

BOOMING BRAZIL PART I

Brazil's potential to date is a drop in the ocean to what the modernizing, resource-rich, energy powerhouse is capable of.



Breaking ground

Brazil is still the land of plenty for energy and mineral resources.

With 188 million people, Brazil is a vast country built on vast resources. As it prepares to build the Amazon's largest hydro-electrical plant, the Latin American country is continuing to pull its weight in the global energy market. Self-sufficient in oil and a bio-energy superpower, Brazil is turning its fortunes around—an emerging market that's up there with India, Russia and China in terms of its potential in lucrative opportunities that are ripe for the picking.

According to the IBP Brazilian Petroleum, Gas and Biofuels Institute, Brazil's oil and gas sector's contribution to GDP has grown by more than 60% in seven years, and more than 40 foreign and domestic companies have entered the Brazilian market. João Carlos de Luca, IBP's president, says, "Projected Investment in the industry will be U.S. \$65.5 billion by 2010. Our mission is to promote the development of this national sector of petroleum and gas to make it a more competitive, sustainable and environmentally-, and socially-friendly, agency."



Hercilio Luz Bridge in Florianopolis, Santa Catarina

The IMF and World Bank ranks Brazil as the world's 9th largest economy, thanks to its large and developed agricultural, mining, manufacturing and service sectors, and an expanding presence on the international financial and commodities scene. It is also one of the most politically stable—President Luiz Inácio Lula da Silva easily won his second term in October 2006, and his government has done much to make Brazil more investor-friendly since coming to office.

Energias do Brasil: Committed to a brighter energy future for Brazil

Having successfully concluded the process of restructuring operations in order to separate its generation and distribution activities, Energias do Brasil (ENBR) is set to become one of the country's leading electricity sector companies.

The company's strategy is to achieve sustainable growth in the generation, distribution and trading markets of Brazil's electricity sector, positioning itself as a key player in the development of the Brazilian electric sector while identifying the best opportunities in the lines of business in which it operates, consistent with the guidelines set in its strategic planning process. This includes:

- identifying growth opportunities in the power generation market, with rigorous standards of return on investment;
- focusing on operating efficiency and synergy from effective management of its distribution network, and
- managing its business with financial discipline to support the company's expansion plans.

Last but not least, ENBR seeks to gain a competitive advantage with the support of an international group with experience in dynamic markets.

Energias do Brasil's mission is to operate in the Brazilian power sector, with high standards of service, excellence for



Hydro-power Lajeado

customers, shareholder returns, recognition and rewards for employees, while exercising social corporate responsibility.

ENBR's investments in the new plant generation, UTE Pecém, located in the state of Ceará with 700 megawatts installed capacity, will total U.S.\$1.3 billion. The Pecém plant will use imported mineral coal, the best alternative for expansion of generation capacity in the short term. Operations are expected to start in the second half of 2011.

The government has also launched a number of successful and world-acclaimed educational, health and poverty initiatives to improve the social divides.

As Luiz Dulci, General Secretary of Presidency, notes, "Our industrial sector accounts for a third of our GDP, and the multinationals continue to invest in new equipment and technology. We have a sophisticated financial services industry, which continually attracts foreign entities, plus extensive proven supplies of quality mineral resources, such as iron and manganese, that supply our industries and increase export earnings."

In recent years, there has been a shift towards services and R&D too. Once a city with a strong industrial character, for example, São Paulo is now an important worldwide business center, contributing 12.26% to the country's GDP. Mayor Gilberto Kassab says: "Our city is expected to be the world's richest by 2020."

Science and technology have been made a government priority. For the first time in its history, the Ministry of Science and Technology has introduced a four-year plan, with a view to increasing jobs and education in this field, funding R&D, and developing strategic sectors. The budget for 2007's National Council for Scientific and Technical Development was equal to 70% of sector fund revenues and is slated to rise to 100% by 2010. Sergio Machado Rezende, Minister of Science and



DASA's advanced laboratories: 7 million tests performed monthly.

Technology, says: "We have pledged to increase the number of development grants from 65,000 to 90,000 by 2010. We want to build more technological areas, prioritizing microelectronics, nuclear energy and agribusiness, and we have already launched a network for research into climate change, which will be based in São Paulo."

Biofuels research will also be given a boost. A research network is already in place in the field of biodiesel, and another

Largest Diagnostic Company among BRICs



- First Healthcare company to go public in Latin America
- Best positioned company to benefit from the fast growing Brazilian medical diagnostic industry
- 15 million patients in 2007

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will be announced for ethanol. The country is working towards producing enough to substitute 10% of the gasoline consumed worldwide within 18 years. That would mean increasing its current production of 17.3 billion litres a year by a factor of 12, without sacrificing forests, protected areas or food cultivation.

One of Brazil's biggest ethanol companies, Santelisa Vale, attracted a hefty investment from Goldman Sachs last year to become a credible player on the international stock market. The company, formed from a merger between Vale do Rosário

and Usina Santa Elisa in February 2007, produces 723 million liters of alcohol a year, and an aggressive growth strategy is planned. "We have a 50/50 sugar/alcohol ratio at the moment and would like to raise alcohol production to 60% in the next three years," says Anselmo Lopes Rodrigues, Santelisa Vale's director-president. "The market is growing all over the world and offering new opportunities, which is why we want to prioritize our investments."



Marcelo Bahia Odebrecht, President, Odebrecht

Supporting growth

A large number of global names are helping shape the Brazil of the future. Construction and engineering giant Odebrecht consortium, for example, has won the concession to build and operate a hydroelectric plant in Amazonia. The Santo Antonio hydroelectric center will cost an estimated U.S. \$5.5 billion and have the capacity to generate 3,150 megawatts starting in 2012. Odebrecht has committed itself to collecting at least U.S. \$44.81 per megawatt-hour, 35% lower than the price cap established by the government.

"Odebrecht wants to produce wealth for the people, by creating services and new employment opportunities, as well as locating greater challenges for our shareholders, allowing



Angra dos Reis Nuclear Power Plant
Brazil



The Second Bridge Spanning the Orinoco River
Venezuela



Capanda Hydroelectric Power Plant
Angola



American Airlines Arena
USA



Alqueva's Hydroelectric Development
Portugal



Odebrecht's more than 60 years trajectory is deeply blended with Brazil's development history. Carrying out projects in the four continents, the company contributes with work, techniques and experience to the economic, social and technological growth of the countries where it operates.

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them to share the outcome achieved in the last four years,” says Marcelo Bahia Odebrecht, president.

The hydroelectric complex is the main energy sector project included in the Accelerated Growth Program announced by the Brazilian government last February. It will require public and private investments of some U.S. \$250 billion in infrastructure up to 2010. The area will increase to 203 square miles when the complex is completed, and at that point its total capacity will be able to produce 6,500 megawatts, the equivalent of 8% of Brazil’s domestic electricity demand.

“We have created strong recognition in all our markets.”



Odebrecht has a presence in 18 countries and is Brazil’s largest services exporter. Looking ahead, says Odebrecht, “Our main challenge is developing the skills required to meet constantly changing demands, concepts and values. However, this does not faze us. We are always up to date with the newest technologies and we have created a strong sense of recognition in every place we operate. Odebrecht is a name to trust.”

Tigre, a global construction materials company, is also

expanding. Founded in 1941, it began operations by producing tubes and brushes for hydraulic solutions, taking advantage of plastic’s development to offer an alternative product to rival iron. The company now has more than 5,800 products on the market, with between 200 and 300 new lines coming out every year. Francisco Amaury Olsen, president and CEO, says, “In 2007, I started the internationalization process, opening in the U.S. and Ecuador. Tigre is the best-known brand in Brazil, thanks to our reliable products and excellent service. Research carried out in 2006 showed that 80% of Brazilian consumers remembered our brand and connected it with reliability.”

Olsen notes how the company’s flexibility and efficiency have improved since Tigre opened its operational and distribution center. “Clients became our principal focus and we now centralize every action into them, which leads to more productivity and customer satisfaction. We communicate our achieved goals through advertising campaigns that highlight the reliability theme. We invest in both our innovation process, increasing the number of products we offer, and our communications strategy to strengthen our brand.”

The company is proud of its green ethics. Olsen says: “We produce sustainable solutions for the irrigation process with innovative technologies that save water and energy. Our first goal is the respect of the environment throughout the production process.”



TALINT

TAKING A FACTORY TO THE UNITED STATES IS TAKING PART OF OUR HISTORY TOO.

TIGRE OPENED ITS FIRST FACTORY IN THE USA.

After opening factories in Paraguay, Argentina, Chile, Bolivia and Ecuador, Tigre took its largest step: it opened a factory in the United States.

Tigre has one of the most complete lines of PVC pipes and fittings in the world, employs about 4 thousand people and is present in over 35 countries, in almost all continents.

The opening of a factory in the United States is a demonstration of our brand’s power, our history, the work of our employees and the entrepreneurship of the Brazilian business community in one of the most competitive markets in the world.



TIGRE. FROM BRAZIL TO THE WORLD.



BRAZIL



Francisco Amaury Olsen, President and CEO, TIGRE

Ekobe is another environmentally friendly concern, making luxury surface materials from coconut shells, waste products from the food sector, that are mechanically processed and covered by gum before being turned into 13 different formats. The company's watchwords are "Originality, beauty, durability and comfort." Having enjoyed great success in Europe, Ekobe is now trying to crack the U.S. market and already has a number of potential customers.

Alternative Solutions

Meanwhile, specialty chemicals group Lanxess recently acquired 70% of Petroflex S.A., Brazil. Petroflex, a listed company based in Rio de Janeiro, is among the world's large-scale producers of synthetic rubber. The German-owned Lanxess reported at the time that "Petroflex ideally complements our product portfolio and strengthens our position in one of the world's most important growth markets," noting that it was the natural next step in expanding its position in Latin America.

Petroflex's financial assets as of September 2007, amounted to EUR 109 million. The group's 2007 output at its three sites in Brazil – Cabo in Pernambuco State, Duque de Caxias in Rio

de Janeiro State and Triunfo in the State of Rio Grande do Sul – exceeded 400,000 tons.

It's been a timely acquisition. A growth in the Latin American rubber market has been predicted, as consumption of synthetic rubber in the region is currently well below that in the industrialized countries and also below the global average. According to Lanxess, major global tire manufacturers are spending one billion euros to increase their production capacity there. One third of its output is exported to over 70 countries.

Since Lanxess was privatized in January 2005, it has experienced double-digit growth rates in Brazil, posting sales of approximately the equivalent of U.S. \$245 million in 2006. Brazil is now the second-largest market for the company in the Americas, after the U.S. Lanxess posted EBITDA pre-exceptionals of around U.S. \$1 billion for 2007.

Marcelo Lacerda, president of the Brazil division, says: "Our main objective is to fortify the brand in the domestic market and also to increase the participation of the global market of chemical products. The great achievements that we had in the U.S. are due to the magnitude of that economy. Even though there is an economic crisis, there are still great opportunities and we hope to continue with these high levels of exports."

Lanxess is a leader in specialty chemicals with 2006 sales of U.S. \$10.6 billion and around 14,500 employees in 21 countries. The company is represented at 47 production sites worldwide.

With the acquisition of Petroflex, in Brazil, LANXESS has achieved another triumph in its successful history.

Providing products and tailor-made solutions for a wide variety of industries, LANXESS is the driving force in the world of chemistry: bold, dynamic, competent.

- Performance Polymers
- Performance Chemicals
- Advanced Intermediates

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LANXESS
Energizing Chemistry

Surging ahead

The award-winning Companhia Energética de Minas Gerais manages the largest electricity distribution network in Latin America, and is growing all the time.

With almost 100% penetration in Brazil's south-eastern state of Minas Gerais—an area roughly the size of France—Companhia Energética de Minas Gerais (CEMIG) is responsible for the supply of electricity to more than 17 million people. The pioneering company currently owns and operates 52 power plants, six in partnership with private enterprises, and has another four under construction.

As well as having a 20% stake in Light, which distributes electricity to Rio de Janeiro and other cities in the same state, CEMIG partially controls Transmissoras Brasileiras de Electricidade (TBE) which operates several electrical transmission lines in the north and south of Brazil. The



Djalma Bastos de Morais
Director & President,
CEMIG

company is also part of the enterprising Santo Antonio generation project in Rio Madeira and is investing in gas distribution through Gasmig, which is building a gas transmission line to Chile.

With shares traded on the Brazil, New York and Madrid Stock Exchanges, CEMIG is the only electricity utility in the region to be included in the Dow Jones Sustainability Index (World) and is justly proud to be in the same exclusive club as BMW, Allianz, Intel and Unilever. The DJSI World, created in 1999, has become a global benchmark for investors and foreign fund administrators.

Djalma Bastos de Morais, CEMIG's director and president says, "Being an integral part of the Dow Jones Sustainability Index for the 8th time in a row, and now, being listed as a world leader, reflects the company's commitment to sustainable development in all its undertakings. It means respect for the environment and social well-being, as well as effectively adding value for shareholders."

A proven environmental commitment

As manager of one of the world's four largest electricity distribution networks, CEMIG is already an international player. Its success, however, does not come at a price. With a commitment to the protection of the environment, CEMIG invests in conservation programs and on research into new alternative energy sources, such as thermal solar and



Conscientious energy provision.

photovoltaic power, wind power and energy produced from natural gas.

Through research partnerships and surveys conducted with universities and research centers, CEMIG has gathered a vast amount of environmental data that is made available to scholars, agencies and institutions concerned with the preservation of the environment and, above all, the community.

By concentrating on the human issue, CEMIG is able to minimize the impact of its activities and is committed to quality, efficiency and value for money for its customers. In an IASC Consumer Satisfaction survey, undertaken by Brazilian electricity regulator Anee, CEMIG was voted "Best Electricity Concession Holder in south-east Brazil." It was also voted the "Best Company to Work For" of all of Brazil's corporations in a survey by Brazil's leading business magazine *Exame* in 2007.

CEMIG has been selected by the Dow Jones Sustainability Index (World) for the 8th consecutive year.

In recent years, CEMIG has earned increasing recognition, not only from the Dow Jones Sustainability Index and the market, but also from each of its consumers, an appreciation and prestige that reflects its unremitting commitment to sustainable development.

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CEMIG 55 anos
A Melhor Energia do Brasil.

Healthy Returns

Brazil's growing middle-class is creating good opportunities in the health and education sectors.

Brazil's positive economic growth, stabilizing political structures, growing patient population and increased direct foreign investment is creating significant opportunities for pharmaceutical companies to expand there and maximize future revenue potential. Unlike the flooded European and U.S. markets, Brazil's growth in the pharma sector is in the double-digits.

Diagnósticos da América S.A. (DASA) is the first name in pharmaceuticals in Latin America, and the fifth in the world. In the business for more than 40 years it has pursued an expansion strategy based on strong organic growth and the acquisitions of clinical analysis and imaging services companies.

Marcelo Marques Moreira Filho, DASA's CEO, says: "Brazil is a country with large regional and population differences in healthcare. The consolidation is taking place worldwide with the formation of companies capable

of processing more complex tests, which demand special equipment and an excellent workforce. This is the path we are following as a high performance company, making sure we grow with competitive costs, providing services for everyone, every social class and creating good results for our shareholders."

DASA is committed to ensuring the highest quality of diagnostic services to all its patients, and operates 216 outpatient service centers in the country's major metropolitan areas. "We offer patients convenient locations for their diagnostic tests, an appealing environment with support services and amenities, plus extended service hours."

Meanwhile, DASA's on-site laboratories provide routine hospital tests for hospital inpatients, allowing for a quick and efficient service that is tailored to the specific needs of the patient. DASA offers separately branded levels of patient service centers that correspond

with Brazil's private health care system: executive premium, executive and standard. Says Moreira: "The brands differ in the amenities they offer and prices charged, a strategy which, combined with the high quality of testing, has enabled us to be an active player in all of the competitive segments of the Brazilian private sector."

Atlas is a logistical company that specializes in the pharmaceutical sector although it operates in all fields. Founded 50 years ago, it is now one of Brazil's most important logistics companies. Through an aggressive expansion strategy, Atlas has built an impressive infrastructure, with 40 branches strategically located to assure the best and most efficient service in the country. Francisco Martim Megale, president, says: "We offer a complete service, covering the whole logistic process. We integrated the activities of store and transport by road, train and airplane.

Atlas now has 400 platforms working 24 hours a day to serve its 6,000 customers. The company was named preferred choice for pharmaceutical companies by Febrafarma in 2006.

Finally, the country's future management base will be coming from establishments such as FIA, whose MBA program offers a highly experienced faculty, with practitioners and lecturers who are ranked among the most experienced in the world, according to *The Financial Times*. The one-year International MBA is a full-time graduate program, specially designed for a multicultural group of students from Europe, Asia and Latin America. ■



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organization 

A quality player

Committed to economic, environmental and social performance, Elektro is an electricity distributor that is creating a buzz in two Brazilian states.

Established as a result of the privatization of the CESP (Companhia Energética de São Paulo or São Paulo Power Company) distribution service in 1998, Elektro is a company with a vision to become the most admired power distributor in Brazil.

Serving almost two million customers, equivalent to around five million people, Elektro has a 30-year concession, expiring 2028 and renewable for an additional 30 years, to supply electricity to 223 municipalities within the São Paulo state and five municipalities within Mato Grosso do Sul. The latter is an area noted for its socioeconomic and environmental diversity (80% of the conservation area of São Paulo state falls under Elektro's concession) and also for its complicated geography which constitutes the main challenge that the company faces in its pursuit of operational sustainability.

Within Elektro, sustainability is based on the pillars of quality management systems, safety and occupational health, the environment, and social responsibility. This



**Carlos Ferreira,
CEO of Elektro**



Elektro's Headquarters in Campinas, state of São Paulo.

The promotion of sustainable development is guaranteed through Elektro's commitment to United Nation's Global Compact principles, to which it subscribes.

In 2006, Elektro sold 9,651 GWh to its captive consumers. Electric power distributed within the concession area represented 4% of the country's market and 12% of the electric power market within the state of São Paulo. During the same period, Elektro's gross operating revenue was BRL3.6 billion (U.S. \$2 billion) with net operating revenue at BRL2.3 billion (U.S. \$1.1 billion).

Ferreira says: "In addition to our solid customer base, Elektro also has "free" customers within its concession area—people who have the choice of purchasing electricity from other concessions."

Elektro was established as a privately held company in January 1998. In July 1998, it was privatized and Enron became the controlling shareholder. Between May and September 2006, Ashmore Energy International Limited acquired 100% of the shares of Prisma Energy, which had indirect control over Elektro.

On December 29, 2006, the merger of Prisma Energy and Ashmore Energy International came into effect, with the new company being called AEI.

AEI provides a vital platform for growth through its role in owning, operating and developing essential energy infrastructure for the world's emerging markets.

"We aim to become Brazil's most admired power distributor."

commitment has seen Elektro chosen, for the third time, to be the Best Distributor of Electric Energy in Brazil and, for the first time, the best in Social Responsibility by the Brazilian Association of Electric Energy Distributors. Elektro was voted one of the 20 best Brazilian companies for sustainability by *Exame*, the country's most important business magazine.

Carlos Ferreira, the company's CEO, says: "Our mission is based directly on the company evolution and, consequently, sustainable development. We are focused on distributing electricity with safety and quality to all our stakeholders. Safety is our most important value and it is always present in our daily work".

ELEKTRO

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Energia que vem da gente