PRICEWATERHOUSECOOPERS

Doing Deals in Brazil*

2006

*connectedthinking

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Foreword

Brazil has matured, both from an economic and political point of view, and is poised to take its rightful place among the nations offering the greatest market growth potential.

The economic prospects for 2006 are favorable to the country. Inflation has fallen to new low levels, country risk is the lowest in recent history, the currency is strong and stable, the Brazilian Government no longer heavily depends on foreign borrowings and the underlying economics are balanced making Brazil a very attractive market for foreign investment.

Despite great interest and confidence in Brazil, prospective investors still encounter difficulties overcoming complex regulatory and legal issues. In order to improve their understanding of these perceived barriers and the ways to clear the path to a successful investment we are pleased to publish this *Doing Deals in Brazil* guide.

This publication contains information about the economic environment, political and cultural issues, financial and tax regulation and M&A activities among other subjects. A team of PricewaterhouseCoopers' specialists has endeavoured to identify the critical aspects and risks involving foreign investor transactions.

Doing Deals in Brazil does not purport to exhaustively cover all subjects, but is intended to address some of the important, broad questions that may arise. Professional advice should be sought to address relevant Brazilian laws and regulations as well as obtaining appropriate accounting and legal advice.

PricewaterhouseCoopers' professionals are available to provide further information on the matters covered in this publication. We trust this guide will contribute to our clients' realization of successful and profitable business ventures in Brazil.

Fernando Alves
Territory Senior Partner
PricewaterhouseCoopers - Brazil

Section 1
Main Drivers & Challenges

Main Drivers for Doing Deals in Brazil

- Brazil is the fifth largest country in the world in area, has the 10th largest economy and a population of 185 million.
- Many local companies are undervalued and in need of restructuring, capital and technology.
- Growth potential and consumer market.
- Broad industrial base and infrastructure and a diversified economy.
- Creativity and flexibility of labor force coupled with its competitive cost basis.
- Abundant agricultural, mineral and energy resources and potential.
- Established transportation networks (railways, highways, ports) and distribution channels in most industrialized areas.
- Privatization in late stages and follow-on transactions still in development.
- Inflation under control in the last 10 years.
- Significant reduction in the country premium risk rate in the last 2 years.
- Increasing globalization and international trade with Government policies favoring exports.
- Foreign investors are eligible for most available fiscal incentives, including deductibility of goodwill.
- New regulations favoring minority shareholders and corporate governance.
- Improvements in local capital and debt markets.
- Complex tax and labor regulatory environment, with high taxes and social charges on payroll, sales and income.
- Multiple taxes with fast changing legislation affecting business plans and increasing risks of contingencies.
- Economic environment still considered volatile as compared to more stable economies.
- Fast-changing business conditions.

- Lack of local financing coupled with high real interest rates.
- Quality of historical financial information of businesses affected by fluctuations in exchange rates and GAAP differences.
- Complex transfer pricing and foreign capital registration rules.
- Difficulties in reorganizing companies quickly, including high costs for employee terminations.
- Important cultural peculiarities, including a different perception of the due diligence process.
- The “know-who” is more important than the know-how in certain industries and regions.
- Considerable bureaucratic rules and regulations for certain businesses and industries.
- High demand for investments in the distribution channels and infrastructure in certain areas of the country.
- Semi-skilled and unskilled labor in certain developing areas.
- Social extremes with unequal distribution of wealth.

Section 2
Economic Environment

2005 - Continued But Modest Growth

The exceptionally favorable conditions in the world economy which drove the high performance of the emerging market economies in 2004 persisted in 2005. From a Brazilian stand point, these economic conditions translate into a vigorous expansion of world trade, high commodity prices, and abundant liquidity at low interest rates in the foreign markets. Despite this favorable environment, the Brazilian economy grew only about 2.2%, contrasting with the average growth of some 6% for the emerging market economies. This relatively modest performance was due to three main domestic problems during the year.

The first was the need to reduce inflation to the target rate of 5.1%, leading the Central Bank to apply a very tight monetary policy. The basic real (net of inflation) interest rate remained around 14% per year for most of the year, comparing with real rates close to zero in the financial centers of the US and Europe. Although the rate of inflation fell from 7.6% in 2004 to 5.8% in 2005, close to the Central Bank's target rate, the cost of the policy was substantial in terms of a weaker consumer demand and stagnant investment expenditures by the business community.

The second problem was the political crisis, triggered by widespread charges of corruption against key officials in President Lula's government and his party (PT), which dominated most of the year and promises to continue in the first months of 2006, connecting with the October general elections. The evidence collected by the Congressional inquiry commissions installed in early 2005 polarized the attention of the media and public opinion, and at various moments in time threatened to lead to an institutional crisis and the impeachment of President Lula himself.

Although the premature ending of the Lula government seems to be out of the question now, the crisis paralyzed both the administration and the Congress, and shattered the coalition supporting the government. Despite the fact that the economy and the financial markets have seemed to be more or less immune to the political crisis, uncertainty about the immediate future increased and led to a more cautious attitude by the markets affecting business investment plans. As a result, gross domestic investment closed the year at just about the same level of 2004.

The third problem was the continuing appreciation of the Brazilian real throughout the year, resulting both from the short term capital inflows, driven by the large interest rate differential in the domestic financial market, and by the extraordinary trade (and current-account) surplus resulting from the expansion of exports. In fact, the 15% appreciation of the real against the US dollar in 2005 seemed to be an efficient mechanism to reduce inflation closer to the 5.1% target, but it also reduced the competitiveness of Brazilian exports. In the second half of 2005, it became clear that exports of manufacturing products were losing their strength. In addition, the appreciation of the exchange rate contributed to the financial difficulties faced by the agribusiness sector, the leading export sector in the last five years.

The real-dollar exchange rate is appreciated by whatever criterion it is measured, although the amount of the appreciation is subject to controversy. A reasonable measure of the appreciation would be to compare the current exchange rate with the (inflation adjusted) average rate which prevailed in the 6-year period since Brazil adopted free-floating in January 1999. Under this measure, inspired by the purchasing power parity rule, the Brazilian real would be overvalued by some 20%, i.e., almost equivalent to the full appreciation of 2004-2005.

If this measure is correct, the exchange rate should eventually adjust itself to the equilibrium rate, but the time frame for that to happen is uncertain. At this point, given the strength of the Brazilian balance of payments and the liquidity conditions in the worldwide economy, the best guess is that this catch up will be gradual and slow.

Brazil’s indicators of international solvency and liquidity continued to improve in 2005, resulting from the 22% increase in exports (Brazilian exports doubled in the last 5 years). The ratio of the foreign debt to exports fell to 1.7 against 3.9 in 2001, helped also by the steady decline in the country’s foreign debt (see table below). On the other hand, the record high trade surplus of US$44.5 billion (and the current account surplus of US$15.5 billion) allowed the Central Bank to increase its (cash free, net of debt) international reserves from US$27.5 billion in 2004 to US$46.5 billion in 2005. At the end of the year, the government announced the advance payment of its US$15.4 billion debt with the IMF. In spite of this payment and the continued movement of the Central Bank buying foreign exchange in the market, the exchange rate appreciated 15% in 2005. The Brazilian sovereign risk premium reached the lowest level ever by the end of the year (close to 300 basis-points), reflecting the improvement of the external indicators.

The main rating agencies upgraded Brazil rates in 2005 and would probably have done more if the domestic political crisis had not increased the uncertainty about the future of the government and its economic policies. In fact, the main external indicators of the Brazilian economy would have already qualified the country as investment grade were it not for the weakness of the domestic indicators.

Fiscal policy maintained its course, aiming at a steady reduction of the public debt-to-GDP ratio through a primary surplus targeted at 4.25% of GDP. Nevertheless, the exceptionally high real interest rates practiced by the Central Bank in the year hindered a reduction of that fiscal indicator, which remained stable around 52% of GDP. Despite the responsible fiscal policy of the last five years, the quality of the fiscal adjustment is still very poor. It has been based on an increase in tax revenues, on top of an already excessive tax burden approaching 37% of GDP (against an average of 20% for the other emerging market economies), and the virtual disappearance of public investments. This means that government current expenditures (consumption plus transfers) have maintained their unchecked upward trend relative to GDP. Perhaps the main political challenge of the coming years for Brazil will be the introduction of new legislation leading to a steady reduction of government current expenditures relative to GDP as a necessary step to reform the inefficient Brazilian tax system.

Outlook for 2006

The economic perspective for 2006 is favorable for Brazil, but uncertainty will increase in the aftermath of the political crisis and run up to the general elections of October. On the external front, it is expected that the world economy will continue its expansion of the last three years, although the outlook of higher interest rates will translate into less liquidity for emerging market economies and perhaps lower prices of commodities. However, the Brazilian government no longer requires external financing and is therefore much less vulnerable to the trends in the international financial markets.

On the domestic front, it is likely that growth in 2006 will be driven by domestic rather than external demand. This expectation results from the fact that exports which have been the main engine of domestic growth in 2004-05 will slow down primarily due to the large appreciation of the Brazilian real. On the other hand, it is expected that inflation will remain close to the government target of 4.5%, paving the way for a steady decline of domestic interest rates, which in turn will foster domestic consumption and investment. It is also likely that government expenditures will increase above the normal trend in an election year. Overall, a growth rate around 3% seems feasible for the year.

Two scenarios for the presidential elections of 2006 are being considered, depending on Lula's remaining electoral strength after the political crisis that overwhelmed his administration in 2005. If Lula remains as a major candidate, with good chances of winning, a scenario of polarization between PT and PSDB is likely, reproducing much of the 2002 elections. In that case, political uncertainty is minimized since both candidates and their policies (whoever the PSDB runner is) are well known. If Lula loses most of his popularity with the crisis, as current opinion polls seem to indicate, and becomes a weak candidate, a scenario of fragmentation is likely in which other major parties besides the PSDB seize the opportunity of having their own presidential candidate. In that case, political uncertainty is maximized, since alternative (less known) policy agendas may come to the scene. Whatever scenario prevails, however, there is a reasonable confidence that Brazil is sufficiently mature to pursue sound policies in the future. That confidence explains why the political crisis has caused so little damage to the economy in 2005.

Overview of Brazil

Key Figures

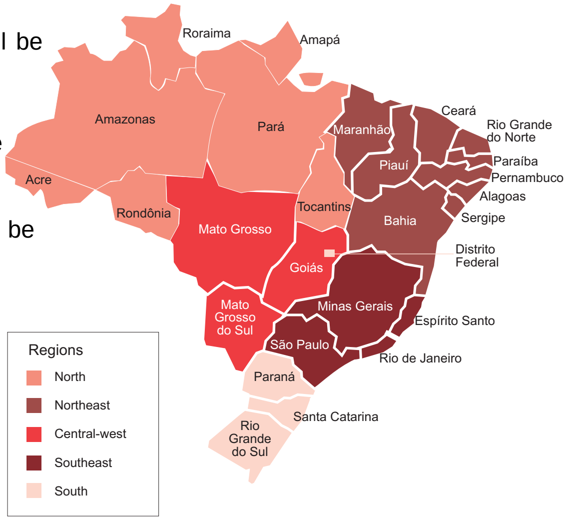
- Population: 185 million (2005).
- 26 states and 1 federal district.
- GDP in 2005 estimated at US$800 billion.
- Currency: Real (rate of US$1 to R$2.30 as of December 2005).
- Language: Portuguese.

Political Scenario

- Federative Republic of Brazil.
- Next Presidential elections will be held in October 2006.
- Luiz Inácio Lula da Silva, the current President is one of the major candidates, probably competing against the Social Democratic Party candidate to be defined in March 2006.

Economic Overview

- The largest economy in South America and the 10th in the world.
- Primary economic sectors are: agriculture, automobile, utilities, transport, industry, mining and energy.
- Main economic regions are: São Paulo, Rio de Janeiro, Minas Gerais, Rio Grande do Sul and Bahia.



Source: IMF and World Bank

Population data

- Population: 185 million (2005).
- GDP per capita of US$ 4,325 in 2005.
- Approximately 70% of the people is concentrated in the Southeast and Northeast regions.
- Average life expectancy of 69 years.
- 20% of the population are rural dwellers and 80% urban.
- 42% of the population is under 20 years of age and less than 8% is over 65 years.
- The population of the São Paulo and Rio de Janeiro states are, respectively, 34 million and 14 million.
- São Paulo is one of the fastest-growing cities in the world based on current international surveys.
- 20 other metropolitan areas of Brazil have populations of more than 1 million.
- 30% of the population lives in the ten largest cities.
- Brazil represents the largest population in Latin America and the sixth largest in the world.

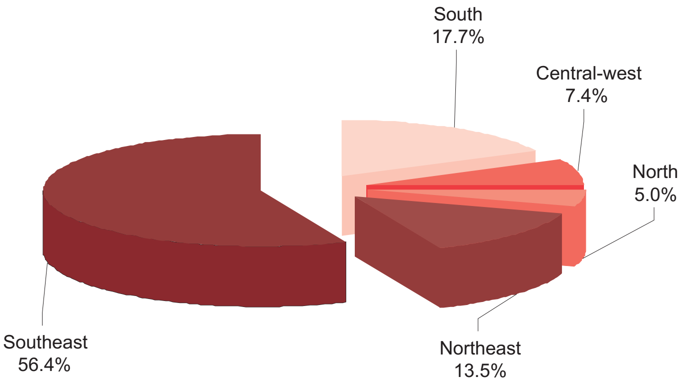
Source: IMF, World Bank and IBGE

Region	Population In millions	Population %	Land mass %	GDP per Capita in Reais (R$) Brazilian Currency
North	15	8.1	42	4,939
Northeast	48	25.9	18	3,694
Southeast	76	41.1	11	10,086
South	32	17.3	7	9,157
Central-west	14	7.6	22	8,166
	185	100.0	100	(1) 7,704

Source: IBGE

(1) IBGE 2002: no updated information available

Regional participation in the GDP formation



Principal Economic Indicators

(Certain 2005 figures are estimates)

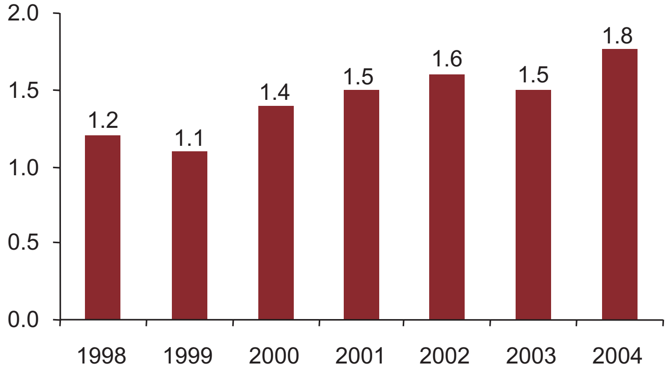
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
GDP (US$ billion) - at current prices	775	807	787	536	602	510	459	507	604	800
GDP growth (% p.a.) - indexed local currency	2.7	3.3	0.2	0.8	4.5	1.5	1.5	0.3	5.2	2.5
Unemployment rate (% of labor force)(1)	5.8	6.1	8.3	8.3	7.8	6.8	11.7	12.3	10.5	9.4
General Price Index - IGP-DI (% per year)	9.3	7.5	1.7	20.0	9.8	10.4	26.4	7.7	12.1	1.6
Consumer Price Index - IPCA (% per year)	9.6	5.2	1.7	8.9	6.0	7.7	12.5	9.3	7.6	5.8
Exchange rate at year-end (R$/US$)	1.04	1.12	1.21	1.80	1.95	2.32	3.53	2.89	2.65	2.3
Exchange rate variation (% per year)	6.8	7.7	8.0	48.8	8.3	19.0	52.2	(18.1)	(8.3)	(13.2)
Public sector deficit (% of GDP)	5.9	6.1	8.1	10.3	4.5	5.3	4.6	5.1	2.7	3.6
Public sector debt (% of GDP)	34.4	34.5	41.7	49.4	49.3	53.3	65.5	58.7	54.3	51.7
External debt (US$ Billion)	179.9	200.0	223.8	225.6	216.9	209.9	210.7	214.9	204.2	205.0
(in US$ billion)										
Exports	47.8	53.0	51.1	48.0	55.1	58.2	60.4	73.1	96.5	121.5
Imports	53.3	61.4	57.7	49.3	55.8	55.6	47.2	48.3	62.8	77.0
Trade balance	(5.5)	(8.4)	(6.6)	(1.3)	(0.7)	2.6	13.2	24.8	33.7	44.5
Current-account balance	(24.3)	(32.4)	(33.4)	(25.4)	(24.2)	(23.2)	(7.8)	4.2	11.7	15.5
International reserves	60.1	52.2	44.6	36.3	33.0	35.9	37.8	49.3	52.9	67.0
Foreign direct investment	15.5	17.1	25.9	30.0	30.8	24.7	16.6	12.9	20.3	16.0
External debt/Exports - ratio	3.8	3.8	4.4	4.7	3.9	3.6	3.5	2.9	2.1	1.7
International reserves/Imports - ratio	1.1	0.9	0.8	0.7	0.6	0.6	0.8	1.0	0.8	0.9

(1) A new methodology was introduced in 2002

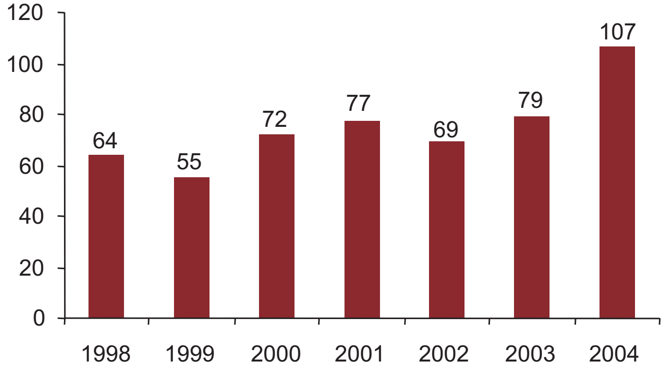
Source: IMF, World Bank, Central Bank of Brazil and IBGE

Industrial production and raw material

Automobiles (million units)

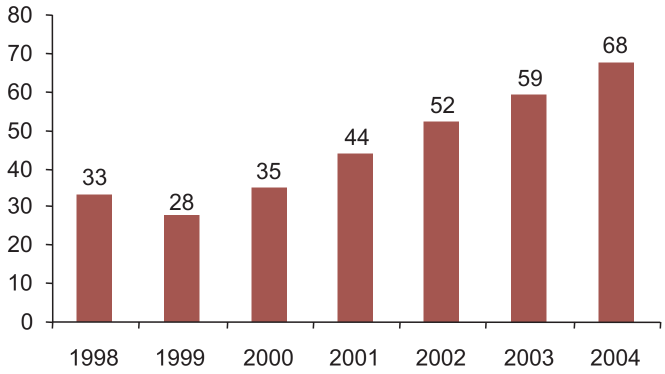


Trucks (thousands)

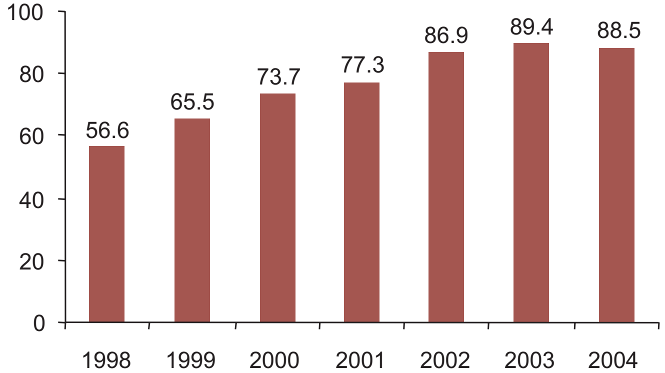


Source: MDIC - Ministério da Desenvolvimento, Indústria e Comércio Exterior
IBGE - Instituto Brasileiro de Geografia e Estatística
CONAB - Companhia Nacional de Abastecimento

Agricultural machines (thousands)



Petroleum (million m^3)



Source: MDIC - Ministério da Desenvolvimento, Indústria e Comércio Exterior
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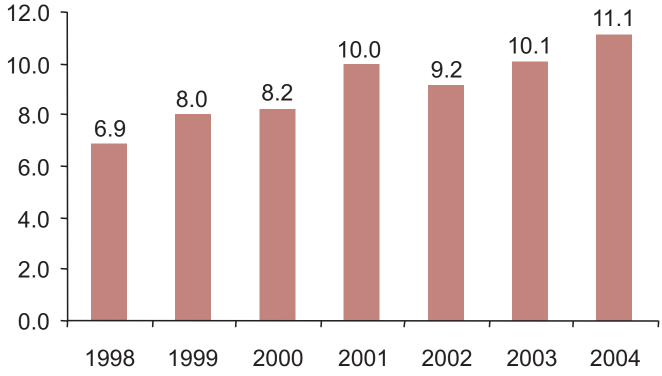
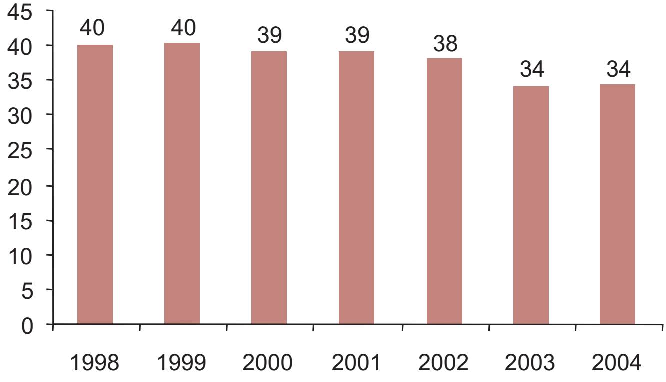
CONAB - Companhia Nacional de Abastecimento

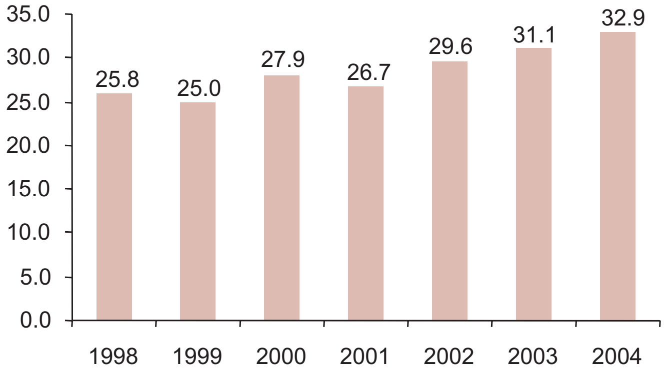
Natural gas (billion m^3)



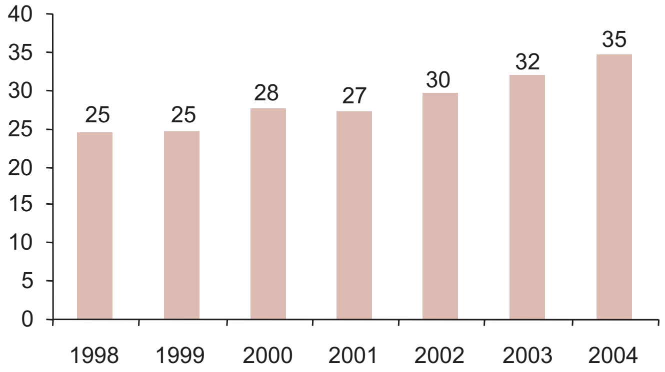
Cement (million tons)



Steel (million tons)



Iron "melt" (million tons)



Source: MDIC - Ministério da Desenvolvimento, Indústria e Comércio Exterior
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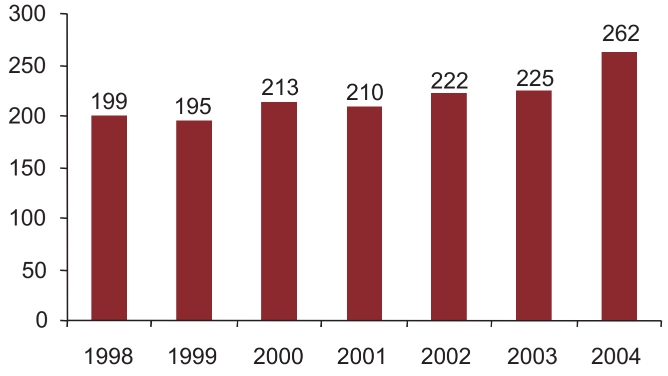
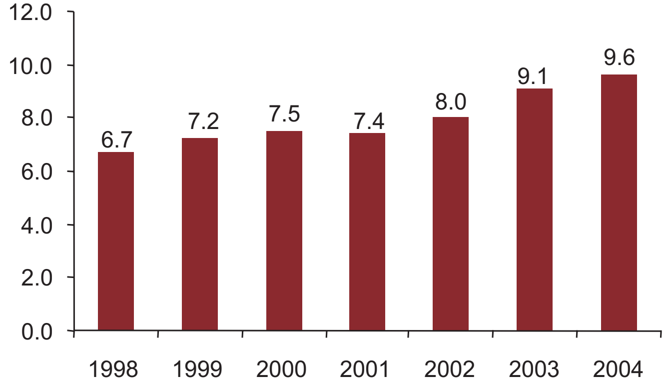
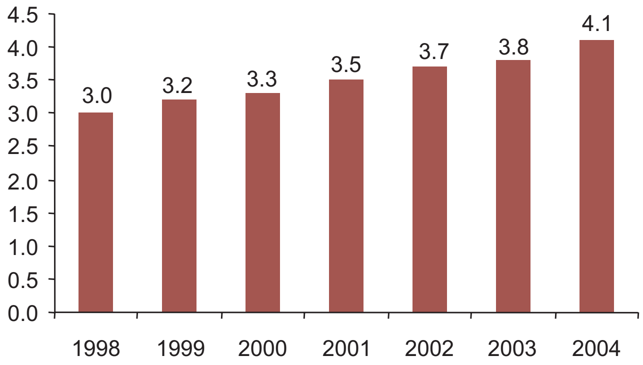
Iron mineral (million tons)



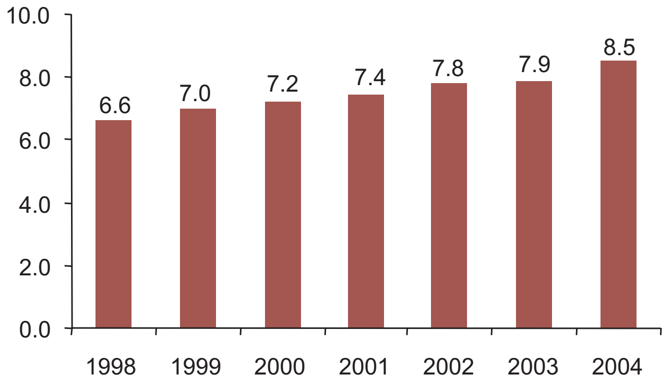
Pulp (million tons)



Packaging paper (million tons)



Paper & Cardboard (million tons)



Note: Numbers include packaging paper

Source: MDIC - Ministério da Desenvolvimento, Indústria e Comércio Exterior
IBGE - Instituto Brasileiro de Geografia e Estatística
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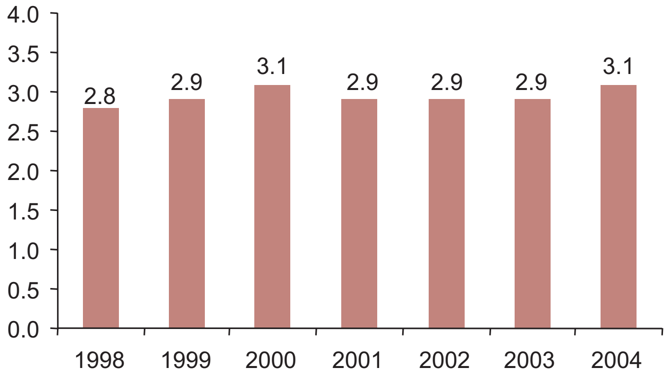
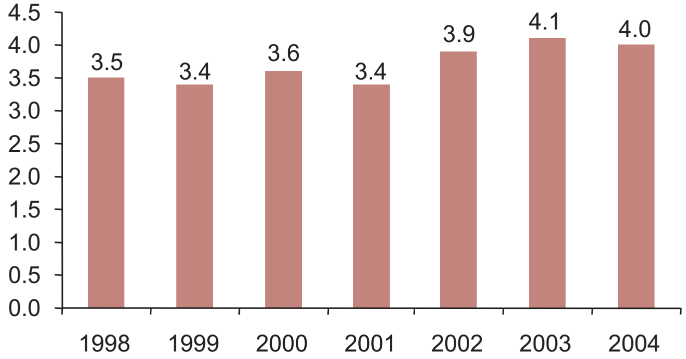
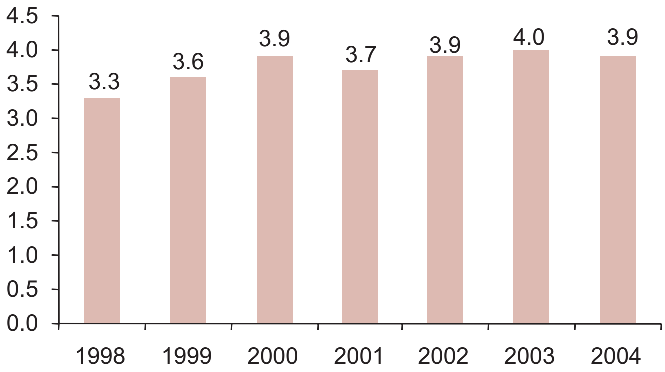
Glass (million tons)



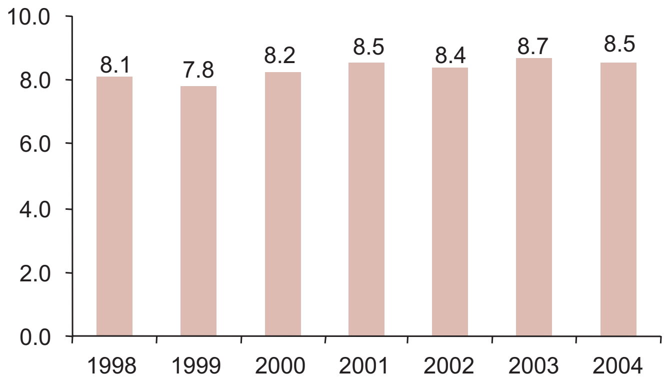
Plastic (million tons)



Resin (million tons)



Beer (billion liters)



Source: MDIC - Ministério da Desenvolvimento, Indústria e Comércio Exterior
IBGE - Instituto Brasileiro de Geografia e Estatística
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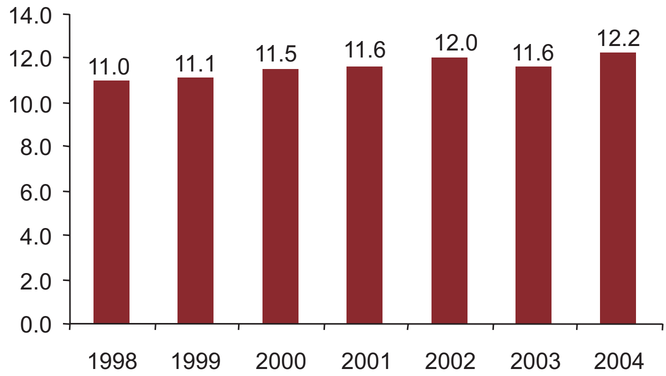
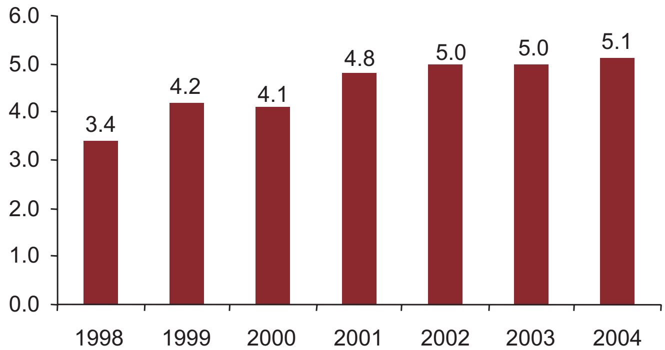
Soft drinks (billion liters)

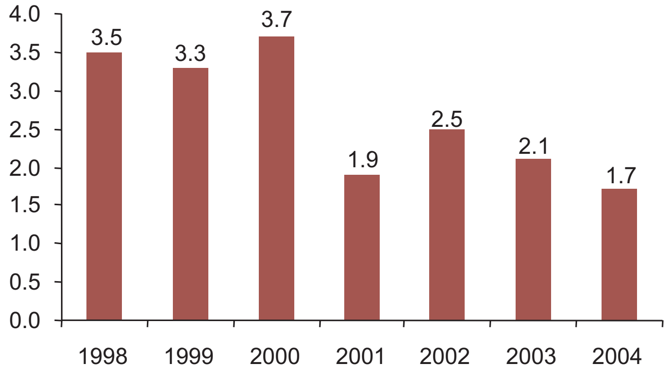


Water (billion liters)

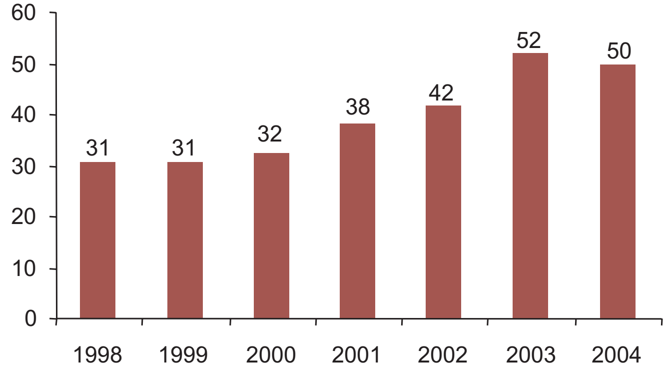


Agribusiness production

Coffee (million tons)



Soybean (million tons)



Source: MDIC - Ministério da Desenvolvimento, Indústria e Comércio Exterior
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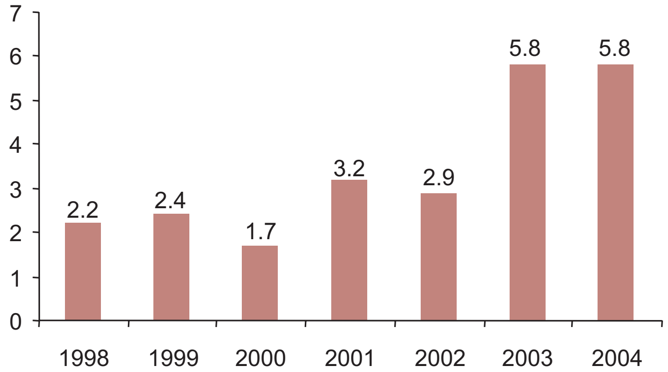
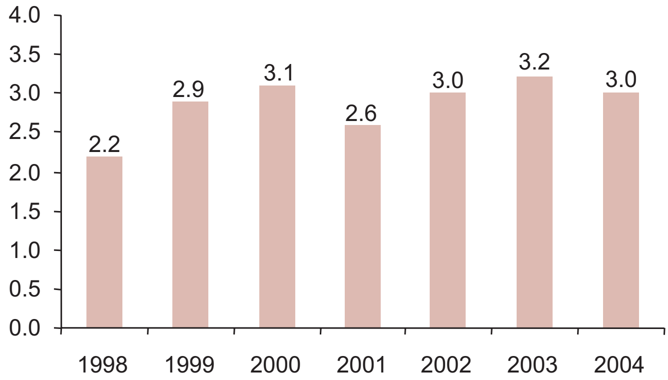
Corn (million tons)

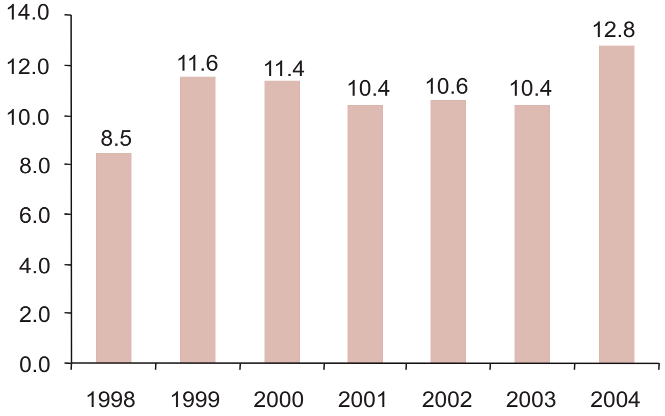
Wheat (million tons)



Bean (million tons)



Rice (million tons)



Source: MDIC - Ministério da Desenvolvimento, Indústria e Comércio Exterior
IBGE - Instituto Brasileiro de Geografia e Estatística
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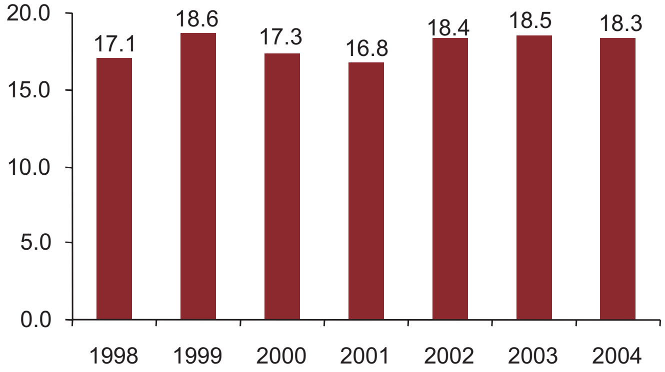
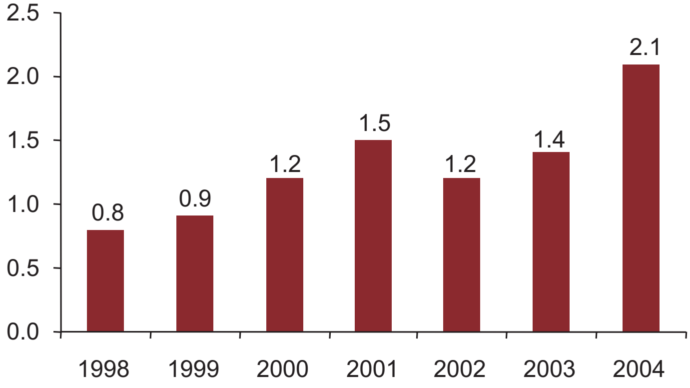
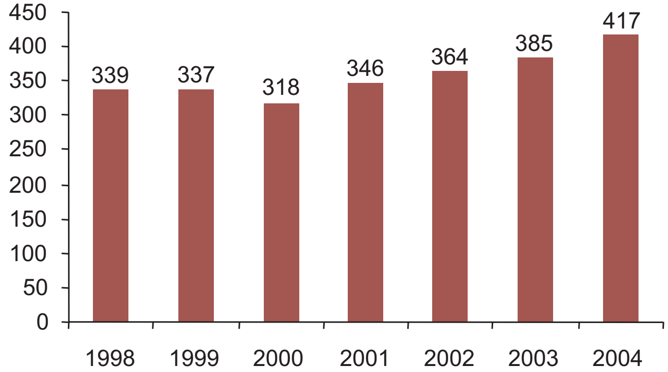
Orange (million tons)



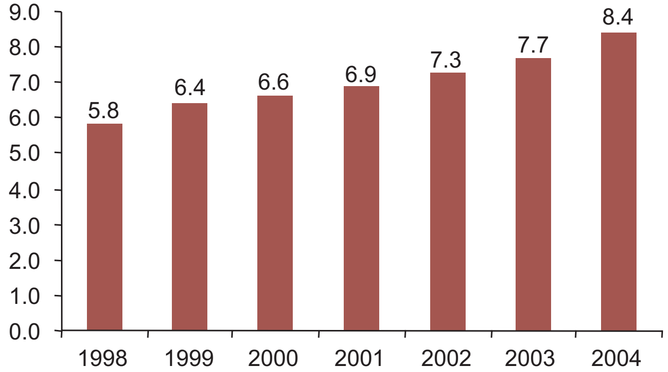
Cotton nut (million tons)



Sugar cane (million tons)



Meat production (million tons)



Source: MDIC - Ministério da Desenvolvimento, Indústria e Comércio Exterior
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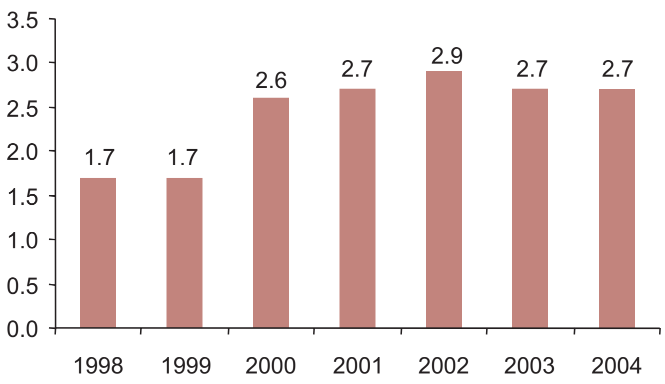
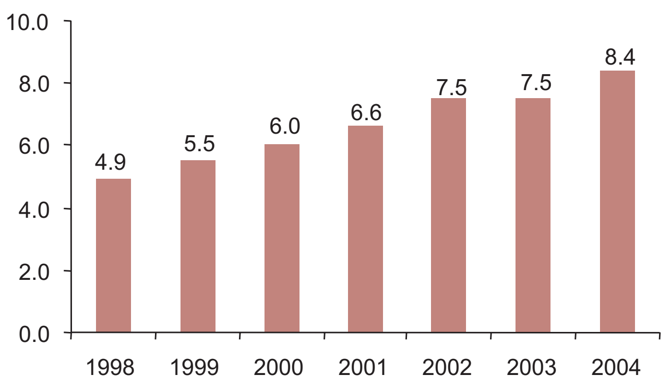
Pork meat production (million tons)



Chicken meat (million tons)



From 2003 to YTD 2005, the compound annual growth rate of exports was 21.2% against the 17.8% rate of imports - Imports and Exports in US$ million FOB

The main exports/imports - by country

Country	2003	2004	(1) 2005
Exports			
United States	16,692	20,341	20,353
Argentina	4,561	7,373	9,016
China	4,533	5,440	6,092
Netherlands	4,246	5,917	4,869
Germany	3,136	4,036	4,592
Other countries	39,916	53,368	62,490
Total	**73,084**	**96,475**	**107,412**
Imports			
United States	9,564	11,511	11,594
Argentina	4,673	5,572	5,713
Germany	4,205	5,072	5,630
China	2,148	3,710	4,852
Nigeria	1,493	3,499	2,226
Other countries	26,177	33,418	36,979
Total	**48,260**	**62,782**	**66,994**

(1) YTD November, 2005 - Last available period

Source: SECEX - Secretaria de Comércio Exterior

The main exports/imports - by product

Country	2003	2004	([1]) 2005
Exports			
Soybean	4,290	5,395	5,107
Iron mineral	3,456	4,759	6,503
Soybean oil & disposals	2,602	3,271	2,655
Passenger automobiles	2,656	3,351	3,512
Aircrafts	1,939	3,269	1,469
Other products	58,141	76,430	88,166
Total	**73,084**	**96,475**	**107,412**
Imports			
Petroleum - gross	3,777	6,758	6,835
Vehicle parts	1,501	2,041	2,477
Electronic micro parts	1,471	2,036	1,329
Medicines	1,397	1,630	361
Sender/receiver parts	997	1,587	856
Other products	39,117	48,730	55,136
Total	**48,260**	**62,782**	**66,994**

In YTD 2005, the top 10 companies represented respectively 22.8% and 24.4% of total exports and imports - Trade balance in US$ million FOB

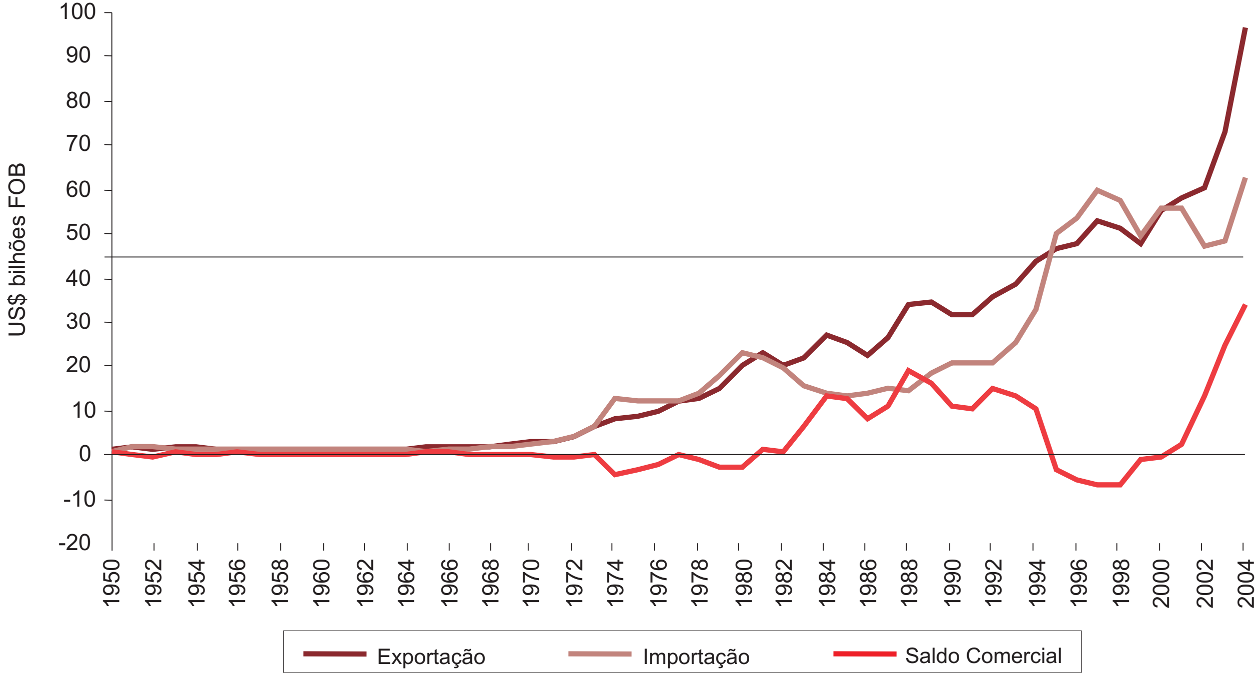
The main exports/imports - by company

Company	2004	(1) 2005
Exports		
Petroleo Brasileiro S.A. Petrobras	4.562	6.958
Companhia Vale do Rio Doce	3.176	4.261
Embraer Empresa Bras Aeronautica S.A.	3.348	2.738
Bunge Alimentos S.A.	2.543	2.022
Volkswagen do Brasil Ltda	1.549	1.964
General Motors do Brasil Ltda	1.336	1.451
Cargill Agricola S.A.	1.433	1.325
Ford Motor Company Brasil Ltda	1.110	1.309
Sadia S.A.	1.046	1.264
Gerdau Acominas S.A.	855	1.243
Other companies	75.517	82.877
Total	**96.475**	**107.412**
Imports		
Petroleo Brasileiro S.A. Petrobras	7.112	7.603
Embraer Empresa Bras Aeronautica S.A.	1.992	1.611
Alberto Pasqualini - REFAP S.A.	1.091	1.531
Motorola Industrial Ltda	1.032	1.351
Nokia do Brasil Tecnologia Ltda	731	843
Copesul - Cia Petroquimica do Sul	678	814
Volkswagen do Brasil Ltda	457	683
Samsung Eletronica da Amazonia Ltda	357	657
Bunge Alimentos S.A.	734	626
Daimler Chrysler do Brasil Ltda	457	609
Other companies	48.141	50.666
Total	**62.782**	**66.994**

(1) YTD November, 2005 - Last available period

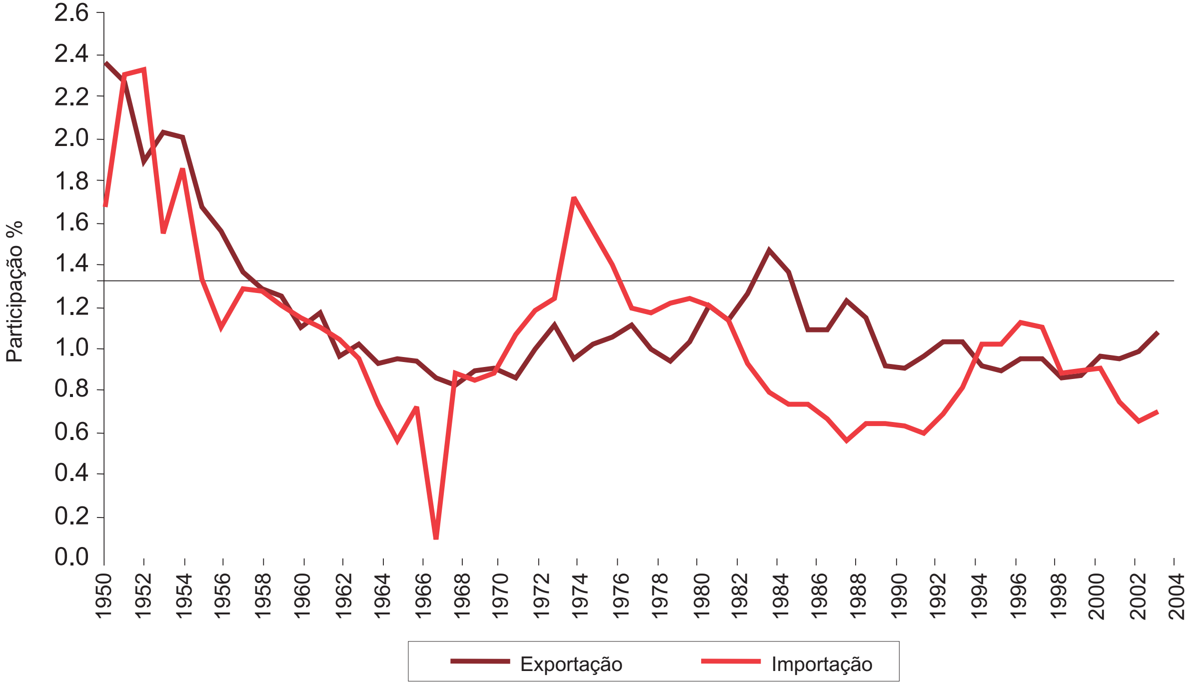
Source: SECEX - Secretaria de Comércio Exterior

The Brazilian trade balance evolution - From 1950 to 2004



Source: SECEX - Secretaria de Comércio Exterior
MDIC - Ministério da Desenvolvimento, Indústria e Comércio Exterior

Participation of Brazil in the world's exports and imports - 1950 to 2004



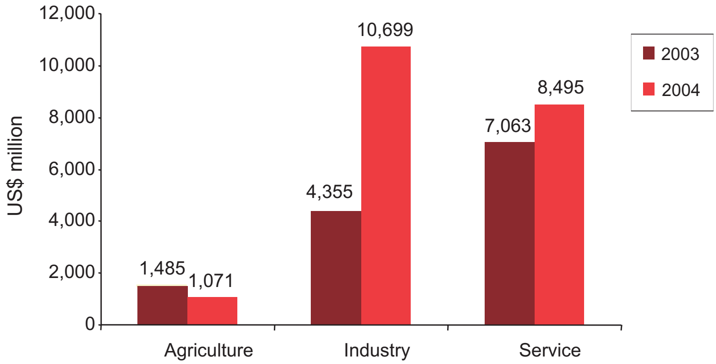
Source: SECEX - Secretaria de Comércio Exterior
MDIC - Ministério da Desenvolvimento, Indústria e Comércio Exterior

The USA and the Netherlands were the main foreign investors during FY 2004 representing together 57.8% of investments. The industrial and service sectors received respectively 52.8% and 41.9% of the total FDI

Foreign Direct Investment - by country

In US$ million	2003	2004
Netherlands	1,444	7,705
United States	2,383	4,017
Cayman Islands	1,909	1,482
Spain	710	1,054
German	506	795
Luxemburg	238	747
Canada	117	592
Portugal	202	571
France	825	486
Japan	1,368	243
Other Countries	3,201	2,573
Total	**12,903**	**20,265**

Foreign Direct Investment - by sector



Source: Bacen - Brazilian Central Bank

The services segment continues to play a significant role in GDP as compared to the agricultural and industrial segments of the economy

With large and well-developed agricultural, mining, manufacturing and services sectors, the Brazilian economy outweighs that of all other South American countries and is rapidly expanding its presence in world markets.

The main industries are: chemicals, cement, iron ore, tin, steel, aircraft, motor vehicles, auto parts and other machinery and equipment. The industrial production growth rate was of 2.4% in 2002, 0.3% in 2003, 8.3% in 2004 and an estimated 3.5% in 2005.

Natural resources - bauxite, gold, iron ore, manganese, nickel, phosphates, platinum, tin, uranium, petroleum, hydropower and timber

Main agricultural products - coffee, soybeans, wheat, rice, corn, sugarcane, cocoa and citrus.

Export items - iron mineral, soybean, automobiles, soybean oil and disposals and aircrafts, among others.

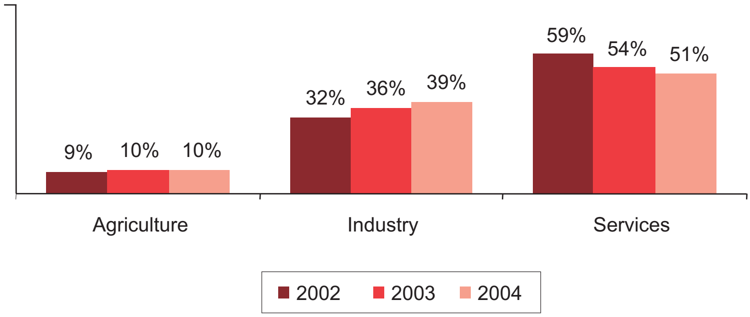
Main export partners (YTD 2005) - USA 18.9%, Argentina 8.4%, China 5.7%, Netherlands 4.5% and Germany 4.3%.

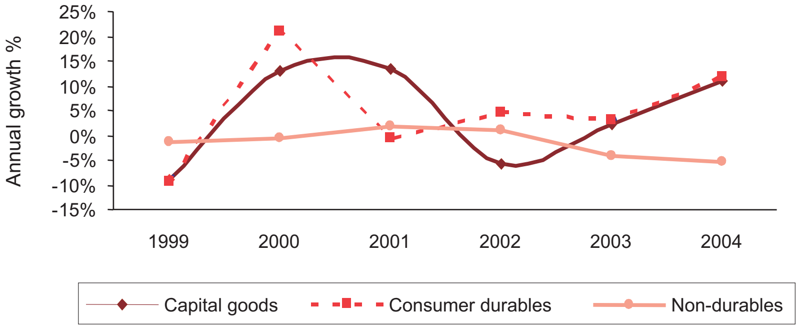
Import items - petroleum gross, vehicle parts, electronic micro parts, medicines, sender and receiver parts, etc.

Main import partners (YTD 2005) - USA 17.3%, Argentina 8.5%, Germany 8.4% and China 7.2%.

Ports and harbors - Belém, Fortaleza, Ilhéus, Imbituba, Manaus, Paranaguá, Porto Alegre, Recife, Rio de Janeiro, Rio Grande, Salvador, Santos, Vitória.

GDP - Composition by sector

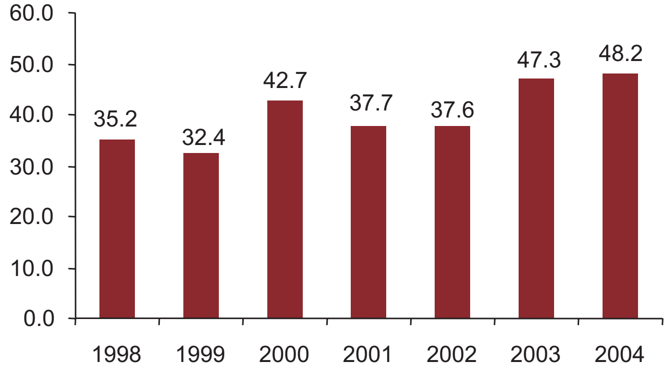




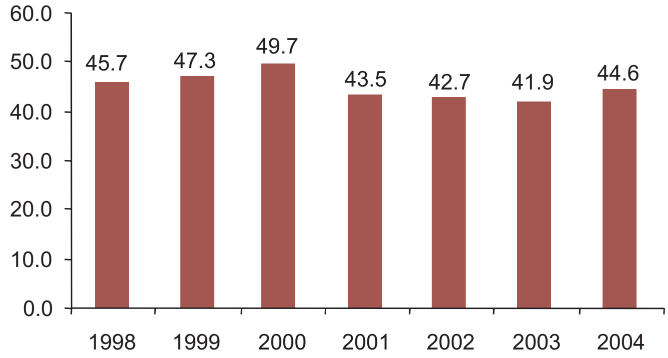
Source: World Bank and IBGE

Percentage of taxes and social charges on sales revenue - by segment

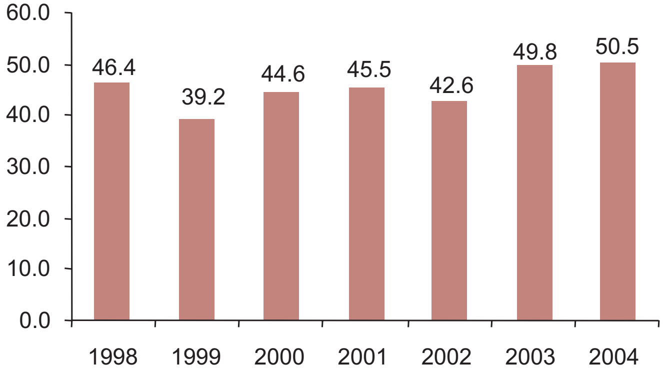
Services (% of Sales revenue)



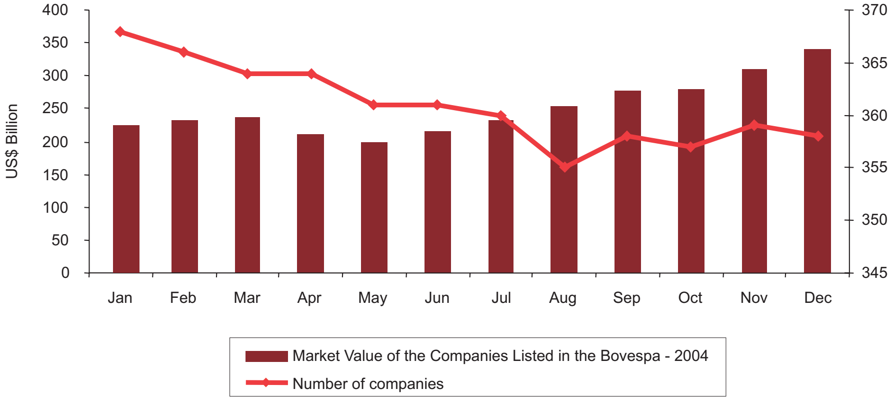
Commerce (% of Sales revenue)

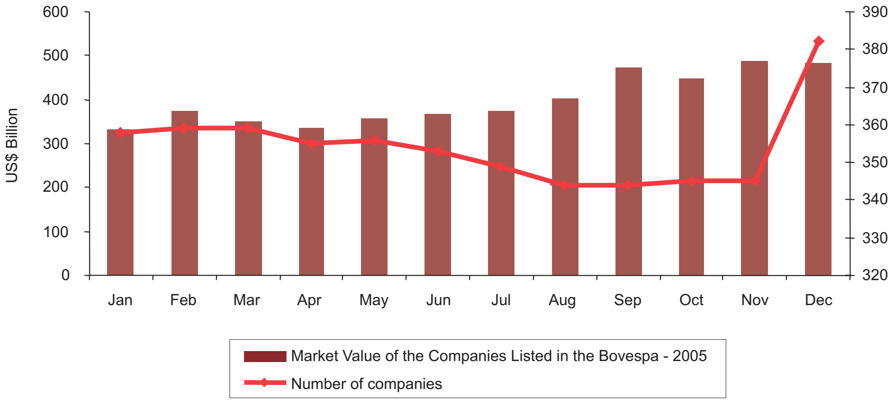


Industry (% of Sales revenue)



From full year 2004 to full year 2005, the average market value of the Brazilian companies listed in the Sao Paulo stock exchange (Bovespa) increased from $250 to some $400 billion





Source: Bovespa - Brazilian Stock Exchange

Section 3
M&A Activity

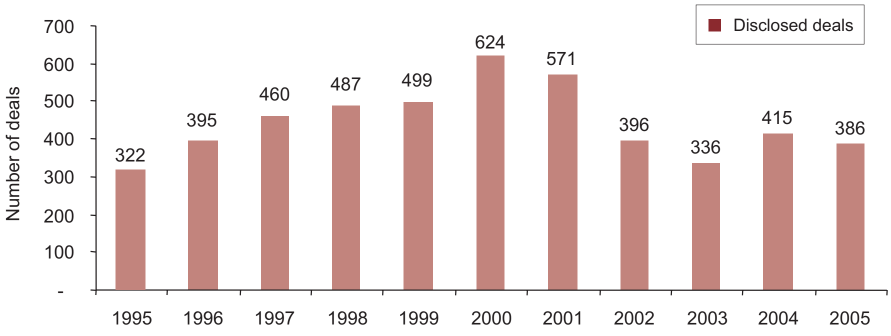
M&A activity decreased sharply in the beginning of this decade influenced by the downturn of the world economy and the end of the internet boom

During the 1990's, Brazil entered the route of foreign investors, after a series of liberalizing structural changes including a more open economy, privatization and deregulation of key sectors.

The total number of transactions increased consistently in the second half of the decade (1995-2000), after the implementation of the "Plano Real" (stability plan implemented by the Brazilian government in mid-1994), which improved income distribution and economic perspectives of the country, attracting the interest of investors, especially foreigners. The average annual growth in the total number of transactions from 1995 to 2000 was 14%, with the accumulated growth over the period reaching 94%.

The number of deals decreased by 38.1% from 2000 to 2005, primarily due to the following international and local events: lower global economic growth (mainly in the US); strong decrease in stock markets (particularly in the IT industry with the burst of the internet bubble); terrorist attacks in the US; corporate scandals involving public companies; Argentine crisis; Brazilian elections (won by an opposition party); and a weak performance of the Brazilian economy.

Transaction evolution



Source: PwC Corporate Finance
Note: Including acquisitions, joint-ventures, mergers and spin-offs

The reduction in the number of transactions was also impacted by the large number of deals involving internet companies from 1999 to 2001, which increased from 2 transactions in 1998 to 42 in 1999, 116 in 2000 and decreased to 66 transactions in 2001, 17 in 2002, 18 in 2003 and 13 in 2004.

After slowing down in the beginning of this decade, the M&A activity started its recovery in 2004 and 2005, as a consequence of a successful government transition, solid political and macroeconomic policies (which were essential for foreign investors regaining confidence in the country), the worldwide economic recovery and new regulations affecting corporate governance. Moreover, the country continues to offer high long term growth potential and a less saturated and competitive environment, in comparison with more developed markets. The increase in the number of deals is expected as: financial and corporate investors realign their investments; industries concentrate and consolidate in search of synergy; private equity funds make new investments and exit from existing ones; new strategic players enter the Brazilian market; the economy continues to show signs of future growth.

Participation of foreign capital in M&A transactions grew significantly in the 1990's, loosing ground since 2001, but showing recovery in 2004 and 2005

The number of transactions involving foreign capital in Brazil through acquisitions grew significantly, increasing from 60 deals in 1994 to 258 in 2000.

The main factors propelling the M&A market during the 1990's included:

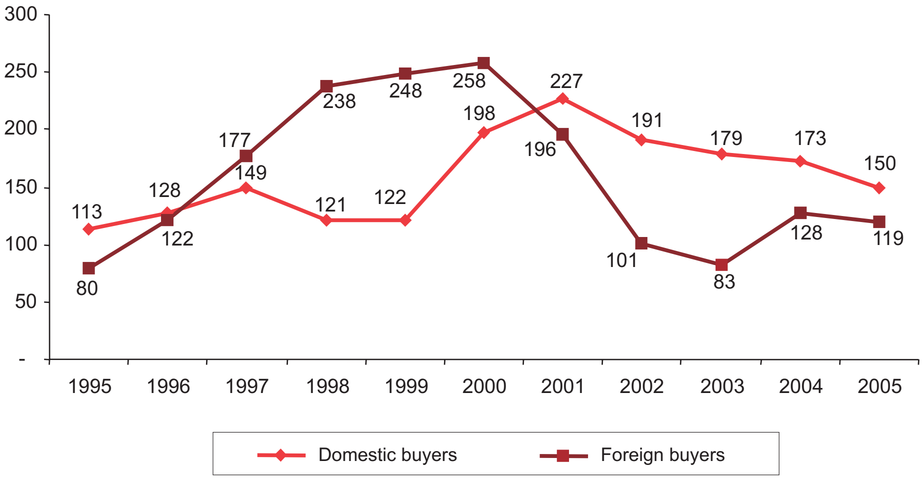
- economic stabilization, with significant reduction in inflation rates;
- the opening of the Brazilian market and Mercosur;
- the privatization program - energy (generation and distribution), telecom, water/sewage, among others;
- attractive market conditions - size, growth perspectives, global sourcing, synergies, Mercosur platform;
- small local capital market, high interest rates and lack of capital, favoring disposals by local entrepreneurs;
- significant reduction in the Brazilian sovereign risk rates due to economic stabilization.

Starting in 2001, multinational companies reduced their appetite for acquisitions due to global and local economic and political reasons and also due to strategic decisions (e.g. focus on global brands). Local companies and investors took advantage of this scenario to execute acquisitions at attractive prices.

As a consequence, the number of transactions involving foreign investors in Brazil as acquirers decreased to 83 deals in 2003.

Confidence in local macroeconomic and political policies, coupled with some international economic recovery, have made foreign investors enter and expand the market through acquisitions in Brazil in 2004 and 2005.

Foreign capital participation - only in acquisitions



Source: PwC Corporate Finance
Note: Including acquisitions of controlling and minority interests

During the period of 1994 to 2005, the top 5 most active sectors have accounted together for over 45% of all transactions

Between 1994 and 2005 the IT, food, beverage and tobacco and chemical and petrochemical sectors accounted for 29.5% of all deals. In this period, the IT was the most active sector, especially due to the large number of transactions involving small internet operations and service providers starting in 1999.

Approximately 80% of the 536 transactions in the IT sector occurred in the period of 1999 to 2005. In that period, this segment accounted for 13.4% of all transactions, followed by public services (8.8%), food, beverage and tobacco (8.7%) and the service industry (7%).

The chemical and petrochemical sector was the most active sector for 5 consecutive years from 1994 to 1998, accounting for 13% of all transactions in that period.

In a period of 12 years, the number of transactions in Brazil reached approximately 5,111 including acquisitions, joint ventures, mergers and spin-offs.

Total by sector (disclosed deals only)	**Total transactions**	**(%)**
IT and computer related industry	536	10.5%
Food, beverage and tobacco	495	9.7%
Chemical and petrochemical	476	9.3%
Financial institutions	435	8.5%
Public services	387	7.6%
Service industry	295	5.8%
Transportation material	239	4.7%
Retail	255	5.0%
Telecommunication	224	4.4%
Metallurgy	222	4.3%
Mining	211	4.1%
Transportation	124	2.4%
Household appliances and electronics	104	2%
Mechanical	89	1.7%
Other	1,019	19.9%
Total	**5,111**	**100.0%**

Transactions from 1994 to 2005
Source: PwC Corporate Finance
Note: Including acquisitions, joint-ventures, mergers and spin-offs.

Investments from USA and France accounted for 46.4% of all transactions involving foreign capital in the country during the period of 1995-2005

Brazil became a primary target for foreign capital investments during the 1990's. Companies domiciled in many countries decided to enter Brazil investing in growth sectors, with North America and Europe clearly taking the lead.

US based companies participated in 662 acquisitions during the period from 1995 to 2005. France came in second with 150 deals, followed by a number of other countries, mainly European.

While important US investments were concentrated in the electric energy, internet and telecommunications sectors, French companies invested primarily in retail, food and construction material, as well as in the energy sector.

While Germany and UK reduced their share in the number of acquisitions in the period (from aggregate 23% in 1995 to 11.7% in 2004), Spain and Portugal increased their share from 3% in 1995 to 14% in 2002 and 7.6% in 2005.

Portugal and Spain made important investments during the privatization of utility companies in Brazil, especially in the telecommunication and energy sectors.

Main Countries	Number of transactions
North America	
United States	662
Canada	46
Mexico	23
Europe	
France	150
Germany	97
Spain	84
United Kingdom	80
Portugal	68
Italy	55
Netherlands	39
Sweden	26
Switzerland	25
Argentina	58
Japan	28
Other countries	309
Total	**1,750**

Source: PwC Corporate Finance
Note: Includes only transactions (i) involving the acquisition of controlling or minority interest and (ii) disclosed in the period of 1995 to 2005

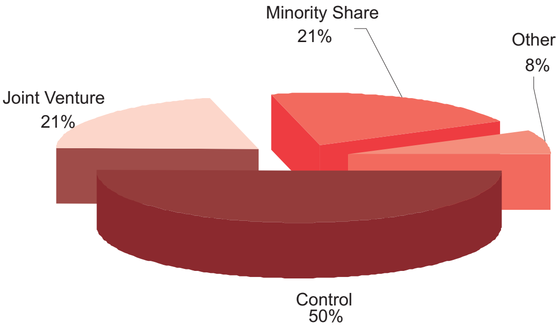
Over the years, foreign investors have generally acquired controlling stake of the companies in which they have invested, rather than taking a minority interest share

While acquisitions of controlling interest have increased from 26% in 1994 to 52% of all transactions in 2005 (after reaching a peak of 58% in 1998), the participation of acquisition of minority interest on total transactions decreased from 35% in 1994 to 18% in 2004 (15% in 1998). Of the 5,111 disclosed deals which took place in the period from 1994 to 2005, 50% involved the transfer of a controlling stake.

Combined analysis of the type of transactions and the type of investor shows that over the years foreign investors have changed their strategy. Instead of acquiring minority interests, they are now generally acquiring control of the target operations or even taking 100% of the entity itself.

During 1994, only 42% of acquisitions made by foreign investors represented acquisitions of a controlling interest. This percentage increased to 72% in 2004.

Type of Transaction 1994-2005



Type of transaction	Number of transactions
Control	2.567
Joint venture	1.095
Minority share	1.062
Other	387
Total	**5.111**

Source: PwC Corporate Finance
Total disclosed transactions from 1994 to 2005

Profile of the M&A market in Brazil

Buyers

- Multinational and local firms
- Private equity and buy-out funds
- Government and private pension funds
- Stressed debt conversions

Targets

- Private companies
- Family owned
- Privatization (1st and 2nd wave)
- Carve-out of acquired non-core businesses
- Non-core or distressed businesses of multinational companies

Deal Size

Number of transactions of over US$100 Million in value (ex-privatization; disclosed deals and announced amounts only).

1996 - 14
1997 - 18
1998 - 32
1999 - 28
2000 - 36
2001 - 32
2002 - 26
2003 - 22
2004 - 38
2005 - 33

Main recurring reasons for unsuccessful deals in Brazil

- Cultural differences (inadequately factored).
- Insufficient due diligence prior to investing.
- Overload of legal formalities/ bureaucracy.
- Unexpected tax, environmental and labor issues.
- Inefficient exit strategies.
- Volatility of market conditions.
- Quality of acquired management.
- Quality and level of available information.
- Overestimated synergy/ restructuring gains.
- Inefficient post acquisition monitoring.
- Partners with financial problems.
- Underestimation of deal execution time

Performance of the largest companies in the main economic sectors in Brazilian

	Excluding inflation rates		After Income Tax					
	Sales growth - %		Net margin on sales - %		ROE - %		Liquidity Ratio - Index	
Sector	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**	**2003**	**2004**
Food, beverage and tobacco	2.1	5.9	2.6	2.1	10.6	10.2	1.25	1.19
Automotive	0.1	21.2	2.7	3.8	11.3	18.4	1.44	1.46
Wholesale and foreign trade	5.2	6.7	1.5	1.6	14.5	11.3	1.24	1.22
Retail	(1.5)	11.4	1.2	1.3	7.2	7.3	1.18	1.23
Textile and clothing	(10.2)	9.0	1.6	2.8	1.4	5.4	1.78	2.14
Construction	(25.3)	12.7	2.4	1.6	1.7	1.4	3.41	2.77
Electric and electronic	(13.6)	10.2	(0.5)	0.1	1.9	1.7	1.54	1.40
Pharmaceutical, cleaning and cosmetic	(3.6)	7.0	2.5	4.7	11.7	16.5	1.49	1.46
Construction material	(9.1)	0,7	8.6	6.4	11.8	9.3	1.24	1.22
Mechanical	(11.1)	17.3	4.3	3.2	12.2	10.8	1.57	1.80
Mining	(1.3)	11.6	23.8	19.8	25.6	29.7	1.01	1.26
Pulp and paper	2.3	3.6	8.0	6.2	16.0	17.8	1.31	1.54
Plastic and rubber	2.9	12.6	3.7	5.6	9.7	13.8	1.35	1.40
Chemical and petrochemical	3.9	15.0	5.6	7.7	18.5	24.0	1.36	1.35
Miscellaneous services	(1.2)	9.1	2.5	2.7	10.6	12.8	1.09	1.03
Trasportation services	(7.2)	6.5	1.4	4.3	8.3	21.4	1.07	0.95
Public services	(3.5)	5.7	7.0	5.6	9.1	13.4	0.87	0.93
Steel and metallurgy	0.2	32.5	11.9	11.9	17.0	23.4	1.25	1.63
IT and computer related	(16.3)	2.3	2.2	2.2	5.5	6.2	1.58	1.98
Telecommunications	(6.2)	(0.3)	4.5	4.1	7.1	6.7	0.98	1.13
Sectors median	**(25)**	**9.1**	**2.7**	**4.0**	**10.6**	**12.1**	**1.28**	**1.38**

Source: 500 Melhores e Maiores

USP - Financial department of the Universidade de São Paulo

Performance of the 500 largest Brazilian companies

US$ million of 2004	1998	1999	2000	2001	2002	2003	2004
Net Sales	371,278	391,195	424,920	454,881	460,061	444,344	487,036
Net Income	10,473	(3,632)	19,256	12,987	2,234	25,646	27,985
Debt	220,524	250,977	244,853	266,383	281,831	255,140	239,604
Assets	511,114	525,989	489,225	490,345	481,180	446,646	466,614
Sales Growth (%)	2,1	5,4	8,6	7,1	1,1	(3,4)	9,6
ROE (%)	3,6	(1,3)	7,9	5,8	1,1	13,4	12,3
Net Income on Sales (%)	2,8	(0,9)	4,5	2,9	0,5	5,8	5,7
Debt over Equity (%)	43,1	47,7	50,0	54,3	58,6	57,1	51,3
Tax Burden (%)	42,3	37,4	44,4	42,7	41,0	48,4	49,4
Liquidity Ratio	0,73	0,66	0,71	0,69	0,68	0,71	0,81
Sales on Assets - weighted avrg	0,61	0,63	0,70	0,74	0,77	0,81	0,82

Source: 500 Melhores e Maiores

USP - Financial department of the Universidade de São Paulo

Section 4
Cultural Issues

Summary of significant cultural issues

Language

The official language of Brazil is Portuguese. There are no significant local dialects or other derivations from the official language, but a number of words and phrases are at variance to those used in Portugal. English is the foreign language most used by the business community.

Religion

The predominant religion is Roman Catholicism. Many other religions are also practiced, since immigrants of different creeds have settled in Brazil. There is general religious freedom in Brazil.

Education

Government-subsidized (free) and private educational facilities from primary school through university, offer full or part-time curricula. The government also subsidizes national apprenticeship training programs in order to develop manpower for various industrial and commercial sectors, and an educational program to reduce illiteracy. Recent studies indicate that the illiteracy rate of the population older than 15 years in Brazil is of approximately 14% of the population.

The general level of education requires much improvement, with approximately only 5% of enrolled students going on to higher education.

Living standards

The standard of living of a large proportion of the population is very low, while that of the top stratum is extremely high. This income gap between the rich and poor has been a constant preoccupation of successive governments. Basic social indicators underscore the differences in regional development.

The gross domestic product (GDP) per capita is around the equivalent of US$4,200 at current rates.

Cultural and social life in Brazil

With its mixed background of Portuguese, Italian, German, Japanese, East European and African immigrants, Brazil offers a wide diversity of cultural and social activities depending on the region of the country. Most major cities support cultural institutions. Leisure and recreation activities are mainly outdoors, taking advantage of the favorable climate. Many social clubs in Brazil offer extensive sports and social facilities.

The attitude of local business community towards foreign investment

In general, the attitude of local businessmen towards foreign investment is welcoming. Certain sectors have exerted strong lobbying pressure in order to protect their activities by a number of means, including the imposition of trade barriers and the establishment of restrictions on foreign investment. In the past, such political pressure was quite successful, but since the early nineties government has gradually altered this situation, as it seeks to generate more efficiency and competitiveness among businesses.

Workforce attitude towards foreign investment

If foreign investment and management can be seen to bring jobs and compete on an equal basis with Brazilian businesses, the attitudes of the workforce tends to be welcoming.

Cultural Perception of Due Diligence

The need for detailed analysis and due diligence to be performed by a potential investor has been accepted by sellers of local businesses in Brazil. However, the purposes of due diligence is not always clear in the minds of local businessmen and target companies' personnel. It is sometimes thought to be some form of audit work procedures or to be limited to an analysis of the company's financial, tax and legal positions only.

The existence of generally less homogeneous accounting and reporting systems and less sophisticated financial and accounting departments in medium and small sized Brazilian companies, renders the preparation of due diligence information and the execution of due diligence exercises generally more difficult and time consuming than when performed in more developed countries.

Section 5
Financial Accounting & Reporting

Introduction - IFRS, US GAAP and accounting practices adopted in Brazil

International Financial Reporting Standards (IFRS) will be adopted for the first time in 2005 in 92 countries. In particular, all companies listed in the stock exchanges of the 25 member-countries of the European Union (EU) will have to prepare IFRS financial statements.

As part of the global convergence actions, the bodies responsible for issuing US accounting standards – Financial Accounting Standards Board (FASB) - and the international standards - International Accounting Standards Board (IASB) - are committed to working towards eliminating significant differences between the two sets of standards by 2007. Despite this on-going initiative, there are significant differences between IFRS and US GAAP. The differences between these two frameworks and the accounting practices currently adopted in Brazil are even more significant.

The comments made here are for those who wish to gain a broad understanding of the key differences among the international accounting standards (IFRS), the US accounting standards (US GAAP) and the accounting practices adopted in Brazil.

The accounting practices adopted by Brazilian financial institutions and insurers, as well as by companies operating in certain specific industries such as electric energy and telecommunications, are different from those adopted by companies in other industries because of the specific standards issued by industry regulators - Central Bank of Brazil (BACEN), Superintendence of Private Insurance (SUSEP), National Electric Energy Agency (ANEEL), and the National Telecommunications Agency (ANATEL).

This publication is not intended for specific industries and may not cover differences for companies operating in such industries. This publication primarily covers the differences applicable to companies in general. No summary publication can do justice to the many differences of detail that exist between detailed standards frameworks.

Even if their fundamentals are similar there can be differences in their application. Additionally, in general, Brazilian accounting practices have a lower level of detail and application guidance, which leads to a higher number of discrepancies as to their application, which could have a material impact on the financial statements. In this publication we have focused on the accounting treatment similarities and differences most commonly found in practice. Users and preparers of financial statements must consult all the relevant accounting standards and related interpretations, as well as additional pronouncements issued by the relevant regulators for a detailed knowledge of the accounting treatment and financial information reporting requirements.

This publication takes account of all the standards and interpretations issued up to December 31, 2003, supplemented, exclusively in the case of IFRS, by the standards and interpretations issued after this date and up to March 31, 2004.

Summary of main similarities and differences([1])

- Accounting framework
- Financial statements
- Consolidated financial statements
- Business combinations
- Revenue recognition
- Expense recognition
- Assets
- Liabilities
- Equity instruments
- Derivatives and hedging
- Other accounting and reporting issues

(1) Issued in October, 2004. For further details and updates, we understand the reader must follow the main changes occurred since that time.

Similarities and Differences - Accounting Framework

Measurement basis

IFRS: Use historical cost, but intangible assets, property plant and equipment and investment property may be revalued at fair value.

Derivatives, biological assets and most securities must be revalued at fair value.

US GAAP: No revaluations, except some securities and derivatives at fair value that must or may be revalued at fair value.

Brazil: Use historical cost, but property plant and equipment may be revalued.

Fair presentation override

IFRS: In extremely rare cases, entities should override the standards where this is essential to give a fair presentation.

US GAAP: Conceptually similar to IFRS, but not used in practice.

Brazil: Do not consider circumstances where fair presentation override is justifiable, although the concept that substance should prevail over form is used.

First-time adoption of accounting frameworks or first-time application of a certain standard

IFRS: Require full retrospective application of all IFRSs effective at the reporting date for an entity's first IFRS financial statements, while there are some facultative application exemptions and some mandatory exceptions.

As regards new standards, each one specifies first-time adoption treatment.

US GAAP: First-time adoption of US GAAP requires retrospective application. In addition, particular standards specify treatment for first-time adoption of those standards.

Brazil: There is no specific standard. In practice, these standards require retrospective application of all accounting practices adopted in Brazil effective on the date of the entity's first financial statements prepared in accordance with the accounting practices adopted in Brazil.

Similarities and Differences - Financial Statements

Reporting currency

IFRS: Require the measurement of profit using the functional currency; however, entities may present financial statements in a different currency.

US GAAP: Similar to IFRS. SEC rules allow non-US registrants to choose a reporting currency.

Brazil: Financial statements must be reported in local currency. Consolidated companies operating in other countries prepare financial statements in that entity's functional currency, subsequently translated into Brazil's local currency.

Components of financial statements

IFRS: Two years' balance sheets, income statements, cash flow statements, and changes in equity. Accounting policies and notes comprising details for a better understanding of the financial statements must also be disclosed.

US GAAP: Similar to IFRS, except three years required for public companies for all statements, except balance sheet.

Brazil: Similar to IFRS, except for the requirement to prepare a statement of changes in financial position instead of a cash flow statement.

Balance sheet

IFRS: Do not prescribe a particular format, but require the segregation between current and non-current assets and liabilities.

The liquidity presentation of assets and liabilities is preferable to the segregation of a current/non-current only when a liquidity presentation provides more relevant and reliable information.

Certain assets and liabilities must be presented on the face of the balance sheet.

US GAAP: Entities may present either a classified or non-classified balance sheet. Items presented on the face of the balance sheet are generally presented in decreasing order of liquidity.

SEC registrants must follow SEC guidelines regarding disclosure requirements.

Brazil: Assets and liabilities are separated into current and non-current groups and presented, within these groups, in decreasing order of liquidity to permit a better understanding and analysis of the entity's financial position.

Income statement format

IFRS: Do not prescribe a standard format, although expenditure must be presented in one of two formats: function or nature. Certain items must be presented separately.

US GAAP: Presented as either a single-step format, where expenses are classified by function, are directly deducted from total gross income, or multiple-step format, where income and expenses are classified into groups.

Expenses must be presented by function.

Brazil: Require a treatment similar to IFRS, except for the treatment of certain items as “non-operating” and because they require presentation of expenses by function.

Exceptional items

IFRS: Do not use the term, but require separate disclosure of items that are of such size, incidence or nature that require separate disclosure to explain the performance of the entity.

US GAAP: Disclosed on the face of the income statement or in the notes. Individually significant items should be presented on the face of the income statement.

Brazil: Require treatment similar to the US GAAP.

Extraordinary items

IFRS: Do not set forth such items.

US GAAP: Defined as being both infrequent and unusual, and are rare. Negative goodwill is presented as an extraordinary item.

Brazil: Defined as unusual, infrequent and of material amount. Financial statements.

Statement of recognized gains and losses

IFRS: Require separate disclosure of the statement of recognized gains and losses either in notes or separately highlighted in the primary statement of changes in shareholder equity.

US GAAP: Require disclosure of total comprehensive income and accumulated other comprehensive income, either as a separate primary statement or combined with income statement, or with statement of changes in stockholders' equity.

Brazil: Do not specifically consider the existence of this statement. In practice, such gains and losses are treated similar to extraordinary items.

Statement of changes in shareholders' equity

IFRS: Statement showing capital transactions with owners, the movement in accumulated profit and a reconciliation of all other components of equity. The statement must be presented as a primary statement and not as a note.

US GAAP: Similar to IFRS.

Brazil: Similar to IFRS.

Cash flow statements - format and method

IFRS: Standard headings, but limited flexibility on contents. Use direct or indirect method.

US GAAP: Require similar headings to IFRS, but more specific guidance given for items included in each category. Also use direct or indirect method.

Brazil: Not required. When voluntarily presented, follows rules similar to IFRS.

Cash flow statements - definition of cash and cash equivalents

IFRS: Cash includes overdrafts and cash equivalents with short-term maturities (less than 3 months) and minimum risk.

US GAAP: Cash excludes overdrafts but includes cash equivalents with short-term maturities.

Brazil: Similar to IFRS. Highlights liquidity, however, without considering risk.

Cash flow statements - exemptions

IFRS: No exemptions.

US GAAP: Limited exemptions for certain investment entities.

Brazil: Not required.

Changes in accounting policies

IFRS: Restate comparatives and prior-year opening retained earnings (for example: restatement of amounts presented for comparison purposes).

US GAAP: Generally include effect in current-year income statement.

Disclose pro-forma comparatives. Retrospective adjustments for specific items.

Brazil: Generally treated as current year retained earnings or accumulated deficit opening balance adjustments. Comparatives or prior year financial statements are not restated.

Correction of errors

IFRS: Restate comparatives.

US GAAP: Similar to IFRS.

Brazil: Treated as current year retained earnings or accumulated deficit opening balance adjustments. Comparatives or prior year financial statements are not restated.

Changes in accounting estimates

IFRS: Reported in income statement for the current period.

US GAAP: Similar to IFRS.

Brazil: Similar to IFRS.

Similarities and Differences - Consolidated Financial Statements

Definition of subsidiary

IFRS: Based on voting control or power to govern the entity's operating and financial policies to obtain economic benefits.

The existence of currently exercisable potential voting rights also needs to be taken into consideration.

US GAAP: Controlling interest through majority ownership of voting shares or by contract.

Also, variable interest entities (VIEs) in which a parent does not have voting control but absorbs the majority of gains or losses must also be consolidated.

Brazil: Similar to IFRS, but without considering currently exercisable potential voting rights.

Special purposes entities (SPEs)

IFRS: Consolidate where the substance of the relationship indicates control.

US GAAP: SPEs must be consolidated if consolidation requirements for VIEs are met. To avoid consolidation, the SPE must be a qualifying SPE.

Brazil: Similar to IFRS for public companies. For private companies, the substance of the relationship may not be considered in practice.

Non-consolidation of subsidiaries

IFRS: No exceptions. All subsidiaries must be consolidated.

US GAAP: Only if control does not rest with the majority owner.

Brazil: Consolidation required only for public companies. Subsidiaries of public companies may be excluded from consolidation if they have serious going concern issues or if there is clear, appropriately documented, evidence of sale in the near future.

Definition of associate

IFRS: Based on significant influence: presumed if 20% interest or participation in entity's affairs.

US GAAP: Similar to IFRS.

Brazil: Based on direct or indirect interest in 10 percent or more of the other entity's voting rights, without controlling it.

Similar to IFRS as regards the application of the equity method.

Presentation of associate results

IFRS: Use equity method (for example: interest in associate's earnings recorded in a single line).

US GAAP: Similar to IFRS.

Brazil: Similar to IFRS.

Disclosures about significant associates

IFRS: Require detailed information on significant associates' assets, liabilities, revenue and results.

US GAAP: Similar to IFRS.

Brazil: Similar to IFRS, except that they do not require detailed information on assets and liabilities.

Presentation of joint ventures

IFRS: Both proportional consolidation and equity method permitted.

US GAAP: Equity method is required except in specific circumstances. Proportional consolidation is prohibited.

Brazil: Require proportional consolidation.

Foreign currency translation

IFRS: Translate transactions at rate on date of transaction; monetary assets/liabilities at balance sheet rate; non-monetary items at historical rate.

US GAAP: Similar to IFRS.

Brazil: Similar to IFRS.

Foreign entities within consolidated financial statements

IFRS: Require translation using closing rate for balance sheets; transaction-date rate or average rate (as a practical alternative) for income statements, unless average rate distorts results.

Take exchange differences to equity as earnings or losses in a reserve account. The accumulated amount of such reserve is included in gain or loss on disposal of the subsidiary.

US GAAP: Similar to IFRS, except for the realization of the reserve, occurring only upon the sale or disposal of all or a substantial portion of the investee.

Brazil: The translation process in similar to IFRS, except that translation differences are directly taken to the income statement for the period. There is no reserve in equity to record translation gains and losses.

Hyperinflation - foreign entity

IFRS: Require adjustment of local statements of foreign entity to current price levels prior to financial statement translation at balance sheet date exchange rate.

US GAAP: Require remeasuring local currency statements using the reporting currency as the functional currency.

Brazil: Similar to IFRS.

Similarities and Differences - Business Combinations

Types

IFRS: All business combinations are considered acquisitions.

US GAAP: Similar to IFRS.

Brazil: Business combinations can result in business acquisitions or business mergers.

Fair values of assets and liabilities on acquisition, goodwill and negative goodwill

IFRS: The acquirer recognizes the fair value of all assets and liabilities acquired (even if not originally recognized by the acquired entity). Goodwill or negative goodwill from acquisition corresponds to the difference between the fair value of assets provided as consideration (for example: cash and shares) and the fair value of the assets and liabilities acquired.

Some restructuring liabilities relating solely to the acquired entity may be recognized in fair value exercise if specific criteria about restructuring plans are met.

US GAAP: Similar to IFRS, but specific rules for acquired in-process research and development (generally expensed).

As for restructuring liabilities, similar to IFRS, but less stringent recognition criteria regarding timing of finalization of the plan.

Brazil: Only assets and liabilities recorded in the acquired entity balance sheet are recognized by the acquirer, except for the appreciation of property, plant and equipment to be recognized in cost of assets in the case of mergers.

Goodwill or negative goodwill from acquisition corresponds to the difference between the amount paid for the acquired entity and the original book value of the assets and liabilities recorded in this entity's balance sheet.

Contingent consideration

IFRS: When possible, estimated at acquisition then subsequently corrected against goodwill.

US GAAP: Not recognized until the contingency is resolved or the amount is determinable.

Brazil: Not addressed.

Goodwill and intangible assets - treatment subsequent to acquisition

IFRS: Certain contract-related intangible assets, separable and with defined useful lives, must be amortized.

Goodwill and intangible assets with indefinite useful lives are not amortized, must be tested for impairment annually.

Whenever the recoverable amount is lower than the carrying value, a loss is taken to the income statement for the year.

US GAAP: Similar to IFRS.

Brazil: Goodwill is amortized over no more than 10 years, except when arising from the acquisition of exploration, concession, or permit rights granted by the government. In these circumstances, goodwill is amortized over the period of the government concession or permit.

Adjustments to fair values subsequent to acquisition

IFRS: Fair values can be corrected against goodwill up to twelve months after acquisition, if additional evidence of values becomes available.

Subsequent adjustments are recorded directly in income statement. No changes are permitted after fair value allocation is completed, except in connection with the resolution of contingencies known before the acquisition. In these circumstances, adjustments related to information that management was waiting to complete the allocation, are recorded against goodwill.

Reversals of acquisition provisions always adjust goodwill.

US GAAP: Generally similar to IFRS with specific exceptions.

Brazil: Do not address the subject.

Negative goodwill

IFRS: In general, preliminarily measured negative goodwill indicates that fair values of assets and liabilities can be overstated or understated, respectively.

Management reassesses assets, liabilities and contingent liabilities identification and measurement, as well as the cost of the acquisition as a whole. After this reassessment, if in fact there is an excess of fair value over the cost of the acquisition, the difference (income) must be immediately recorded in the income statement.

US GAAP: Similar to IFRS.

Brazil: Negative goodwill corresponds to the difference between the amount paid and the carrying value of assets and liabilities. Negative goodwill is amortized based on its underlying rationale.

In some cases, depending on the rationale, amortization can only be accounted for in the event of investment disposal, sale, or retirement.

Disclosures

IFRS: Disclosures include names and descriptions of combining entities, date of acquisition, percentage of voting rights acquired, and summary of fair values of assets and liabilities acquired.

US GAAP: Similar to IFRS, but require additional disclosures regarding the reasons for the acquisition and details of fair value allocations. Public companies must also present pro-forma income statement information as if acquisition occurred at start of comparative period.

Brazil: In practice, similar to IFRS.

Similarities and Differences - Revenue & Expense Recognition

General - revenue

IFRS: Based on several criteria, which require the recognition of revenue when risks and rewards have been transferred to third parties (buyer) and the revenue can be measured reliably.

US GAAP: Based on four key criteria. In principle, similar to IFRS. Extensive detailed guidance exists for specific transactions.

Brazil: Similar to IFRS, however less guidance can result in differences in practice.

Construction contracts

IFRS: Accounted for using the percentage of completion method. Completed contract method prohibited.

US GAAP: Percentage of completion method is preferable; however, completed contract method permitted in rare circumstances.

Brazil: Similar to IFRS.

Share-based payments

IFRS: The cost is determined by the difference between the fair value of the share or share option and the purchase or exercise amount (if any) determined by the entity for payment to third parties (employees, suppliers, etc) on granting date. Cost is recognized in the period when the service is received or immediately if it has already been provided.

US GAAP: Rules refer exclusively to payment to employees. Two alternative methods can be used to determine the cost: intrinsic value (share price at measurement date less any employee contribution or exercise price) or fair value at issue using option pricing model. Recognize cost of share awards or options over period of employee's performance.

Brazil: No guidance on the measurement or recognition. Require minimum disclosures, within a general conceptual framework.

Interest expense

IFRS: Interest expense recognized on an accrual basis. Effective yield method used to amortize non-cash finance charges.

US GAAP: Similar to IFRS.

Brazil: Similar to IFRS, except for the fact that the effective yield method cannot be used to recognize financial charges.

Employee benefits - defined benefit plans

IFRS: Require the recognition of the obligation in balance sheet based on actuarial losses calculated under the projected unit credit method.

US GAAP: Conceptually similar to IFRS, although several differences in detail.

Brazil: Similar to IFRS.

Employee benefits - others

IFRS: Require accounting for post-retirement benefits as pensions. Rules also given for termination benefits arising from redundancies and other post-employment and long-term employee benefits.

US GAAP: Similar to IFRS for post-retirement benefits. More detailed guidance given for termination benefits.

Brazil: Similar to IFRS.

Similarities and Differences - Assets

Intangible assets acquired from third parties

IFRS: Capitalize if recognition criteria are met; intangible assets must be amortized over their useful lives.

Assets with indefinite useful lives are not amortized but must be tested for impairment at least annually.

If the recoverable amount is lower than the carrying value, an impairment loss is recorded in income statement for the year.

Revaluations are permitted in rare circumstances.

Gains and losses from the sale or disposal of intangible assets are recorded as operating expenses.

US GAAP: Similar to IFRS, however revaluations are not permitted.

Brazil: Generally classified in property, plant, and equipment or deferred charges (see following item) and amortized over their useful lives.

Revaluations are not permitted.

Gains and losses from the sale or disposal of intangible assets are recorded as non-operating expenses.

Internally generated intangible assets

IFRS: Research costs are expensed as incurred. Development costs are capitalized and amortized over their estimated useful lives only if certain criteria are met.

Pre-operating expenses, new product launching or new production process expenses, or start-up costs are recorded as expenses when incurred.

Gains and losses form the sale or disposal of intangible assets are recorded as operating expenses.

US GAAP: Both research and development costs are expensed as incurred. Some software and website development costs must be capitalized.

Brazil: Pre-operating expenses, new product launching or new production process expenses, or start-up costs are capitalized as deferred charges, as long as they contribute to generate future benefits. Such expenses are amortized over a period of no more than ten years.

Gains and losses form the sale or disposal of intangible assets are recorded as non-operating expenses.

Property, plant and equipment

IFRS: Use historical cost or revalued amounts (fair value) as accounting basis.

Revaluations every three to five years of entire classes of assets are required when revaluation option is chosen.

All revalued assets, including land, are subject - at the effective income tax rate from the sale of the asset - to deferred income tax.

Gains and losses from the sale or disposal of assets are recorded as operating expenses.

US GAAP: Revaluations are not permitted.

Brazil: Generally speaking, similar to IFRS with the following differences:

The revaluation of land not for sale is not subject to deferred income tax.

Gains and losses from the sale or disposal of assets are recorded as non-operating expenses.

Leases - classification

IFRS: It is a finance lease if substantially all risks and rewards of ownership are transferred. Concept driven by substance rather than form.

US GAAP: Similar to IFRS, but considerably more extensive form-driven requirements.

Brazil: Local practices encourage but do not require recording lease agreement as finance leases. In practice, most lease agreements are treated as operating leases. Companies must, however, disclose in footnotes data on equipment subject to lease agreements.

Leases - lessor accounting

IFRS: The lessor records amounts due under finance leases as a receivable. Allocates gross receipts to give constant rate of return based on (pre-tax) net investment method.

US GAAP: Similar to IFRS, but specific rules for leveraged leases.

Brazil: In practice, most lease agreements are treated as operating leases.

Impairment of assets

IFRS: The entity analyses annually indications of possible asset impairment.

If impairment is indicated, the respective asset (or the smallest group of assets to which it belongs and generates separate cash flows) should be tested for impairment.

If impairment exists, a loss must taken to the income statement. If no loss arises, reconsider useful lives of those assets.

The recoverable amount of an asset is defined as the higher of net selling price and value in use based on discounted cash flows.

Reversals of previously recorded losses are permitted in certain circumstances, as long as there have been changes in the circumstances that resulted in impairment.

Impairment is recorded as an operating expense in the income statement for the year.

US GAAP: For assets to be held and used, impairment is assessed on undiscounted cash flows.

If value in use is lower than the carrying value, impairment loss is measured using market value or discounted cash flows.

Reversals of losses previously accounted for are prohibited.

Brazil: Similar to IFRS as to their fundamentals. When the carrying value of an asset is higher than its recoverable amount and impairment loss is accounted for to bring the carrying value to the recoverable amount.

However, there are no detailed rules to identify and measure impairment losses.

Standards are not specific as to measurement frequency and impairment indicators.

If impairment is indicated, assets' recoverable amount is measured for the "individual asset" or "the group of identical assets".

Standards do not require or prohibit discount to present value of cash flows for value in use measurement purposes. Impairment losses are recognized only when considered non-temporary.

Impairment losses are recorded as non-operating expenses in profit and loss for the year.

Capitalization of borrowing costs

IFRS: Permitted, but not required, for qualifying assets.

US GAAP: Required.

Brazil: Required.

Investment property

IFRS: Carrying value measured at depreciated cost or fair value – with changes in fair value taken to the income statement.

US GAAP: The same treatment as used for other properties (depreciated cost).

Brazil: No specific rules for industries in general. Investment property is treated as property, plant and equipment (depreciated cost).

Inventories

IFRS: Carried at the lower of cost and net realizable value. Use FIFO or weighted average method to determine cost. LIFO prohibited. Reversal is required for subsequent increase in value of previous write-downs.

US GAAP: Similar to IFRS; however, use of LIFO is permitted.

Reversal of write-down is prohibited.

Brazil: Similar to IFRS.

Biological assets

IFRS: Measured at fair value less estimated point-of-sale costs.

US GAAP: No specific rules. Generally historical cost used.

Brazil: No specific rules. Generally historical cost used. In certain operations, measuring at fair value is permitted.

Financial assets - measurement

IFRS: Depends on classification of investment. Financial assets classified as held to maturity or originated by the entity are carried at amortized cost. Other financial assets are carried at fair value.

Unrealized gains/losses on trading securities recognized in the income statement and on available-for-sale investments recognized in equity.

US GAAP: Similar to IFRS.

Brazil: Assets are carried at cost, net of impairment losses. Gains and losses always taken to profit and loss.

Derecognition of financial assets

IFRS: Financial assets can be derecognized in full or partially but only when the necessary conditions are met. Derecognition conditions depend on a decision-making flow that considers the following factors, in this order: (i) level of risks and rewards transfer; (ii) transfer of control over the asset; and (iii) continuous involvement.

US GAAP: Derecognition based on control. Legal isolation of assets even in bankruptcy is necessary for derecognition.

Brazil: No specific rules. In practice, derecognition is based on the transaction’s legal aspects. Discounted securities are presented on the face of the balance sheet as adjustment accounts to the corresponding assets.

Similarities and Differences - Liabilities

Provisions - general

IFRS: Require recognition of provisions relating to present obligations from past events if outflow of resources is probable and can be reliably estimated.

US GAAP: Similar to IFRS, with rules for specific situations (employee termination costs, environmental liabilities, contingent losses, etc).

Brazil: Similar to IFRS.

Provisions - restructuring

IFRS: Require the recognition of restructuring provisions if a detailed formal plan announced or implementation effectively begun.

US GAAP: For recognition purposes, restructuring provisions must meet the definition of a liability, including certain criteria regarding the likelihood that no changes will be made to the plan or that the plan will not be withdrawn. The recognition of a liability based solely on commitment to a plan is prohibited.

Brazil: In practice, similar to IFRS.

Contingencies

IFRS: Require disclosing unrecognized possible losses and probable gains.

US GAAP: Similar to IFRS.

Brazil: Similar to IFRS.

Deferred income tax - general approach

IFRS: Use full provision method (some exceptions) driven by balance sheet temporary differences. Recognize deferred tax assets if recovery is probable.

Land revaluation is subject to deferred income tax, at the income tax rate applicable to capital gains.

US GAAP: Similar to IFRS, but recognize all deferred tax assets and then provide valuation allowance if recovery is less than 50% likely.

A number of specific differences in application.

Brazil: Similar to IFRS, except for the fact that the revaluation of land not for sale is not subject to deferred income tax.

Deferred income tax - main exceptions

IFRS: No recognition of deferred income tax on non-deductible goodwill and temporary differences on initial recognition of assets and liabilities that do not impact accounting or taxable profit.

US GAAP: Similar to IFRS regarding non-deductible goodwill. Initial recognition exemption of assets and liabilities does not exist in US GAAP.

Brazil: Similar to IFRS as regards non-deductible goodwill. Initial recognition exemption of assets and liabilities does not exist in these standards.

Government grants

IFRS: Are recognized at fair value as deferred income and amortized in income statement as the conditions to obtain the grants, if any, are met by the entity. Entities may offset capital grants (for example: land) against asset values.

US GAAP: Similar to IFRS, except long-lived asset contributions recorded as revenue.

Brazil: Subsidies for expenses are treated similarly to IFRS.

Investment grants are recognized in a capital reserve in equity. Some tax incentives are recognized at their nominal amount, net of their fair value.

Leases - lessee accounting

IFRS: Require recognition of finance leases as assets and obligations for future rentals. Normally depreciate over useful life of asset. Apportion rental payments to give constant interest rate on outstanding obligation. Generally charge operating lease rentals on straight-line basis.

US GAAP: Similar to IFRS. Specific rules must be met to record a finance or capital lease.

Brazil: Local practices encourage but do not require recording lease agreement as finance leases. In practice, most lease agreements are treated as operating leases. Companies must, however, disclose in note data on equipment subject to lease agreements.

Leases - lessee accounting - sale and leaseback transactions

IFRS: For a finance lease, defer and amortize profit arising on sale and finance leaseback. If an operating lease arises then profit recognition depends on sale proceeds compared to fair value of the asset. Also need to consider substance/linkage of the transactions.

US GAAP: Timing of profit and loss recognition depends on whether seller relinquishes substantially all or a minor part of the use of the asset. Immediately recognize losses. Consider specific strict criteria if a property transaction.

Brazil: Effects are treated similarly to IFRS.

Financial liabilities - classification

IFRS: Classify capital instruments as liability or equity instrument (for example: shares, convertible debentures), depending on substance of the issuer's obligations.

For example, redeemable preference shares are classified as liabilities.

US GAAP: Generally where an instrument is not a share, classify as liability when obligation to transfer economic benefit exists.

Similar to IFRS.

Brazil: Generally, classification is based on the instruments legal form.

Convertible debt

IFRS: Require accounting for convertible debt on split basis, allocating proceeds between equity and debt.

US GAAP: Convertible debt is usually recognized as a liability.

Brazil: Convertible debt is usually recognized as a liability.

Derecognition of financial liabilities

IFRS: Liabilities are derecognized when extinguished. The difference between the carrying amount and the amount paid or the new debt is recognized in the income statement.

US GAAP: Similar to IFRS.

Brazil: In practice, treatment similar to IFRS.

Similarities and Differences - Equity Instruments & Derivatives

Equity Instruments

Capital instruments - purchase of own shares

IFRS: Show as deduction from equity (treasury stock).

US GAAP: Similar to IFRS.

Brazil: Similar to IFRS.

Derivatives and hedging

Derivatives and other financial instruments - measurement of financial instruments and hedging activities

IFRS: Require recognizing derivatives and hedge instruments at fair value. Require recognition of gains and losses for changes in fair value in income statement, except for effective cash flow hedges, where the changes are deferred in equity until effect of the underlying transaction is recognized in the income statement.

Gains and losses from hedge instruments sometimes used to hedge forecast transaction may be included in cost of non-financial asset/ liability (basis adjustment).

US GAAP: Similar to IFRS, except no “basis adjustment” on cash flow hedges of forecast transactions is required.

Brazil: Measured at transaction curve (accrual) amount and gains and losses are always recognized in the income statement.

Derivatives and other financial instruments - measurement of hedges of foreign entity investments

IFRS: Gains or losses on hedges of foreign entity investments are recognized in equity, except the portion considered hedge ineffectiveness, recorded in the income statement. Gains or losses held in equity must be transferred to the income statement on disposal of investment.

US GAAP: Similar to IFRS.

Brazil: Gains and losses are recorded directly in the income statement. In Brazil, exchange adjustments to foreign investments are also recorded directly in the income statement.

Similarities and Differences - Other accounting and Reporting Issues

Earnings per share - diluted

IFRS: Determining the denominator to measure diluted earnings per share considers certain instruments convertible into shares.

Use “treasury stock” method for share options/warrants.

US GAAP: Similar to IFRS.

Brazil: No specific rule to calculate diluted earnings per share. The only earnings per share disclosed are basic earnings per share, measured by simply dividing by net income for the year by the number of shares outstanding at balance sheet date.

Related party transactions - definition

IFRS: Determine by level of direct or indirect control, joint control and significant influence of one party over another or common control of both parties.

US GAAP: Similar to IFRS.

Brazil: Similar to IFRS.

Related party transactions - disclosures

IFRS: Disclose name of related party and nature of relationship and types of transaction. For control relationships, give disclosures regardless of whether transactions occur.

Some exemptions available for separate financial statements of subsidiaries.

US GAAP: Similar to IFRS.

Exceptions are more limited than those available for IFRS purposes.

Brazil: Similar to IFRS.

Segment reporting - scope and basis of formats

IFRS: Required for public entities: report primary and secondary (business and geographic) segments based on risks and returns and internal reporting structure.

US GAAP: Required for public entities: report based on operating segments and the way the chief operating decision-maker evaluates financial information for purposes of allocating resources and assessing performance.

Brazil: Segment reporting is not required.

Segment reporting - accounting policies

IFRS: Require preparing information using group accounting policies (IFRS).

US GAAP: Permit using internal financial reporting policies (managerial) for segment reporting purposes (even if they are different from group accounting policies).

Brazil: Segment reporting is not required.

Segment reporting - disclosures

IFRS: Disclosures for primary segment include revenues, results, capex, total assets and liabilities, and other items.

For secondary segment, report revenues, total assets and capex.

US GAAP: Similar disclosures to IFRS (primary segment) except liabilities and geographical capex not required.

Depreciation, amortization, tax, interest and exceptional/extraordinary items disclosed if reported internally. Disclosure of factors used to identify segments is required.

Brazil: Segment reporting is not required.

Discontinuing operations - definition

IFRS: Set of transactions comprising a different and major component of the entity's operations.

US GAAP - Component that is clearly distinguishable operationally and for financial reporting.

Brazil - In practice, similar to IFRS.

Discontinuing/discontinued operations - measurement

IFRS: Require provisions for some costs when criteria for recognizing a restructuring provision are met.

The value of the assets comprising the discontinued operation should not exceed the higher of net selling price and value in use based on discounted cash flows.

US GAAP: Results of operations of a discontinued or held-for-sale component and any gain/loss are reported in discontinued operations in the periods they occur; not accrued in advance.

Assets are carried at the lower of carrying amount or fair value less cost to sell.

Brazil: In practice, the operation is treated together with the other operations. Discontinued operations are disclosed and provisions for losses incurred recognized.

Discontinuing/discontinued operations - presentation and main disclosures

IFRS: Require details of discontinuing operation. Disclose (on face of the income statement) pre-tax gain or loss from discontinuance.

US GAAP: Require reporting discontinued and held-for-sale operations as a separate line item on face of the income statement before extraordinary items and cumulative effect of accounting changes. Assets and liabilities of held-for-sale disposal groups segregated on balance sheet.

Brazil: In practice, disclosures on discontinuing operations are less detailed than under the IFRS.

Post balance sheet events

IFRS: Adjustments to the financial statements are required only for subsequent events providing evidence of conditions existing at balance sheet date and materially affecting amounts in financial statements (adjusting events). Non-adjusting events are disclosed.

US GAAP: Similar to IFRS.

Brazil: Similar to IFRS.

Interim financial reporting

IFRS: Basis must consistent with full year statements and include comparatives.

US GAAP: Similar to IFRS. Quarterly reporting is required for SEC registrants (domestic US entities only).

Brazil: Similar to IFRS, although with a lower level of disclosure.

Section 6
Tax Issues

Overall tax and labor related risks associated with due diligence reviews

We have summarized below certain issues associated with the Brazilian business environment which affect the nature of the due diligence procedures generally performed in local M&A transactions. As a result of these risk factors, efforts during Brazilian due diligence reviews have a strong emphasis on the identification of tax and labor related contingencies and potential adjustments required to the historical and projected financial information being considered by the buyer.

Successor business liability issues

Brazilian legislation and judicial decisions in Brazil follow the basic principle that the liabilities associated with a predecessor business generally follow the earnings capacity of such businesses, at least on a secondary level. Accordingly, it is normally difficult to avoid predecessor business contingencies through the use of asset-only purchases or similar strategies.

Successor liability issues must often be considered not only from the perspective of the acquirer/successor, but also as they relate to any predecessor business of the target. In addition, the impact of succession issues must be considered in light of the transaction structure sought by the buyer, including related taxation aspects.

The statute of limitations for most taxes and social charges in Brazil is of five years (there are some significant exceptions, such as certain social contributions on payroll). In the case of fraud, tax authorities/ auditors may access financial, accounting, tax and labor information for periods superior to five years.

High tax burden, numerous and frequently changing taxes

Numerous and administratively complex regulations underlie taxes in Brazil. There are frequent changes in tax laws and regulations and pervasive judicial challenges to promulgated requirements.

Particularly (but not exclusively) in relation to small and medium-sized companies, aggressive or high risk tax practices are sometimes adopted by companies.

There are also a number of other factors which increase the risk in this area, including the nature of the legislation (sometimes with an emphasis on form rather than substance of transactions), the frequency of tax audits performed by federal, state and municipal authorities, the incidence of relatively high penalties and interest charges in the event of non-compliance and an enforcement process which is difficult to predict (and at times arbitrary).

Relatively less meaningful financial information

Many smaller companies follow a simplified tax filing method whereby taxable income is determined as a proportion of gross revenues. Such companies often have very limited or no accounting systems, making it difficult and time consuming to perform a traditional due diligence.

There are significant difficulties in attempting to structure a transaction in order to avoid or eliminate succession liabilities in Brazil

Preliminary comments regarding the tax environment in Brazil

Brazil is commonly referred to as the land of taxes - there are currently 63 different taxes and social contributions that can be assessed against a company. In addition, the tax system is highly regulated and extremely complex and it is difficult, if not impossible, to structure a transaction in order to avoid or eliminate succession liability. As a result, we would strongly recommend that a tax and labor legislation due diligence be performed prior to the finalization of any proposed acquisition of a Brazilian target.

With respect to succession liability in Brazil, the responsibility to pay present and previous tax and labor liabilities, both known and unknown, generally follows the legal entity, based on the concept that the owner of the operating assets or the acquirer of the business unit retains the capacity to generate income and hence, pay the tax or labor liabilities. As a result, whether in structuring the transaction as an asset or a stock acquisition, the buyer steps into the shoes of the previous owner with respect to all present and past tax and labor liabilities and contingencies.

Stock acquisition

The most common means used by foreign companies to invest in Brazil is through the acquisition of a Brazilian target entity through the purchase of its shares.

This acquisition method has several tax and labor implications for the buyer. From a legal standpoint, the business unit retains its identity in all respects including its taxpayer identification number. As a result, the buyer will step into the shoes of the former owner and be subject to, and primarily liable for, any known and unknown tax and labor contingent liabilities. In addition to this, the buyer will be also primarily liable for any fines and penalties imposed by the tax authorities regardless of whether such fines or penalties relate to target activities prior to or after the transaction. When acquiring the stock of a Brazilian Target Corporation, caution must therefore be exercised so that the major tax and labor contingent liabilities can be identified, measured and analysed, so that the buyer can factor the cost of the liabilities into the overall investment decision.

Purchase of assets and assumption of liabilities

A foreign investor may, for a variety of business reasons, structure the acquisition of a Brazilian Target Corporation as an asset purchase of the business unit (operating assets), and assume part or all of the related liabilities. Unlike a stock acquisition, the acquirer will be secondarily liable for the income tax liabilities but will be primarily liable for VAT taxes and labor liabilities. In addition, it is not common to structure a transaction as an asset acquisition in Brazil because the transfer of assets will typically trigger additional VAT taxes.

Transfer of target assets to a Newco followed by a stock purchase

A variation of the direct asset purchase method is a transaction commonly used in the market whereby the Brazilian Target Corporation forms a Brazilian “Newco” into which the Brazilian Parent Corporation transfers the targeted assets (and liabilities). Subsequent to the incorporation of Newco and the transfer of assets, the buyer then acquires from the Brazilian Parent Corporation the capital stock of Newco. As is the case of a direct asset purchase, in utilizing this structure, the buyer will be primarily liable for the state and municipal taxes as well as the labor contingencies that are related to the business unit which is transferred to Newco. Also, the buyer will have secondary liability for all other taxes. As previously mentioned, with respect to these other taxes, in the event of default by the party with primary responsibility, the buyer would become liable for the contingent tax liabilities (secondary liability becomes primary liability under the concept of the *capacity to pay*).

Background information on the main taxes and contributions in Brazil

Corporate Income Tax (IRPJ)

The corporate income tax is determined based on the calendar year, with monthly tax payments, and is generally computed on the basis of annual or quarterly taxable income.

IRPJ is charged at the rate of 15% plus a surcharge of 10% on annual taxable income in excess of R$ 240,000 (approximately US$ 109,000).

Social Contribution on Net Income (CSLL)

Brazilian tax legislation also provides for a social contribution tax on profits, which also has the nature of a corporate income tax. Its taxable basis is quite similar to the corporate income tax, but with certain distinct adjustments.

CSLL is charged at the rate of 9%.

Tax losses carry forward (IRPJ and CSLL)

There is no time limit for the carry forward of tax losses. However, the taxable profit of each year can only be reduced by tax losses up to a maximum of 30%. Furthermore, it is neither possible to carry back tax losses nor transfer tax losses to other Brazilian companies. Tax losses of an acquired company cannot be carried forward to be offset against the taxable income of a new activity if the following two conditions are simultaneously met:

(a) modification in the ownership of the company; and

(b) modification in the activity of the company.

Capital gains

Capital gains obtained by local resident Company are taxed at the normal corporate rate (34%), while capital gains of non-residents are taxed at the rate of 15% (unless otherwise specified by international tax treaty).

Payments of any type made to tax heavens are generally subject to withholding at a rate of 25%.

Interest on capital

Entities are allowed to remunerate their shareholders by paying interest on capital, subject to certain limitations (i.e., limited to TJLP - Long Term Interest Rate - and the existence of twice the amount of current or accumulated profits). This payment is deductible for corporate income tax purposes and for social contribution on net income purposes, as well. These payments are subject to a 15% withholding tax (or 25% for tax haven jurisdiction).

Distribution of Profits to shareholders

Distribution of Profits to shareholders are not subject to the withholding tax on profits generated as of January 1, 1996, regardless of being paid to resident or non-resident shareholders.

Gains or losses deriving from assets and liabilities

As from January 1, 2000, the exchange gains or losses deriving from assets and liabilities may be computed for the basis of the corporate income tax and social contribution on net income at the moment the corresponding assets or liabilities is actually liquidated, that is, the expenses and income deriving from exchange gains and losses may be deductible or taxable, respectively, on cash basis, or on accrual basis, at the taxpayers discretion.

This is a very dramatic change to our tax system, as so far exchange losses have necessarily been recognized on an accrual basis. Interest expenses and gains are deductible and taxable on an accrual basis.

Social Integration Program Tax (PIS)

PIS generally levied at 1.65% is a federal social contribution calculated as a percentage of gross revenue.

A new enacted PIS credit system is meant to ensure the tax is applied only once on the final value of each transaction.

As from May 1, 2004 the PIS contribution applies also on the imports of goods and on the payment of services to non-residents.

Social Contribution on Revenues (COFINS)

COFINS generally levied at 7.6% is a monthly federal social assistance contribution calculated as a percentage of gross revenue.

A new enacted COFINS credit system is meant to ensure the tax is applied only once on the final value of each transaction.

As from May 1, 2004 the COFINS contribution applies also on the imports of goods and on the payment of services to non-residents.

CPMF

CPMF is a contribution charged on every debit (e.g.: withdrawal, transfer, etc.) made to a bank account at the rate of 0.38%. The contribution is deducted from bank accounts weekly. The contribution is deductible for income tax and social contribution on net income purposes.

Financial Transactions Tax (IOF)

As a general rule, foreign exchange transactions made in order to allow payments to non residents, considering royalties, technical services, technical, administrative and any other assistance or any other revenue, including the reimbursement of any costs, are subject to IOF.

Historically, these transactions were subject to an IOF rate of 25%. The current IOF rate for foreign exchange transactions (both inbound and outbound) is of 0%. As a result, IOF may be avoided if the payment requires a foreign exchange transaction from reais to a foreign currency, or from a foreign currency into reais. Payments of interest, for the importation of goods and for the acquisition of an investment in Brazil by a local resident from a foreigner, are not subject to IOF.

IOF of 5% is charged on foreign loans with an average maturity of less than 90 days. All other foreign loans are not subject to IOF. The average maturity is determined based on the balance of the loan relative to the number of days of the outstanding balance of the related loan.

Social Security Contributions

Employers' social security contributions correspond to 20% of the gross payroll. In addition, employers are required to make contributions to other funds, which amount to approximately between 16% and 20% of the gross payroll. These contributions are deductible for the purpose of corporate income tax and social contribution on net income.

Withholding Taxes (IRRF)

The current rates applicable to the following payments to non residents are:

(i)	Dividends	Not Taxable
(ii)	Interest	15% (1)(2)
(iii)	Royalties	15% (1)(2)
(iv)	Technical and Adm.Services	15% (1)(2)
(v)	Other Services	25% (1)(2)

(vi) Certain loans made prior to December 31, 1999 that have a maturity period in excess of 96 months are exempt from withholding Income tax.

It should be noted that the tax authorities respect the exemption from withholding for all dividend payments, including dividend payments subject to withholding tax under the provisions of a tax treaty. In the case of royalties, the royalty contract has to be approved by the National Institute of Industrial Property (INPI) and filed with the Brazilian Central Bank. Deductions for royalties are generally limited up to 5% of net sales of the relevant products or services, the percentage depends on the type of product or activity. Royalties for the use of trade marks and trade names, for whatever type of production or activity, when the use of the mark or name does not result from the utilization of a production patent, process or formula, are limited to 1% of net sales.

Repatriation of capital in excess of the cost of the nonresidents investment in Brazil are subject to capital gains tax at 15% (or 25% for tax haven jurisdiction).

(1) These rates are effective unless otherwise specified by tax treaty.

(2) Payments of any type made to tax heavens, defined as jurisdictions that do not tax income or tax income at a rate lower than 20%, will be subject to withholding at a rate of 25%.

Other taxes on payments to non-residents

Brazilian Company with royalty, license or service agreements with foreign entities shall pay a 10% Intervention Contribution at the Economical Domain, based on the amount paid abroad.

As from May 1, 2004 the PIS and COFINS contributions apply also on the payment of services to non-residents.

Payments of services to non-residents may also be subject to the Service Tax (ISS) at rates varying from 2% to 5%.

Federal Tax on manufactured Products (IPI)

This federal excise tax is paid by manufacturers on behalf of their customers at the time of sale, either to another manufacturer who will further the manufacturing process or to the retailer who sells to the end user.

The tax paid is stated separately on the sales invoice, as is the nature of the goods involved. Certain exemptions are given to goods considered to be of basic necessity to the country's economy. The rates are defined by the product's tax code according to the Harmonized System.

As mentioned above, when manufactured products are sold between producers, the IPI is imposed. However, the subsequent manufacturer is allowed a credit against its IPI liability, equal to the IPI paid to its suppliers (non cumulative tax).

IPI is also imposed on import transactions.

Service Tax (ISS)

The ISS is a municipal tax on gross billings for certain services designated by the Federal Government. The applicable rates to be determined by each municipality can vary between 2% and 5%.

In general, the service tax is levied by the municipality in which the Company is headquartered. There are some exceptions to this rule for services involving assembly, construction, demolition, among others.

New regulation, effective as from January 2004, resulted in important changes to the ISS legislation. The original list of services subject to the tax was expanded and the import of services are now subject to ISS. Additionally, ISS is not levied on exports of services, except when the results of these services will be applied in Brazil.

Import Tax (II)

Import tax is levied on the CIF price. The rate depends on the degree of necessity and is defined by the product's tax code according to the Harmonized System.

Taxes on importation are levied on top of one another, as follows:

(i) Import tax is applied to the CIF price (FOB price plus insurance and freight);

(ii) IPI is levied on the total of (i) above (CIF price plus import tax);

(iii) PIS and COFINS are applied to the total of (ii) above (CIF price, import tax, and IPI) plus ICMS due on imports and the contributions are included in their on basis;

(iv) ICMS is applied to the total of (ii) above (CIF price, import tax, IPI) plus PIS, COFINS and ICMS is included in its own basis.

Import tax (II) is a cost to the Company (not recoverable). ICMS, IPI, PIS and COFINS paid on imports are generally creditable.

State Value-Added Tax (ICMS)

The Constitution of 1988 granted authority to the Brazilian States to collect the tax on the circulation of merchandise and on rendering of interstate and intermunicipal transportation services and on communications, even when the transaction and the rendering of services start in another country.

It is not a cumulative tax, that is, the tax is only assessed on the increase in the price of the product in each part of the circulation process. The calculation process involves a system that, in each payment period, the taxpayer must check the amount of debits and credits related to the State Value-added Tax and, if the taxpayer has more debits than credits, it will have to pay the tax on the difference between them.

In summary, the credits are computed at the moment the raw materials enter the taxpayer's premises and the debits are computed at the time the final products exit the establishment.

Moreover, taxpayers are not allowed to account for credits on materials purchased that will be used on goods that will not be taxable when they exit the Company.

In summary, it is a value-added tax and is collected by most states at the rate usual of 17%, except for the States of São Paulo, Minas Gerais, whose tax rate is 18% and Rio de Janeiro, whose rate is 19%. Some products exceptionally trigger a higher rate (usually 25%) or a lower rate (car industry and other special industries are below 17% or 18%).

Special rates apply to interstate sales, as shown in the chart below:

From	To	Rate
South and Southeast	South and Southeast	12%
North, Northeast and Midwest	North, Northeast and Midwest	12%
South and Southeast ([1])	North, Northeast and Midwest ([1])	7%
Any State	Non-taxpayer	Internal rate from the State of the Sender

(1) Including the State of Espírito Santo

Section 7
Work Force and Labor Charges

Labor Relations

Labor and management relations

Brazil has a large labor force, but many workers are semiskilled or unskilled. There is a shortage of managerial, supervisory and technical personnel. Labor unions are a significant economic force in the country and have been known to be quite militant. Fringe benefits and social security costs are a significant element of total labor costs.

The labor force is of some 83 million, or 45% of the total population, with approximately 23% employed in agriculture, 24% in industry and 53% in services. Women comprised approximately 40.4% of this workforce in 1997 and this percentage has increased significantly in recent years. A significant part of the workforce is not formally registered.

In general, adequate labor is available. Semiskilled and unskilled labor is fairly easy to obtain, with Brazilian workers being recognized for their capacity for hard work and their willingness to learn. The Brazilian workforce is also fairly mobile. Skilled labor tends to be in short supply however. The number of personnel with proven technical, professional or management skills is growing as company in-house training and courses take effect, with these employees being highly sought after.

Extensive social security laws and labor regulations govern employer-employee relations. However, foreign investors have not experienced much difficulty in the way of labor problems, mainly because they follow local standards and practices.

Employer and employee relations are dealt with principally in the labor laws (CLT) enacted in 1943 and subsequent legislation. The labor laws are applicable to all employees in regular registered employment, except for individuals in public employment or domestic labor, who have separate regulations. The labor laws make no distinction between skilled and unskilled workers or between those engaged in manual, office or professional work. Therefore, all types of workers are generally referred to as employees. A change in the legal structure or ownership of an employer does not affect the rights acquired by employees under the labor laws.

Unions

Labor unions are active. They are more militant in the metallurgical, automotive, banking and transport sectors.

The right to strike is recognized and regulated by law. Provision is made in the labor laws for the formation of labor unions on the basis of the similarity of business interests or occupations. Unions may be organized on a citywide, or even on a district basis. They may also be combined so as to form statewide federations or nationwide confederations. As a rule, their membership must represent at least one-third of all persons engaged in the activity or occupation concerned. Membership in a trade union is not mandatory.

Among the prerogatives of labor unions are the rights to the following activities:

- engage in collective bargaining by means of which they may sign contracts on behalf of all employees occupied in the activities they represent, whether union members or not;
- receive contributions from all employed in the occupation they represent, whether union members or not;
- receive monthly dues from union members;
- operate employment agencies;
- cooperate with the government in studies and research involving the activities they represent.

Unions are regulated by the Ministry of Labor. The results of collective bargaining are subject to the decision or approval of the labor courts.

Union representation at a place of work with more than 200 employees is specified in the Constitution. However, appropriate legislation has not yet been enacted and consequently, representation exists only on an informal basis.

Fringe benefits

Voluntary fringe benefits normally constitute a significant additional cost of employment. Some employers provide medical care, meals and transportation. Other fringe benefits are also granted, depending on the nature of the enterprise and the category of the employee. Income tax incentives exist for meals provided under approved schemes. Many companies offer private pension schemes for which there is special legislation. Group life insurance schemes may also be available.

All employers are obliged to make reasonable provision for the comfort and convenience of their employees. Appropriate canteen facilities must be provided on the premises if more than 300 persons are employed. The authorities may require that other special facilities be made available where unusual conditions exist. No industrial enterprise may commence operations until working conditions have been inspected and approved by the authorities.

Employers must also supply transport vouchers to employees, which entitle them to free transportation to and from work. Employees contribute to this cost at up to 6% of their monthly pay.

Some companies also provide meal vouchers which employees may use in certain restaurants and eating establishments.

Background information on labor practices and main social charges in Brazil

Employer's Payroll Costs in Brazil

Salaries

In addition to the amounts paid to employees as salary, any other amounts which are paid on a regular basis are, for all legal purposes, considered as part of the employee's salary and are, in general, taken into account in the calculation of vacation, 13th salary and the amount that must be deposited in FGTS, as well as termination payments.

A fringe benefit is an additional item granted to an employee in excess of the employees regular salary. Pursuant to the applicable labor legislation, the grant of an award or of any other benefit (such as vehicles) to an employee may be considered a fringe benefit, for the reason that any incentive award or benefit may represent an additional payment and consequently, compensation to the employee. In such cases, the total amount of the employee's earnings (including taxable fringe benefits) shall form the taxable basis for the contributions that should be borne by the employer.

Monthly salaries may not be lower than the minimum wage established by applicable law. Presently the "minimum wage" is equivalent to R$ 300 (approximately US$ 135). Some specific activities have minimum wage amounts agreed with the respective Unions, but may not be lower than the national minimum wage.

A Brazilian worker may not be paid a wage lower than that which is paid to a foreign worker for performing the same work, except in certain special circumstances established by law.

Paid Vacation

After a 12-month period, employees are entitled to a 30-calendar day paid annual vacation which must be taken within the subsequent 12 months and compensated at an amount equivalent to 1 month and 1/3 of his/her salary. In the event the legal period to take a vacation has already expired, then the employer must pay the employee in double.

13th Salary (Christmas Bonus)

At the end of each year, employers must pay employees an annual bonus equivalent to 1 month's salary.

Profit Sharing

The employees' profit sharing or the participation in the company's results is established in the Brazilian Constitution and it is now regulated by Law 10101. The law determines that the profit sharing or the participation in the company's results has to be granted each six months, but it does not provide rules for calculating the amounts. Hence, many companies pay a fixed value, previously agreed with the Unions. Normally, this value is lower than one monthly salary.

Overtime

Normal working hours should not exceed 8 hours per day and 44 hours per week. This 44-hour workweek applies to any employee, with such exceptions as bank clerks, telephone operators and so forth, who are subject to different workweeks pursuant to specific regulations. Time worked in excess of the above is treated as overtime. In general, compensation for overtime work is paid at least 50% above the compensation paid for normal working hours.

If the normal working hour does not exceed 6 hours per day, but exceeds 4 per day, the employees have the right to a 15 minute-break for rest; otherwise, if the standard working hour exceeds 6 hours per day, they are entitled to a minimum of 1 hour and maximum of 2 hours for lunch and rest.

Night Shift Additional Payment

Employees that work between 10:00 p.m. and 5:00 a.m. are entitled to an additional payment for night work, which corresponds to an increase of, at least, 20% of the amount paid per the daily working hour.

Family-Salary

A monthly allowance is granted for each of employee's child under 14 years of age or to those which are disabled. Presently, the amount per child corresponds to R$ 21.27 (approximately US$ 9.65) for employees with salaries up to R$ 414.78 (approximately US$ 188.50) and R$ 14.99 per child (approximately US$ 6.80) for employees with salaries between R$ 414.79 and R$ 623.44 (approximately US$ 188.51 and US$ 282.40 respectively).

Employees with salaries higher than are not entitled to this allowance.

FGTS

Under the FGTS system, employers must deposit monthly, on the employees' behalf, in a blocked bank account, an amount equivalent to 8.5% of the remuneration of each employee. The 8.5% destined to FGTS is borne by the employer, without any discount on the employee's salary.

Social Security

Companies must pay to the National Institute of Social Security (Instituto Nacional do Seguro Social - "INSS"), an amount equivalent to 20% of the total payroll (monthly remuneration paid to all employees).

Insurance Against Labor Accidents

Payment of insurance by employers against labor accidents is normally due at rates which vary from 1% to 3% of the total remuneration paid to employees, depending on the "level of risk" presented by the type of activity of the company.

Education-Salary

Employers are also required to pay to INSS, a monthly contribution to "education-salary" equivalent to 2.5% of the total remuneration paid to employees.

Other Additional Payments

Payments contractually agreed upon between employer and employee;

Additional remuneration due to employee for unhealthy or dangerous working conditions;

Transportation vouchers;

Weekend remuneration;

Remunerated absence (e.g. sickness, maternity-leave, marriage, military service and electoral service enrollment, etc.);

Labor union fees; and

Payment to specific institutions, such as the National Institute of Colonization and Agrarian Reform (*Instituto Nacional de Reforma Agrária* – "INCRA"), the Social Service of Trade (*Serviço Social do Comércio* – "SESC"), Social Service for Industry (*Serviço Social da Indústria* – "SESI"), the Brazilian Service for Support of "Small Companies" (*Serviço Brasileiro de Apoio às Micro e Pequenas Empresas* – "SEBRAE") etc.

The Brazilian Constitution substantially increased employees' rights. Some studies indicate that labor legal duties and charges account for an increase in the company's payroll costs ranging from 60% to 100%, depending on the company's specific activities and applicable Labor Union Agreements.

We have prepared an example (see attached appendix) a calculation which demonstrates the application of these social charges on an employee receiving compensation of R$ 1,500.00 per month. Please note that the items in the example correspond to the issues discussed in this section.

Calculation example of employment contributions

Appendix

Employers payroll in Brazil

		R$
(a) Remuneration		
Item 1.	Salaries paid in the year 11 months x R$ 1,500.00	16,500.00
(b) Supplementary Remuneration		
Item 2.	Vacation pay (30 days per year)	1,500.00
	Vacation Bonus (compulsory, 1/3rd of the monthly salary)	500.00
Item 3.	Thirteenth month salary	1,500.00
Item 5.	Overtime (not applicable in this case)	0.00
Item 6.	Night shift premium (not applicable in this case)	0.00
Item 7.	Family Salary (not applicable in this case)	0.00
Sub total (1) - Basis for social contributions		**20,000.00**
Item 4.	Profit sharing (one salary - as example)	1,500.00
Subtotal (2) Total supplementary Remuneration (items 2 to 7)		**5,000.00**
(c) Social Contributions		
Item 8.	8.5% Contribution to FGTS account (1)	1,700.00
Item 9.	20% Social Security Contribution (1)	4,000.00
Item 10.	3% Insurance for work related accidents (1)	600.00
Item 11.	2.5% Education Salary (1)	500.00
Item 12.	2.7% Contribution for other work funds	540.00
Sub total (3)		**7,340.00**
Total (2+3):		**12,340.00**
Total social contributions and labor benefits as a percentage of base salary		**74.79%**

(1) Calculated on subtotal (1)

Section 8
Environmental Issues

Environmental Issues in Brazil - rules are severe but opportunities are big

Environmental impact on business

Doing deals and business in Brazil have to take into account several environmental issues which may became relevant risks if not adequately managed. On the other hand, there are many environmental related aspects in Brazil that may result in real opportunities, such as the abundance and quality of natural resources, the country's climate, the overall concern with environmental protection and the corresponding Brazilian environmental legislation which is among the most advanced in the world.

Another positive aspect to consider is the fact that Brazil is now considered one of the main countries in the world with the highest potential for projects related to the reduction of emission of greenhouse gases, with clean development mechanisms and issuance of carbon credits under the Kyoto Protocol.

Protecting the environment

Environmental awareness among the overall Brazilian population and government has grown substantially over recent years, with increased involvement of the private sector. Brazil, a country whose rainforests contain the largest repository of bio-diversity in the world, successfully hosted the 1992 Rio Environmental Summit and recognized the true dimension of global environmental protection.

Key "green" preoccupations in Brazil include the deforestation of the native and old-growth forests in the biologically rich Amazon - Rain Forest and other regions, and soil loss due to erosion. Main "brown" areas of attention are the lack of sewage collection; solid waste management; urban, industrial and non-point-source pollution of rivers, lakes, estuaries and shoreline air pollution in and around some major cities; and questions related to mining.

International environmental agreements

Brazil is an active participant of international agreements such as the Climate Change - Kyoto Protocol, Desertification, Endangered Species, Environmental Modification, Hazardous Wastes, Law of the Sea, Marine Dumping, Nuclear Test Ban, Ozone Layer Protection, Ship Pollution, Tropical Timber 83, Tropical Timber 94, Wetlands and Whaling.

Main Legislation and Regulations

The Brazilian legislation is very extensive with a wide variety of environmental issues concerning licenses, zoning, pollution prevention and control and inspection procedures.

Environmental crimes are subject to fines of up to R$50 million

The environmental legislation was effectively introduced in 1981, when the National Environmental System - SISNAMA was implemented - including all agencies responsible for the environmental quality. More recently, in 1998, new legislation was passed (named the environmental crimes law) defining pollution and forest destruction as crimes punishable with heavy fines and, in some cases, jail sentences. These fines can reach amounts up to R$50 million (equivalent to some than US$16 million).

Furthermore, the acquirer of a Brazilian company or business might become fully or partially responsible for present and past environmental liabilities attached to the acquired asset. The penalties might include not only the fine but also the cancellation of the operation license and the obligation for the remediation of the impacted area. Additionally, in many cases, the issue is made public, thus affecting the company's reputation. Given this scenario, environmental due diligence prior to acquisitions is highly recommended.

Projects for the construction of a new plant or production site must be submitted for approval by the Brazilian environmental authorities. The location and activity will determine the environmental license that should be obtained at federal, regional or local levels. For activities considered as having high environmental impact, a more detailed study of environmental impacts and mitigation (named EIA-RIMA) is required before installation is allowed.

Every plant in operation must obtain an environmental license issued by the Environmental Agency. The license has to be updated from time to time, which varies according to the plant's localization.

Pollution control

Pollution has become a serious concern in many areas and consequently it is now one of the main issues on both the political and the economic front. Federal and state governments have developed programs and controls aiming at preventing or reducing pollution, mainly in the more industrialized areas.

The treatment of waste with the purpose of avoiding or reducing pollution must be considered in the installation of new production sites in Brazil or evaluated when acquiring a business.

CONAMA is the federal agency responsible for establishing federal criteria for pollution control. Other state agencies are required to take environmental regulations into account when examining applications for incentives and financing of investment projects. Non-compliance with pollution control regulations may result in the suspension of tax benefits, credit restrictions or even the closing-down of operations.

Environmental management: a significant part of corporate governance

Sustainability - a growing issue in Brazil

In fact, good environmental management became a relevant business issue as from the discussions at the Rio Environmental Summit in 1992, when the concept of sustainability (i.e., the adequate integration of environmental management, social responsibility and the related economics/value added) gained higher presence in the agenda of the public and private sectors as well as of a major part of the global population.

In many sectors, good environmental management is not anymore a competitive advantage but a condition to be not only in the global market but also in the Brazilian market. Companies are more focused now in differentiating themselves through good social responsibility and corporate governance.

It is anticipated that the next step of sustainability will include not only the environmental, social and economical balanced integration, but also corporate governance and risk management.

Certain Brazilian environmental indicators - 2003

Surface area (sq. km)	8.5 million
Forest area (sq. km)	5.3 million
Water area (sq. km)	0.6 million
Annual deforestation (% change)	0.4
Freshwater resources per capita (cubic meters)	43,022
CO2 emissions (mtons per capita-1997 data)	1.8
Improved water source (% of total population with access)	89
Improved sanitation facilities, urban (% of urban population with access)	86
Land use:	
Arable land	6.9%
Permanents crops	0.9%
Other	92.2%

Source: World Bank & IBGE

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PricewaterhouseCoopers - Brazil

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