

Brazil

With political and economic stability at a 30-year high, Brazil is looking better than ever for investors



BRAZIL

Brazil is on a roll. The carnival capital is more stable and investor-friendly than ever before, with growth this year predicted at 3.7%. Since coming into power in 2002, President of Brazil, Luiz Inácio Lula da Silva has driven ahead with a stringent reform program that has increased the country's competitiveness and allowed it to shine internationally.

Brazil's country risk index recently hit a record low of 207, due to the large volume of U.S. dollars continuing to enter the country, reasonable rates of global economic growth, stable interest rates in the U.S., high commodity prices and high Brazilian interest rates.

At the World Economic Forum on Latin America in São Paulo earlier this year, Lula called for Brazil and Latin America to "seize the moment" and, with his first mandate almost through, his Worker's Party government has done just that, carrying on the legacy of former president Fernando Henrique Cardoso to instill international confidence in a country once blighted by high inflation, corruption and poverty.

As Luiz Dulci, Chief Minister of the Presidency reflects: "We compromised the country to make it grow with stability and low inflation. It was a renovation of the country's political culture and something completely new in Brazil's

"We compromised the country to make it grow with stability and low inflation. It was something completely new for Brazil."

history." In another unprecedented move, Brazil was able to repay all its IMF loans ahead of schedule in December last year, showing it has a strong grip on the economy.

Former president Cardoso notes: "We now have a sophisticated economy which resembles that of the U.S. in that almost half of our exports are manufactured goods, while the rest are agricultural and services."

Agriculture, responsible for 8.4% of the country's GDP, has been something of a hot potato for Brazil in recent years, although the country has since reaped the rewards of having "an independent attitude in the world", according to Minister of Foreign Affairs, Celso Amorim. A key orchestrator of the G20 group of developing countries, set up on 20 August 2003 ahead of the V Ministerial Conference of the WTO in Cancun the following month, Brazil paved the way



Left: Luiz Inácio Lula da Silva, President of Brazil

Center: Celso Amorim, Minister of Foreign Affairs

Right: Sergio Machado, Minister of Science and Technology

for a coalition aimed at bargaining jointly on agricultural issues during the Ministerial Conference and beyond. Amorim notes: "Since then, our exports to the U.S. and the EU are at record levels. And if you look at the geographical composition of the exports, you can see that the participation of developing countries in general, and Latin America in particular, has grown more than proportionately."

The government is now cultivating a knowledge-based economy, with funding for research and development up by 50% and new procedures in place that allow entrepreneurs to get their ideas to market. Minister of Science and Technology, Sergio Machado says: "The new "innovation law" means we can give grants to companies for research.

We are focusing primarily on software, pharmaceuticals, microelectronics and capital goods."

A large venture capital fund, administered by the FINEP Financing Agency, is also in the pipeline. "Small companies like Gol, Lupatech, and Submarino, which started in the last 10 or 20 years, have become mid- to large-size companies because they opened up their capital. More and more software companies will have their stocks on the stock market, which is something quite new," says the Minister

Paulo Skaf, president of the São Paulo State Federation of Industries (FIESP) and a highly respected businessman in his own right, offers this advice to the next government: "The economy's good, but it must be better. Whoever wins the election must reduce public spending, reduce red-tape for businesses and increase investment in infrastructure."

ITAÚ: ONE OF THE LARGEST BANKS IN LATIN AMERICA WITH ONE OF THE BEST FINANCIAL PERFORMANCES

DIFFERENTIATED SOUNDNESS AND PERFORMANCE

With more than 17 million clients, 3,000 agencies and 22,500 ATMs, Itaú is one of the largest banks with one of the best financial performances in the world.

Itaú Holding consolidated net profits for the first half of 2006 achieved R\$ 2.958 billion (US\$ 1.367 billion), representing an annualized profitability of 35.7%, reaching a market value of R\$ 69.911 billion (US\$ 32.302 billion). Its shares are traded on the São Paulo (Brazil), Buenos Aires (Argentina) and New York (USA) stock exchanges.

LEADERSHIP AND EXPERIENCE IN THE HIGH-NETWORTH SEGMENT

Itaú Personalité is a benchmark in the high-networth segment. With the incorporation of BankBoston operations in Brazil, Itaú became the undisputed market leader.

It is also the leader in Private Banking in Latin America and considered the best Brazilian bank in this segment by Euromoney magazine.

EXCELLENCE IN MANAGEMENT

Standard & Poor's recently raised Itaú's rating to 'BB+', a position higher than the classification of its native country. This recognition follows the 2005 rating increase credited to Itaú by Moody's Investors Service and Fitch Ratings, which highlights Itaú as the institution with the greatest financial strength and best performance in Brazil. It was considered the best bank in Brazil by Euromoney and

Global Finance magazines, the most ethical and best managed among the major Latin America banks by Latin Finance/Management & Excellence and the best bank in Latin America by Emerging Markets magazine.

With a management aimed at sustainability, Itaú constantly seeks the best practices in corporate governance. Always guided by ethics, respect, transparency and management quality, it is the only Latin American bank that has been part of the DJSWI - Dow Jones Sustainability World Index - since the index was created.

Itaú is the first foreign bank listed on the NYSE - New York Stock Exchange - which achieved full compliance with section 404 of the Sarbanes-Oxley law, relating to internal control and accounting practices.

INTERNATIONAL PRESENCE

Itaú has strategically positioned itself in the Americas, Europe and Asia, creating an important financial network for foreign trade transactions, issuance of Eurobonds, sophisticated financial operations and private banking operations. The group has branch agencies in New York, the Cayman Islands, Lisbon, London, Luxembourg, Buenos Aires, Tokyo and Shanghai (Rep. Office).

In May 2006, Itaú signed an agreement with Bank of America for the acquisition of BankBoston in Brazil, as well as exclusive rights to acquire BankBoston operations in Chile and Uruguay. With this action, Bank of America retains 7.4% of Banco Itaú capital.



Local firms breaking growth records

Brazilian companies are growing fast, unveiling exciting opportunities in banking, manufacturing and tourism

Brazil's banking industry is the largest in Latin America and worth around US\$355.6 billion. After a period of consolidation in the 1990s, four local players emerged in dominant positions, namely Banco do Brasil, Bradesco, Banco Itaú and Unibanco, with stiff competition from internationals Santander Central Hispano and HSBC. At the end of 2005, the sector was made up of 158 banks—24 less than in 2001. Although retail banking is now accessible to most of the population, credit levels represent just 30% of the GDP. However, the Brazilian National Confederation of Industry has predicted that consumption by families will increase by 4.5% this year, due to interest rate reductions and an increase in incomes, spurring a credit boom.

Minister of Finance, Guido Mantega says: "To raise [access to] credit, we needed economic firmness and a guarantee for the banks so we brought in a bankruptcy law. Public and private credit has also increased for companies. The National Bank of Social and Economic Development offers credit to industries with lower taxes."

Lending is likely to increase to industries hungry to expand in areas such as oil production, hydro-power, agribusiness in soy and sugar-ethanol, and to those individuals wishing to buy homes or start their own businesses.

Banco do Brasil, the oldest and one of the most respected financial institutions in Brazil, will be eyeing the predicted boom eagerly. With around 23 million clients, the bank is currently the market leader in terms of retail banking, managing assets of around US\$78.8 billion, which constitutes a 20% market share.

The bank has a strong presence overseas with 40 units in more than 23 countries, predominantly in the U.S., Europe and Asia, with representative offices opening in Seoul and Dubai later this year. Banco do Brasil president Rossano Maranhão says: "Since we have the strongest corporate base in Brazil, and are very close to Brazilian companies abroad, our foreign strategy is very important and our first objective outside Brazil.

"Our second objective is to support the trading operation. We have around 30% of Brazil's trading finance, which means we provide working capital to those clients." The bank is already the country's leading financier and supporter of foreign trade, which reached a record



Medley Pharmaceuticals: sophisticated laboratory equipment enables optimum research results

US\$118.3 billion in 2005.

Banco do Brasil has been credited for its commitment to attracting and retaining customers, rather than just focusing on the big business lines. Maranhão says: "We are different in that way from other banks, because although we are concerned with the returns for our shareholders, we are also concerned about the needs for society."

With this in mind, the bank has developed a specific strategy for regional sustainable development, applying measures that generate income and work for those on the fringes of Brazilian society. The Banco Popular do Brasil, set up in 2004, offers services for low-income groups who do not have bank accounts. "Branches" operate through supermarkets and gas stations on the outskirts of the major cities. The scheme has been hugely successful socially—there are now 5,000 points of sale and 1.5 million customers, although Maranhão admits the total assets of Banco Popular do Brasil are almost nothing in terms of Banco do Brasil's assets, which closed at US\$126 billion last year. "We know it will take time for Banco Popular do Brasil to give us a fair return. It is an investment strategy. The aim is to gain new clients in the future by introducing them to banking now." Banco do Brasil has also lent about US\$231,000 in microcredit to its low-income customers.

Banco do Brasil also has an "aggressive" approach to IT, according to Maranhão. He says: "We have more than 8 million Internet clients and were the first bank to launch a mobile banking system. Through the mobiles and ATMs, customers can do more than 120 different transactions."

Banco Itaú is the second largest private bank in Brazil and one of the market leaders in corporate banking, private





GDK: Constructing and rehabilitating submarine pipelines along the Brazilian coastline www.gdksa.com

banking and asset management. The bank caused a stir in May this year when it completed a successful “share swap” with BankBoston, buying the U.S. bank’s operations in Brazil, Chile and Uruguay. President of Banco Itaú Roberto Setubal says: “That was a very important deal for us. BankBoston represents about 10% of Itaú’s operations in Brazil. Although they are not big in size, the segments they operate are significant. For example, they only have 60 branches here, but they have a strong presence in corporate, private and upscale banking, so the acquisition gave us important positioning in all of those segments.”



Peixe Angical: adding 452 MW of power to the Brazilian electricity network

Setubal is, however, aware of the market potential closer to home. “There is still around 50% of the local market to be exploited,” he says.

Unibanco, Brazil’s third largest private bank has also shown strong growth, recording 43% profits last year, while share prices have increased by 100%. Chairman Pedro Sampaio, who was the country’s Minister of Finance until 2002, says: “Our excellent profit performance is largely due to increased activities within the lending sector, especially on the consumer side, but also due to some big IPO operations, where Unibanco acted as an agent in mergers

Medley Pharmaceuticals — a winning formula

Medley Pharmaceuticals, one of Brazil’s fastest-growing pharmaceutical companies, celebrated a record growth of 49.23% last year and is now ranked fifth in the country. Five years ago, it was ranked 28th. What was born as a family-owned business in 1932 in São Paulo has become a booming business that now spans 15 Latin American countries.

The turning point came in 1998, when Medley launched its flagship obesity drug Plenty, in partnership with global giant Abbott Laboratories. Since then, the company’s openness to new ideas and opportunities has turned it into a pioneer in the production of generic drugs—and its market share has quadrupled in the past seven years.

Jairo Yamamoto, CEO of Medley Pharmaceuticals, says: “The generics market started in Brazil in 2000 and reached a market of \$US820 million in 2005. By the end of this year, it could reach almost \$US1 billion.

“Our top 20 products represent 52% of company sales and among these, 15 are generics. Out of the 20 most sold generics in Brazil, 10 are from Medley. We therefore expect to reach the fourth position by the end of 2006.”

The company lists its strengths as: high quality products, creative medical and consumer-oriented marketing, a focused and well-trained sales force for branded



Medley Pharmaceuticals, based in Campinas. www.medley.com.br

pharmaceuticals and strong presence at the point-of-sale with a specific promotional force for generics.

Yamamoto says: “We invest 7% of our revenue in product development. We are proud to be the market leader and work closely with the Ministry of Health to ensure more accessible health care in Brazil. Ninety million Brazilians would consume three times more medicines if they had more income.”

The company is now focusing on image building through an aggressive marketing strategy of the generics brand and on developing strategic partnerships with international distributors, particularly in Europe.

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and acquisitions.” Sampaio believes that consolidation should continue to be a government priority. He says: “We have had 7 years of fiscal responsibility law that has been applied and respected. We now need to consolidate inflation targeting and solvency within the public sector. A better regulatory environment is also needed to instill private sector investor confidence.”

Sophisticated IT platforms are also vital to a thriving financial sector, and IT giant Itaútec is rising to the challenge. It is the largest IBM distributor in Latin America and has 258 branches outside Brazil, with strategic partners throughout Europe, the U.S. and Latin America.

Powering the economy

Mining and energy are strongly featured in Brazil’s economic landscape and provide some of the most interesting opportunities for future growth and investment. As the world’s largest producer and exporter of raw and processed mineral products, the second largest iron ore producer and the 9th largest steel producer, Brazil has benefited from sustained demand for commodities in recent years, driven by strong global growth. The Brazilian Mining Institute has predicted this growth will continue this year.

Meanwhile, Brazil now ranks as the world’s 10th largest consumer, which has created multiple opportunities in petrol, gas, hydroelectricity and alternative fuels such as ethanol and bio-diesel. Demand grew by 4.5% last year.

The country marked another important historical milestone in May this year, when, thanks to the efforts of a long line of leaders and partly privatized oil giant Petrobras, Brazil announced its self-sufficiency in oil production. Silas

“Being self-sufficient in oil means we are becoming immune to a volatile trade.”

Rondeau, Minister of Mines and Energy says: “This is extremely important with today’s high prices, because it means we are becoming immune to a volatile trade that is tense around the world.” Whether Brazil will become a net exporter remains to be seen, but the present government has made it a policy objective.

Companhia Vale do Rio Doce (CVRD) and Energias do Brasil are two companies capitalizing on Brazil’s increasing list of opportunities. CVRD is the world’s largest exporter of iron ore—it shipped 255,171 million tons of iron ore and pellets last year—and makes the biggest contribution to the Brazilian trade balance surplus. Privatized in 1997, CVRD has subsequently grown into a “high-tech mining exploration company, with international levels of quality”, according to Minister Rondeau.

As the largest diversified mining company in the Americas and the fifth largest in the global mining and metal industry, CVRD boasts a turnover of around US\$20 billion and is clearly cruising at high speed. Present in 14 of Brazil’s 26 states and five continents, it is supported by almost 10,000



Left: Guido Mantega, Minister of Finance
Center: Rossano Maranhão, President, Banco do Brasil
Right: Roberto Setubal, President, Banco Itaú

kilometers of rail-road and 8 port terminals. Roger Agnelli, director-president says: “CVRD was a successful company even when it was state-owned. It started on a good footing with the iron ore reserves in Minas Gerais and was developed with a concept of mine-rail-port integration.”

This logistical vision, and continued investment in company professionals, gave CVRD its competitive edge. Its second break came when it expanded to Carajas, a province rich in iron ore, manganese, gold, nickel and copper, which enabled it to secure international partnerships, mainly with the Japanese.

After privatization and a three-year consolidation period, the company began its value-added mission. Agnelli says: “Iron ore will continue to be our most important product—the reserves are enormous and the quality excellent—but we also have large, quality reserves in bauxite, an estimated 11% of the world’s reserves in fact, and copper.”

Enerpeixe is already producing energy for Brazil

The first of the Peixe Angical Hydro Plant's turbines is already operating. For the moment, about 150 MW is being supplied to the Brazilian electricity grid. With the conclusion of the Plant, its three turbines will be producing 452 MW, enough energy to meet the needs of a city of 4 million people.

Besides producing energy, Peixe Angical also brings with it economic development as well as making an important contribution towards improving the life of neighboring communities. By October, once all the turbines are commissioned, we shall be generating more progress, comfort and quality of life throughout Brazil.

energias do brasil **FURNAS**



Panoramic sea views at the Marina Hotel www.hotelmarina.com.br

CVRD has been hailed as a microcosm of Brazil. Not only did it reach record growth levels last year, recording US\$16.38 billion in gross revenues, but it has invested heavily in infrastructure and social development. The company was responsible for 67% of the total investment made in the Brazilian railways from 2001 to 2005. It also recorded a total shareholder return of 41.7% within the same period.

Agnelli says: "This year, we are going to invest US\$491 million in R&D, in order to expand further. 2006 will be a year of records once again. We are working hard on the training of staff and leaders who have to find their position for global trade. These leaders also have to be concerned about the communities and the environment we mine in. It is a constant and strategic priority for a mining company like CVRD, because if there is a problem with the environment, the company is brutally affected."

Meanwhile, Energias do Brasil, part of Energias do Portugal, one of the EU's largest energy operators, is well on its way to achieving its stated goal of becoming a leading national energy supplier. One of the most important companies in this sector, it has a clear development strategy and financial solidness, recently posting EBITDA of US\$206 million for the first six months of this year on the Bovespa Novo Mercado in São Paulo.

Since acting chairman António Martins took the helm in 2003, Energias do Brasil has also completed a successful restructuring, which has seen a 17.1% growth in revenues. It has also sold off its risky thermal power plants.

These moves have paid off handsomely—the company saw net profits quadruple in 2005 compared to the previous year. Martins says: "Ninety percent of Brazil's electricity is produced by hydro, and only 35% of the hydro potential is exploited at present."

Enerpeixe SA, in which Energias do Brasil has a 60% share, has just



Walfrido dos Mares, Minister of Tourism



Bahia Othon Palace in Salvador: Breathtaking ocean views from every room. www.othonhotels.com.br

completed the 'Peixe Angical' hydro-electric dam on the Tocantins river. Once this plant is up and running, it will almost double the group's power production capacity and is an important infrastructural development for Brazil.

GDK S.A. is another rising star in the energy sector. With a workforce of more



Roger Agnelli, Director-President, Companhia Vale do Rio Doce

than 3,500, the company works closely with some of the biggest names in the industry, including Petrobras, and was responsible for the construction of the Brazil-Bolivia gas pipeline (Gasbol).

Tourism—growing in numbers

Brazil's breathtaking 800-kilometer coastline, its world-famous Rio de Janeiro Carnival and the vast Amazon rainforest have all secured it a place on the tourist map. Last year, more than 5.4 million tourists visited, generating US\$3.9 billion in revenue and making it the country's fourth most important export earner. Walfrido dos Mares, Brazil's first dedicated Tourism Minister, who aims to attract 20 million visitors by 2010 and triple the amount of revenue expended, says: "We want to be inside the top ten world destinations very quickly."

The tourism budget has increased ten-fold in four years to meet ambitious government targets that include the creation of 300,000 jobs and the opening of three new tourist destinations in each of Brazil's states by next year.

Vibrant Rio remains the country's top attraction, however. Both the Marina All Suites Hotel and Marina Palace have prime positions overlooking the city's beautiful Leblon beach and offer spacious, modern rooms and funky bars.

The Rio-based Hotels Othon group also offers guests excellent amenities in beautiful locations, such as their flagship Othon Palace in Copacabana. President Lula chose the Bahia Othon Palace in Salvador to host a recent conference attended by African presidents, highlighting Brazil's growing importance as an events destination.

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And in any other place in the world.



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For CVRD the most important word is value: Value for shareholders, value for people, value for the environment.

CVRD - Companhia Vale do Rio Doce is the largest metals and mining company in the Americas. Headquartered in Brazil, it supplies the global market with products present in the daily lives of millions of people around the world. The world's largest producer and exporter of iron ore and pellets, CVRD is a leading global player in manganese, ferro alloys, bauxite, alumina, aluminum, copper, potash and kaolin. It is also developing coal and nickel projects aiming at being a major global player in these products. As Brazil's main supplier of logistics services, the Company owns and operates railroads, maritime terminals, warehouses and coastal shipping. CVRD shares are traded on the São Paulo (Bovespa), New York (NYSE) and Madrid (Latibex) stock exchanges.

www.cvrd.com.br



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