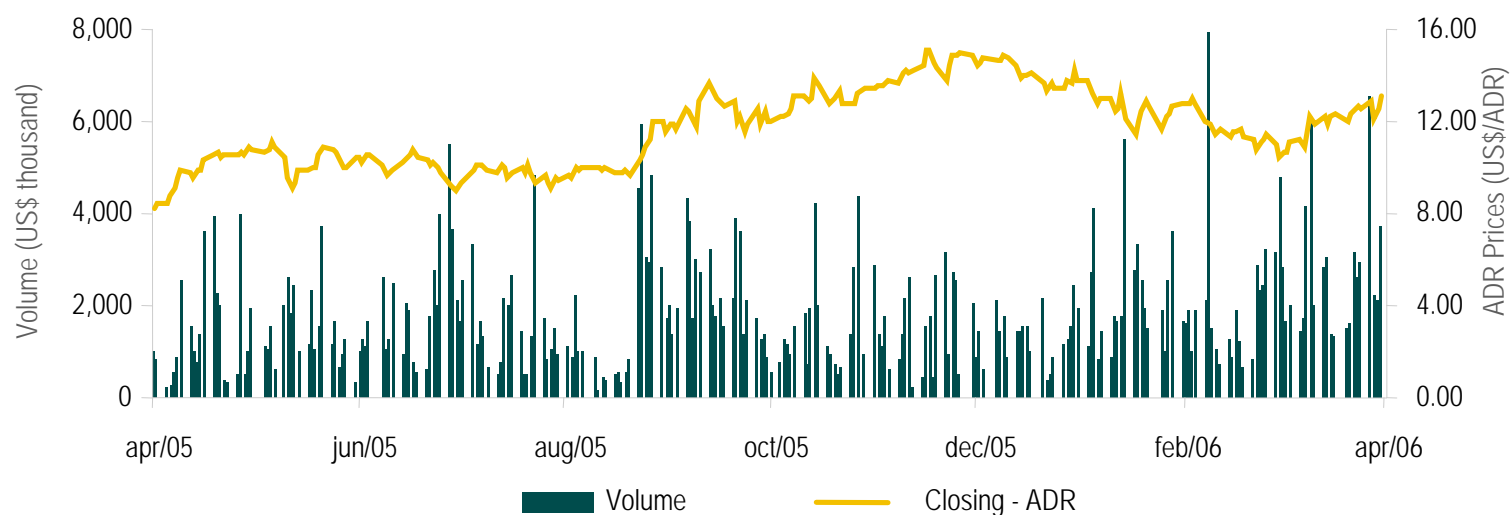


<b>EBTP 4</b>	<b>Number of titles (thd)</b>	<b>Volume (R\$ thousand)</b>	<b>Share price (R\$ / 1,000 shares)</b>
Daily average for last month	3,509,068	17,884	5.10
Daily average for last six months	2,997,701	16,872	5.63
<b>Daily average for last twelve months</b>	<b>3,087,640</b>	<b>16,254</b>	<b>5.29</b>

Source: Economática

## Valuation by the Average Weighted price of Embrapar ADRs

### Evolution of the Prices of Embrapar ADR<sup>(1)</sup> s and the Volume Negotiated (EBT)



EBT	Number of titles (thd)	Volume (US\$ thousand)	Share price (US\$ / 5,000 shares)
Daily average for last month	230	2,747	11.94
Daily average for last six months	153	1,931	12.65
<b>Daily average for last twelve months</b>	<b>160</b>	<b>1,844</b>	<b>11.53</b>

Source: Economática  
 Note: (1) One ADR represents 5 lots of one thousand preferred shares per lot

## Valuation by the Average Weighted Price of Embrapar Shares (cont.)

### Results Obtained by Valuation of the Average Weighted Price of Shares

- The average weighted price of Embrapar shares on the BOVESPA during the last 12 months prior to April 29, 2006 and the daily average trading volume were, respectively:
  - EBTP 3: R\$ 4.83 per lot of one thousand shares and approximately R\$ 115 thousand per day
  - EBTP 4: R\$ 5.29 per lot of one thousand shares and approximately R\$ 16,254 thousand per day
- The average weighted price of Embrapar ADRs during the last 12 months prior to April 29, 2006 and the daily average of ADR negotiations were, respectively:
  - EBT<sup>(2)</sup>: US\$ 11.53 per lot of one thousand shares and approximately US\$ 1,844 thousand per day

Note: (1) Average weighted price during the 12 months prior to April 29, 2006. (2) One ADR represents 5 lots of one thousand preferred shares

# 5

## Valuation by the value of Shareholders' Equity

## Valuation by the Value of Shareholders' Equity

### Embrapar – Shareholders' Equity

#### Equity Shares - March 31, 2006

Equity value of Embrapar at March 21, 2006 (in millions R\$)	7,493
Number of shares of Embrapar (millions) <sup>(1)</sup>	987,726
<b>Equity of value of Embrapar (R\$/ thousand shares)</b>	<b>7.59</b>

- The value of Shareholders' Equity on the basis of the Company's balance sheet as of March 31, 2006 is R\$ 7.59 per lot of one thousand shares

Source: Company information

Note (1): The number of Company shares considered for the calculation of Shareholders' Equity of Embrapar excludes treasury shares

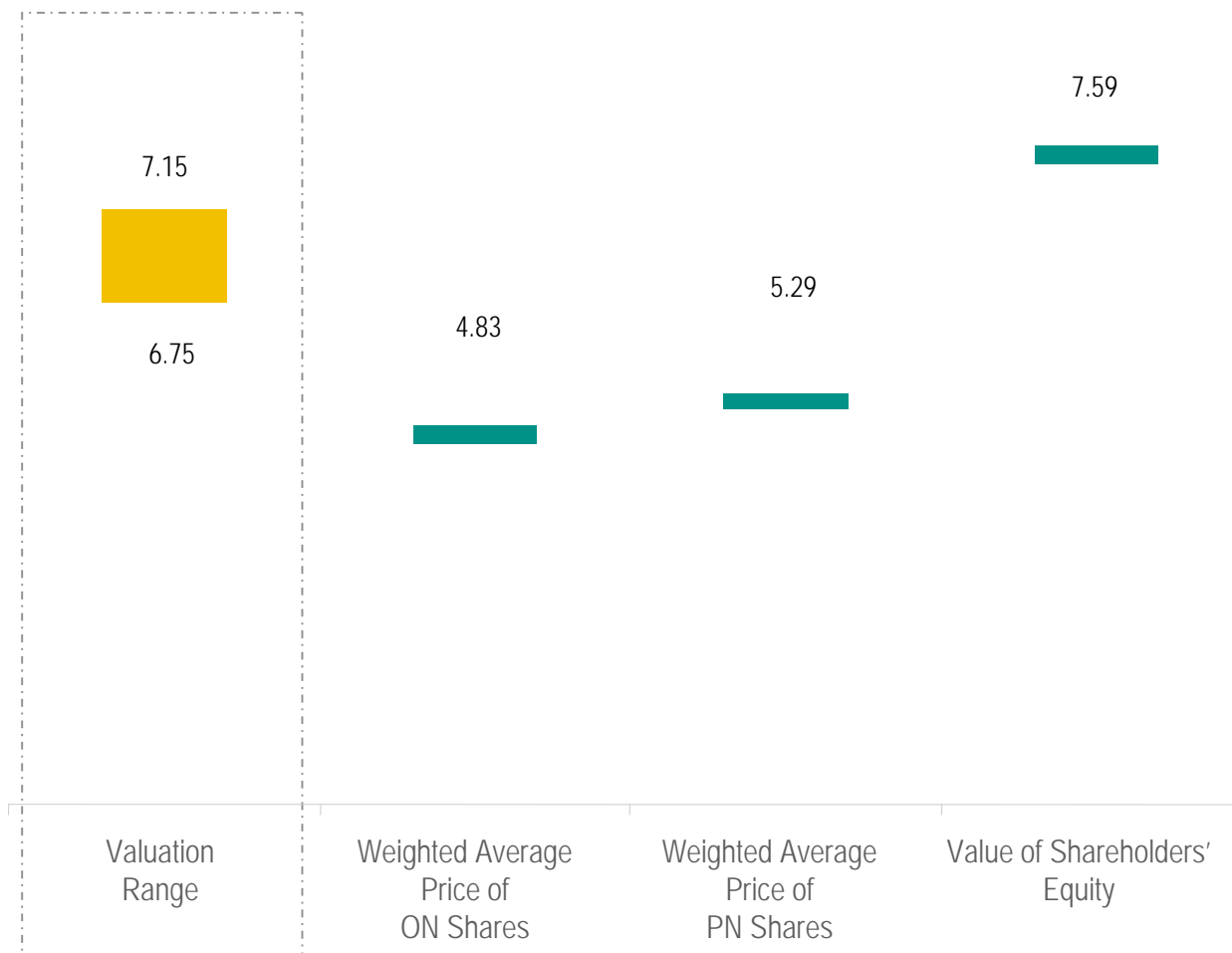
# 6

## Summary of the Valuation of Embrapar Shares

## Summary of Embrapar Valuations

### Value per share (R\$ per lot of one thousand shares )

The value of the shares of the Company determined by ABN AMRO is between R\$ 6.75 per lot of one thousand shares and R\$ 7.15 per lot of one thousand shares



7

# Glossary

## Glossary

- We include the glossary below in order to facilitate the understanding of this document by persons unfamiliar with the methodology of valuing enterprises by discounted cash flow methodology. In this manner, the clarification given for each term was couched in didactic language to facilitate the understanding of the concepts utilized
- **Beta:** *is a measure of market risk / system risk / non-diversifiable risk. The Beta coefficient indicates the sensitivity of the stock price to changes in the price of the market portfolio. The index is measured by means of a linear regression between a series of variations in the price of the enterprise's stock and a series of variations in the price of the market portfolio*
- **Capital Asset Pricing Model (CAPM):** *The CAPM model is utilized to calculate the Cost of the Company's Capital or the Cost of the Shareholder's Equity. The model follows the financial premise of risk and return, so that the greater the risk, the greater the return on investment required by the shareholder. The calculation considers the beta, the risk-free rate and the market premium*
- **Capital Expenditures (Capex):** *investments in fixed assets*

## Glossary (cont.)

- **Cost of Equity:** *The cost of equity is the return required by the shareholder in regard to the capital invested. The calculation considers that a specific asset must pay the investor the cost of opportunity plus a risk premium*
- **Cost of Debt:** *This is a measure of the cost associated with capital that comes from third parties in the form of loans, financing and market funding, among others*
- **Weighted Average Cost of Capital (WACC):** *This is a measure of the cost of a company's capital. WACC is determined by a weighted average on the basis of the long term capital structure, the costs of debt and equity. It is directly related to the risk associated with future cash flows*
- **Dispersion:** *free float greater than 50% of the class of share analyzed*
- **Dollar:** *United States of America Dollar*
- **DTH:** *Direct-To-Home Technology*
- **“Earnings Before Interests, Taxes, Depreciation and Amortization” (EBITDA):** *These are the operational earnings generated by the company that effectively generate cash for the company, thus the calculation of EBITDA considers only the expenses that generate outflows of cash*
- **“Earnings Before Interests and Taxes” (EBIT):** *These are the operational earnings generated by the company, i.e., the EBITDA after the expenses of depreciation and amortization have been deducted.*

## Glossary (cont.)

- **Operational Cash Flow:** Operational cash flow only takes into consideration revenues and expenses actually received or disbursed as the result of company operations. Thus financial receipts and expenses and other non-operational items are not considered in the calculation
- **Liquidity:** In the context of this valuation, liquidity refers to the shares that form a part of the BOVESPA Index
- **MDS:** Multipoint Distribution System technology
- **Market Risk Premium:** market risk premium is the additional return that investors require to compensate for the greater element of uncertainty (risk) in investment in stocks as opposed to risk-free investments
- **Country Risk:** This is the premium paid for the political uncertainty and instability of a specific country. A method frequently utilized to estimate this premium is the difference (spread) between the sovereign securities of the country in question and the sovereign bonds of the U.S.A.
- **Risk Free Rate:** This is the interest rate paid for a risk-free asset. In practice, U.S.A. Treasury Bonds are utilized as a parameter for risk free interest rates
- **Equity Value:** The value of the capital of the business for the shareholder
- **Terminal Value:** Considering that, in theory, the life of a company is infinite and that it is not possible to precisely project future cash flows beyond a certain period, a part of the company's value will be generated by cash flows in years subsequent to the last year of the period of the projection. That estimate of value is called the terminal value. Determination of the terminal value is based on the principle that in the long run the company will reach its stage of maturity and that it must then grow at a constant rate
- **VoIP:** Voice over Internet Protocol technology
- **VPL:** Present liquid value